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TURKS AND CAICOS

ANNUAL REPORT 2009

TURKS AND CAICOS ISLANDS

BEAUTIFUL BY NATURE

FINANCIAL SERVICES COMMISSION

ANNUAL REPORT 2009

Regulating with Honesty, Integrity and Transparency

TURKS AND CAICOS ISLANDS

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FINANCIAL SERVICES COMMISSION

ANNUAL REPORT 2009

Reporting Period: April 1, 2008 to March 31, 2009

DIRECTORS OF THE FINANCIAL SERVICES COMMISSION

Left to Right: Kevin Higgins (Managing); Gordon Kerr; Stanley Sanford Lightbourne (Chairman); Oswald Simons; Earle Malcolm; Delton Jones (PS Finance, missing from photo) and Munro Sutherland (Director Designate)

Directors and Senior Management

BOARD OF DIRECTORS

Stanley Sanford Lightbourne - Chairman

Delton Jones – Permanent Secretary, Ministry of Finance

Gordon Kerr - Director

Oswald Simons - Director

Earle Malcolm - Director

J. Kevin Higgins – Managing Director

SENIOR MANAGEMENT

Kenisha Bacchus – Superintendent of Trusts & Company Managers

Derek St. Rose – Superintendent of Insurance

John James – Registrar of Companies, Patents & Trademark

Marlon Joseph – Senior Banking Examiner

Desmond Morrison – Financial Controller

Cathrice James – Systems Administrator

Nadene Harvey –Office Manager

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PART A

REPORT OF THE COMMISSION

Functions and Structure of the Commission

The Financial Services Commission ("The FSC") is a statutory body which was established by the Financial Services Commission Ordinance of May 2001 but now governed by the revised Ordinance of October 2007. The FSC began operating on April 1, 2002 and is responsible for:

- Administering the Financial Services Commission Ordinance;
- Supervising the conduct of financial services businesses and
- Monitoring the financial services businesses carried on, and their development in the Turks and Caicos Islands ("TCI").

The financial services ordinances comprise of seven (7) primary pieces of legislation with related departments and requiring a superintendent who has specific duties and twenty six (26) other separate legislations directly or indirectly impacting on the functions and responsibilities of the FSC.

The FSC also manages the operations of the Companies Registry, which provides companies incorporation and ancillary services, and the Registry of Trademarks and Patents.

The FSC Ordinance of 2001 was repealed and replaced with that of 2007. The new Ordinance seeks to strengthen the regulatory powers of the Commission as well as ensure its financial integrity and independence from central government.

Licensed Activities

There are seven (7) activities in the Financial Services industry which, when carried out in the TCI, are subject to regulation and licensing. These are:-

(a) Conducting banking business;
(b) Carrying on the work of a professional trustee:
(c) Conducting insurance business and insurance company management;
(d) Operating mutual funds;
(e) Investment dealing;
(f) Company management and
(g) Money transmitters business.

For practical purposes the person holding the position of Superintendent of Banks was also appointed the Superintendent of Mutual Funds, Investment Dealers and Money Transmission. The holder of these posts was the Managing Director.

Subject to the foregoing paragraph, the Financial Services Commission provides a Superintendent for each activity and within each sector he or she is responsible for:-

Functions and Structure of the Commission (cont'd)

(a) Reviewing applications for licences and making recommendations;
(b) Recording renewals of licences;
(c) Collecting licence fees;
(d) Inspection and examination of licensed financial institutions;
(e) Reviewing financial accounts and statutory returns;
(f) Investigating reports and complaints as well as irregularities;
(g) Undertaking enforcement action and recommending the cancellation of licences, as deemed prudent;
(h) Development of the industry through prudent regulations and the application of ethical, professional and best practices;
(i) Advising and making recommendations to the TCI Government for appropriate legislative changes.

The FSC maintains a general overview of the financial sector. Part of this oversight activity includes:-

-Ensuring that only licensed institutions carry out business where a licence is a legal requirement;

-Investigating all complaints coming from participants in the industry and

-Recommending the passage of legislation to ensure that all financial services are covered under a regulatory regime.

During the reporting period the Commission had the following departments with a Superintendent having specified authority and functions:

1. Banking, Mutual Funds, Investment Dealers and Money Transmission;
2. Insurance
3. Company Management and Trusts
4. Companies Registry, Patents and Trademarks.

Banking (with Mutual Funds, Investment Dealers and Money Transmission)

The role of this department is twofold;

(1) Safety and soundness of licensees which will ensure confidence and integrity of the system and hence ensure the protection of depositors' interest. This is achieved by:

- Assessing the quality of a licensee's operations (capital; asset quality; management and systems; earnings; liquidity; risk management) by conducting on-site examinations as

Functions and Structure of the Commission (cont'd)

well as through off-site monitoring;

- Enforcing the rules and guidelines;
- Promulgating best practice standards such as Basel Core Principles on Banking and
- Making recommendations for the passage of new regulations and laws.

(2) Creation of an efficient and well run system that adds value to the local economy. This is achieved by:

- Ensuring licensees have the requisite resources suitable to their operations and
- Ensuring the adherence to good corporate governance principles.

Insurance

The jurisdiction is seeking to build its niche in the Producer Owned Reinsurance Companies (PORCs) sector of the industry. With that in mind great emphasis is placed on adherence to solvency standards and safety of operation by all licensees. In order to facilitate growth, the Commission works with the various parties to ensure that the required infrastructure, legal and otherwise, is in place to accommodate the sector.

Company Management and Trusts

The major focus of this department is threefold:

1. Ensuring that only local agents are authorized to provide company management services;
2. Ensuring that trust companies operate according to the duties and powers under the trust arrangements entered into with clients and
3. Ensuring that all entities comply with the anti-money laundering rules.

Companies Registry, Patents and Trademarks

The Companies Registry is responsible for:-

(a) Incorporating new companies;
(b) Registering foreign companies;

Functions and Structure of the Commission (cont'd)

(a) Collecting annual fees from companies;
(b) Provision of a public register for inspection of company files;
(c) Striking non-compliant companies from the register.

The Patents Office is responsible for maintaining a register of names and addresses of grantees of Certificates of Registration of Patents under the Patents Ordinance.

The Office of Trademarks is responsible for maintaining a Register of Trademarks the purpose of which is to show: the names and addresses of the proprietors; notification of assignments; conditions attached to any trademark registered, including limitations and such other matters relating to trademarks.

Functions and Composition of the Board of Directors

The board of directors of the Commission is constituted under Section 5 of the Financial Services Commission Ordinance and consists of seven (7) members, two (2) of whom (the managing director and the Permanent Secretary of Finance) are ex officio.

The Principal functions of the board are:-

(a) To establish the policies of the Commission and monitor and oversee its implementation;
(b) To monitor and oversee the management of the Commission by the managing director to ensure that the resources are utilized economically and efficiently, that internal controls are in place etc.;
(c) To approve the budget and the financial statements and
(d) To appoint the senior officers, except the managing director.

The persons who were directors during the financial year ended March 2009 are listed below:-

Stanley Sanford Lightbourne

Mr. Lightbourne is a seasoned banker having worked at Barclays Bank for twenty eight (28) years, twelve (12) of which were spent as branch manager of various branches and four (4) as area manager. Mr. Lightbourne also worked as manager of Belize Bank (Turks and Caicos) Ltd. for several years.

Delton Jones

Mr. Delton Jones holds a Bachelor of Science degree in Economics and is the Permanent Secretary in the Ministry of Finance.

Neville Cadogan

Mr. Neville Cadogan, who held the post of managing director of the Commission since 2004, resigned in January 2009. Mr. Cadogan is a Certified Public Accountant (CPA) and holds a degree in Accounting from the University of the West Indies. He also worked as an auditor for several years with PriceWaterhouseCoopers in Jamaica before going to Nevis where he was the managing director of the Financial Services Commission of that country.

Oswald Simons

Mr. Simons is a retired banker having worked at a number of banks for some thirty (30) years. Mr. Simons is the past founding president of the Kiwanis

Functions and Composition of the Board of Directors (cont'd)

Club international of Grand Turk, Turks & Caicos and currently operates his own business.

Earle Malcolm

Mr. Malcolm is a human resources specialist and businessman. He sits on the board of various government bodies.

Gordon Kerr

Mr. Gordon Kerr is a law graduate of the Universities of Strathclyde and Dundee. After practicing in Scotland he was called to the Bar in the Turks and Caicos Islands. Mr. Kerr is a former president of the TCI Bar Association and acts as a magistrate of the courts of the Turks and Caicos Islands.

J. Kevin Higgins

Mr. J. Kevin Higgins holds a Bachelor of Arts degree in Economics and Economic History from the University of the West Indies and a Masters of Arts in Economics from Vanderbilt University. He also holds an M.B.A. in Finance from the University of Miami. Mr. Higgins is a frequent lecturer and presenter on financial topics including offshore financial services and is an author of several books on the offshore sector, especially as it relates to the Bahamas.

Mr. Higgins was appointed as the new managing director, with effect from February 1, 2009 upon the resignation of the former managing director in January.

Chairman's Report

During the year under review the Commission met a number of challenges, most notably of which was the heavy rains of August 2008 followed by Hurricane Ike on September 6, 2008. As a result of the flooding which occurred, the operations of the FSC were severely affected, which resulted in reduced operating capacity up to the end of the financial year. Records, equipment and furniture were lost as a result of the office being inundated. While the office furniture and equipment were adequately insured, we however had to meet some of the cost of replacements from our own funds due to the operation of the deductible amount under our insurance policy. The staff, however, showed resilience and worked assiduously to ensure that certain important functions were still carried out.

The other major challenge facing the Commission was the unexpected resignation of the former Managing Director, Mr. Neville Cadogan, who led the FSC from August of 2004. We owe a sense of gratitude to him for the leadership provided over those years.

Both events referred to have contributed to a further delay in the roll out of the Kreview and Kregistry regulatory systems which were promised as part of the tools to bring the Commission in line with international standards. We expect that during the next financial year this issue will be settled.

The industry was relatively stable, despite the international financial shocks. There was no major ripple effect of that crisis on the local operations. However, two (2) events during the year have led us to review our modus operandi and put systems in place to try and correct certain deficiencies identified. The first event was the need to issue a cease and desist order on an entity licensed under the Mutual Funds Ordinance. This arose as it appeared that the principals of the licensed entity may have also been engaged in unlicensed activity through another entity with which they were affiliated. The licensed entity has subsequently agreed to be liquidated.

The other event impacting on the regulatory capacity of the Commission was the insolvency of an insurance entity licensed in the Bahamas and its effect on a branch it operated in the jurisdiction.

The above events will not, on prima facie consideration of facts, result in any financial losses to residents of the jurisdiction. They have, however, shown up deficiencies in the regulatory system and as a result steps have been taken to ensure that (1) all

Chairman's Report (cont'd)

licensed entities will be audited within the first year of the grant of a licence and (2) the board has taken the view that only locally incorporated insurance subsidiaries of overseas entities will be allowed to operate in the jurisdiction.

Focus continued to be placed on staff training and participation in international fora, ensuring that we were well aware of international trends in regulation and supervision of financial services.

I am very happy to report that the Financial Services Commission is financially stable. Furthermore, it was able to add to its reserves for the year a sum of $940,461, bringing its total reserves in line with the $1.9M envisaged by the board as the sum necessary to provide a cushion in case of an unexpected shortfall in future revenues.

There are many challenges ahead but with a refocused management team, dedicated staff and a pro-active board of directors, all the challenges will be met.

The board of directors wishes to thank the management and staff for their continued commitment to the development of the FSC and is looking forward to working with them to meet the challenges which lie ahead.

…………………………….

Sanford Lightbourne
Chairman

Managing Director's Report

As noted in the Chairman's Report, the managing director who led the Commission for over four (4) years resigned. As the new managing director my mandate will be to focus the Commission in the following areas:

1) Enhancing the staff capabilities through training and redirection;
2) Ensuring that the jurisdiction is fully compliant with international financial standards and
3) Ensuring that the appropriate legislative framework is in place to provide the correct balance of regulatory tools.

The last financial year was a challenging period for the financial sector in the Turks and Caicos Islands. The global economic crisis which started in North America, our most important trading partner, gradually filtered its way into the jurisdiction. The impact on the real economy has become quite evident as tourism and construction have slowed considerably. The impact, however, on the financial sector has been less dramatic. The financial sector remained relatively strong.

Despite the challenges the Commission remains and continues to be vigilant through its ongoing activities of regulatory oversight.

The year under review from a regulatory standpoint was dominated by events both internal and external. Hurricane Ike on September 6, 2008 had a major effect on the Commission by rendering the ground floor of the office in Grand Turk unusable for several months up to the end of the financial year. The other external factor impacting on the jurisdiction was the financial crisis in America which was in part caused by the granting of substandard loans by banking and financial entities in the developed world. Subsequent to the Hurricane the Management met with the Bankers Association to consider the effects, if any, the Hurricane as well as the financial crisis in North America had on the banking sector. It was revealed that while there were some effects, those were not dramatic enough to warrant major concerns. Arising out of that meeting the decision was taken for the Commission to meet on a quarterly basis with the Association.

The attention of the board and management was focused on dealing with a licensed entity which was charged by the local Financial Crimes Unit (FCU) for breaches of the Money Laundering Regulations. The alleged breaches were further compounded by the use of another

Managing Director's Report (cont'd)

unlicensed entity to help commit the alleged breaches. The board met and considered the matter at hand and agreed that while the criminal element of the matter was being handled by the police the Commission had to act to protect the jurisdiction. As such the companies were asked to be liquidated under the supervision of the Attorney General. This aspect of the matter is before the Courts.

There were no legislative changes during the year. However, there are several pieces of legislation which were being drafted from the previous period and which have not yet been finalized. These are the Banking and Insurance Ordinances. In addition to regulatory issues, they contemplate major changes to the fee structure to be paid to the Commission. These are yet to be passed into law.

The Commission's assessment by the Caribbean Financial Action Task Force (CFATF) was finally read at the St. Kitts Plenary. The report pointed out a number of areas in which the jurisdiction was not fully compliant. The Commission has to report every six (6) months to the Plenary on the measures being taken to correct the deficiencies. Measures being undertaken to do so are (1) changes to legislation (2) full implementation of existing legislation (3) training of staff (4) increase in the number of staff (5) developing a regulatory framework for the money transmission businesses and (6) improving the partnership arrangements with other regulators and agencies.

The jurisdiction, as a favoured place for the formation of producer owned reinsurance companies (PORCs), continued to see growth in this area. Four Hundred and thirty five (435) such entities were licensed in the period bringing the total number registered to date to approximately four thousand (4,000). There were seven (7) captive insurance companies which were licensed, bringing the total for that category to one hundred and ninety (190).

The Companies Registry continued to provide the bulk of the activity at the Commission. The number of companies incorporated was One Thousand Five Hundred and Eighty Four (1,584). This figure has, however, shown a marked decline of 26% over the previous period.

The Money Transmitters Ordinance that was enacted in the previous year is now being vigorously implemented by the Commission. Persons who were operating in the industry before the passage of the legislation were asked to come forward and

Managing Director's Report (Cont'd)

be registered. As a result six (6) entities were licensed during the year. Another two (2) were granted an extension to comply with the requirements.

One (1) bank licence was granted to Integris Bank to operate a combined national and oversea business. As at the end of the reporting period the bank has not yet commenced operation. Royal Bank of Canada, which had been granted a licence in the previous financial year, commenced operations during the current period.

There were no trustee or company managers licences issued during the review period.

Continued focus was placed on supervision of licensed entities and as such examinations were conducted on a number of entities. Where breaches were detected the entities were given a timeframe in which to correct them.

In respect of the finances of the Commission, these have improved with the addition to its reserves of $940,461 bringing the total reserves to just under $1.9M.

While the industry is stable, significantly more work has to be done to improve regulation. As such we are increasing our focus on meeting all the international standards for the industry and to improve our in-house resources to meet the challenges ahead.

……………………………
J. Kevin Higgins
Managing Director

Type of Activity	Banks	Insurance Companies	Trusts	Company Managers	Money Transmit.	Mutual Funds	Invest. Dealers	Total
New Licences	**1**	**446**	**0**	**0**	**6**	**0**	**0**	**453**
Inspections	**3**	**0**	**2**	**4**	**0**	**0**	**0**	**9**
Regulatory Action	**1**	**2**	**1**	**0**	**0**	**1**	**0**	**5**

Table 1
Activities by Type (Regulatory)

Finance Report

For the year under review there were two events which either impacted on the local economy to some degree or which could do so in the future. The first was the financial crisis which originated in North America. North America represents the islands biggest provider of revenues. This then broadened into a recession. This crisis resulted in a credit squeeze and hence local construction and tourism have been affected. The effect on the local financial sector, however, has been less dramatic.

The other event was the call by the new U.S. administration for legislation which would seek to affect jurisdictions like the Turks and Caicos. The major thrust of such an initiative would be for banks to be forced to file tax information regarding deposits held by U.S. citizens in low tax jurisdictions. Failure to do so would result in the banks being blacklisted. This has to be monitored.

The year under review marked the second year of the provisional arrangements under which the Commission is allowed to build up its reserves. During year one (1), we were not allowed to keep any surplus, as interpreted by the auditors. In years two (2) and three (3) [which ends March 2010], the Commission is allowed to keep 33 1/3% and 66 2/3%, respectively, based on its budgeted recurring expenditure of the subsequent year. Beginning April 2010 all surpluses will be returned to the government. The Surplus retained for the current year was $940,461.

Table 2 below shows the performance for the year and the previous year.

Income by Category	2008/2009	2007/2008
Subvention	**0**	**1,050,000**
Insurance	**264,385**	**365,300**
Banking	**194,875**	**215,085**
Trusts	**52,500**	**64,875**
Company Managers	**62,366**	**94,622**
Money Remitters	**44,000**	**16,000**
Registries	**3,724,522**	**3,786,172**
Funds & Dealers	**6,500**	**22,250**
Share Transfer/ Stamp Duty	**136,649**	**2,072,488**
Total Core Revenues	**4,485,797**	**7,686,792**
Other Revenues	**126,413**	**39,056**
Total Revenues	**$4,612,210**	**$7,725,848**

Table 2
Comparative Revenues by Category

Under the new FSC Ordinance enacted in the previous year no more subventions will be forthcoming from the government. The other areas showing marked decline was fees from Share Transfer and Stamp Duty.

Finance Report (Cont'd)

During the previous year the government gave a concession to persons wishing to transfer shares which resulted in a large number of applications to do so. This offer has since been withdrawn, hence resulting in the low performance in this area compared to the previous year.

The core fees of the Commission for the period were earned from companies on the Companies Register, as indicated by the under-mentioned table (see Table 3 on page 14). This is also shown by Table 2 where the total received from companies (registries) was $3,724,522. While Table 3 shows that insurance represents the second largest sector by reference to the number of entities registered, the revenue generated is limited due to the fact that PORCs make up the majority of this sector.

There were no additional revenues earned for the year as a result of new licences issued to trust companies, companies' managers, mutual funds or investment dealers.

One of the problems facing the Commission is the consistent late payment of fees by some service providers. Fees that are ordinarily due by the end of March (the FSC's financial year-end) are being paid in the following financial year. This has been compounded by the lack of clear statutory guidelines to (a) impose interest and (b) suspend licences for non-payment. Against this background it was submitted to the board by management that one way to deal with this is to change from a system of "cash accounting" to one of "accrual accounting" whereby invoices would be issued to licensees at least 30 days in advance of the due dates for the payment of fees. This will provide a better management tool for some of the revenues due to the Commission. Legislative change will have to be sought to make the relevant legislations more effective in regard to non-compliance with deadlines.

The performance for the year, as against the budgeted figures, was not as good as expected. There was a shortfall in budgeted revenues of $1,681,973, which represents 27% of the amount budgeted to be received of $6,167,770 (Table 4). The largest shortfalls were in the area of Land Share Transfer Duty and companies' filing fees. The latter was tempered, however, by the strong performance in the sundry fees categories which include penalties for late filing of annual returns, search fees and certification of good standing. The Table also shows the percentage each revenue category represents of the total both for the actual and budgeted amounts.

Finance Report (Cont'd)

Activity	Banks	Insurance	Trusts	Company Managers	Money Transmit.	Mutual Funds	Investment Dealers	Companies
01/4/2008	10	3,793	20	42	0	4	7	15,253
Additions	1	446	0	0	6	0	0	1,584
Surrenders	0	0	0	(1)	0	0	0	
Revocations	0	0	(1)	0	0	0	0	
31/3/2009	11	4,239[1]	19	41	6	4	7	16,837[2]

Table 3

Revenue Source

(In units)

Category	Actual	% of Total	Budget	% of Total	Variance
Insurance	264,385	6	300,600	5	(36,215)[3]
Banking	194,875	4	185,500	3	9,375
Trusts	52,500	1	52,500	1	-
Co. Managers	62,366	1	80,200	1	(17,384)
Remitters	44,000	1	28,000	0.5	16,000
Registries[4]	3,724,522	83	4,599,470	74.5	(874,948)
Funds, Dealers	6,500	0	21,500	0.3	(15,000)
Transfer Duty[5]	136,649	3	900,000	14.7	(763,351)
Core Revenue	**4,485,797**	**100**	**6,167,770**	**100.0**	**(1,681,973)**

Table 4

Actual V Budgeted Revenue

[1] Approximate

[2] Includes companies to be struck

[3] A bracketed item means a negative variance

[4] Companies Registry, Trademarks Registry and Patents Registry

[5] This revenue source has no functional relation to the Commission' work

Finance Report (Cont'd)

The performance deficit highlighted above, especially in light of the most significant revenue source of the companies' registry, has brought into sharp focus the need to solidify the revenue base of the Commission. As a result various attempts were made during the year to have the fee increases that had been agreed with the various sectors several years ago and approved by the board of directors, implemented. Fee increases were agreed for the banking, insurance, trusts, company managers and the companies' registry. Table 5 gives a comparison of the current and proposed annual fee structure for the significant categories of fees. As at year end the necessary regulations were not passed to have them take effect.

A discrepancy in the current banking legislation is one of the issues that were put forwarded to be corrected in the proposed draft of the new legislation. Under the present legislation there is no provision for a processing fee to be charged for licence applications. If work was done to process an application and the licence was subsequently refused then the Commission would have expended valuable resources to vet the application without a concomitant reimbursement of costs.

	Class of Licence	Current	Proposed
Banks	National	12,500	22,500
	Overseas	10,000	17,500
	Joint	19,500	40,000
Trusts	Restricted	750	1,500
	Unrestricted	3,000	3,750
Companies' Managers	Management	2,000	3,000
	Agent	2,000	2,500
Insurance	Insurer-Domestic	2,500	3,750
	Insurer-Non Domestic	2,000	2,000
	Section 7(11)	-	100
	Non Section 7(11)	500	500
	Manager	3,500	3,500
	Broker	1,000	1,500
	Representative	1,000	1,000
	Agent	100	150
	Sub-Agent	50	70

Table 5
Current and Proposed Fees

In addition to the need to ensure that the revenue base of the Commission is stable, the increased fees will be important as a source from which the resources will be available to deal with enhanced training, increasing the staff complement to bolster

Finance Report (Cont'd)

the compliance efforts as well as fund the phased relocation of the Commission to Providenciales, in order to strengthen its operational effectiveness.

In addition to the above, new fees are being proposed in cases where there was none. For example, the insurance amendments will seek to introduce fees for change of officers and directors; for conducting search; due diligence checks; change of reinsurer; change in business plan and change of name, etc. Similarly, the Companies Ordinance contemplates introducing fees for services rendered in cases where no such fees were previously charged. No quantification was made at the time of the proposed amendments as to how much additional revenues these new fees would generate for the Commission.

In addition to the proposal for the change in the basis of accounting for revenues for some fee types from "cash basis" to "invoice basis" (which may result in accrual of fees not paid), the Finance Department has prepared guidelines for the operation of the department. If approved and implemented, these guidelines will help to:

1. Improve the internal control environment;
2. Make provisions for increased governance and accountability;
3. Require the adoption of risk management strategies in respect of assets and records and
4. Provide for a clear set of rules to be applied in relation to travel by staff.

Review of the Industry

Banking

The financial year was a challenging one for the financial sector as the global economic crisis impacted negatively on our neighbours in the North, who are the predominant market for our tourism and financial services products. As a result of this the Commission stepped up its vigilance over the financial sector through its ongoing activities of regulatory oversight to ensure that the sector remained stable and strong.

The Commission continued to ensure that the financial services industry is operated by fit and proper persons who display a high level of competence and who operate within the prescribed standards laid down by the legislation and in accordance with international best practices.

For the reporting period we drastically enhanced our off-site reviews and also conducted two (2) on-site examinations. The major focus was placed on credit risk. In addition one (1) special examination was carried out. Regulatory defects that were identified were required to be addressed by the licensees.

The banking department was strengthened as a senior banking examiner was appointed at the start of the financial year. The managing director continued to hold the post of Superintendent of Banks.

There was one (1) licence granted during the year. In addition, a bank that was granted a joint licence during the previous year commenced operation. The total number of licences issued stood at eleven (11) at year end, however, two (2) of these have not commenced operations.

The Commission attended meetings with the senior management of these banks on an ongoing basis focusing on prudential matters in respect of capital adequacy, corporate governance and credit risk management. During these sessions the banking department reviewed the new products and services that were to be offered to the public.

The FSC sought to increase its interface with the industry and agreed at a meeting held in October to meet quarterly with the industry. Where there are emergencies then meetings will be held more frequently.

The sector saw a decline in total customer deposits of 11%. Deposits at March 2009 stood at $1.076B while for the previous period it stood at $1.188B. Total loans and advances increased by 11% to $1.204B while the figure reported for the previous

Review of the Industry

Banking (cont'd)

period was $1.087B. This increase came about in the areas of manufacturing; the distributive trade; entertainment and catering; acquisition of property and personal loans.

Banks within the jurisdiction remain strong despite the challenges. Capital as a percentage of the aggregate risk weighted assets of the banks was adequate to act as a buffer in the case of unforeseen events and was well above the 11% minimum required by law.

Work continues in having the draft of the new Banking Ordinance prepared. This has been ongoing for some time. In the mean time the department attended training courses in relation to Basel II implementation. The specific topics dealt with were Operational Risk and Credit Risk Management.

New measures have been implemented internally to ensure full compliance by the banks. Under the old system, once a licence was issued, there were no requirements for a renewal. This has been changed so that a new certificate will be issued at the time of the payment of the annual licence fee. Banks will have to demonstrate that they have complied fully with the Companies Ordinance; that they have filed annual returns; that financial statements have been submitted; etc.

The outlook for the sector is positive. The Commission will continue its thrust to apply the best supervisory practices using a risk based approach. Licensees will be scored according to a matrix of factors and a risk score developed accordingly. Based on the assigned score then a risk profile will be developed, which will be used to inform our regulatory programmes. This matrix will take into account areas such as credit quality and operational risk management.

To achieve the stated objective of enhanced supervisory capabilities the department is seeking to increase its manpower and its technical capabilities. In the interim, staff from within the organization are being co-opted and retrained to provide assistance in this regard.

Review of the Industry

Money Remittance Business

The enabling legislation to regularize the money remittance business was passed in late 2007. These businesses were granted a grace period in which to bring their business in line with the regulatory requirements.

Six (6) entities were licensed during the review period. The Commission expects that another four (4) entities will be licensed in the coming months.

To further enhance the operating capacity of this division it was put under the direct supervision of the banking department during the latter part of the financial year. Increased focus will be placed on their risk management systems and their money laundering control policies. This will be to ensure that they are compliant with the Money Transmitters Ordinance, The Proceeds of Crime Ordinance and the Anti-Money Laundering Regulations of 2007.

The Commission will focus on providing training to this sector in the next financial year. Furthermore, the board has mandated that a proper regulatory framework be developed to supervise businesses that operate as money transmitters.

As part of the current regulatory framework, all money transmitters are required to file audited financial statements annually, submit a compliance certificate and maintain a statutory deposit of $75,000. Failure to comply with any of these terms may lead to regulatory sanction.

Review of the Industry

Insurance

During the review period 2008-2009 there were 446 entities granted licences to operate. Tables 6 and 7 (overleaf) detail the licensing activities of the department as well as outline the number of entities on record.

The latter part of the financial year was characterized by some instability in the sector. British American Insurance Company Ltd., (BAICO), one of the companies in the Trinidad based CL Financial Group, was affected by liquidity issues which were made worse by problems in the Group itself. It must be noted that BAICO is a branch of the Bahamas licensed British American Insurance Company Ltd, whose ultimate parent company is CL Financial Group. The Trinidad Government put the insurance company under judicial management and put in $80M for liquidity support. The FSC, as a precautionary measure, and in an effort to safeguard the interests of the insuring public, ordered a temporary freeze on the assets and activities of BAICO. One of the measures taken was to increase the restricted deposit held by the company to $1.5M.

In addition to the problems encountered with British American, CLICO (Bahamas) Ltd., another insurer in the CL Financial Group, was forced into liquidation by the Supreme Court of the Bahamas after the submission of a petition by the Registrar of Insurance for that jurisdiction. The petition was made after efforts to address liquidity problems with the principals failed. On notification of the grant of the order by the Supreme Court on February 24, 2009, the FSC immediately ordered a freeze on all the assets of CLICO, in addition to a stop order on writing new business. The liquidator is Mr. Craig Gomez of the Bahamas insolvency firm of Baker, Tilly, Gomez.

The Commission is working towards the sale of the company in order to secure the benefits of the policyholders.

In light of the above issues, and in order to strengthen its regulatory capacity, the following actions are being taken by the Commission:

(a) Exploratory work is being done to establish MOUs with the Bahamas, Cayman Islands and Trinidad and Tobago for the purpose of regulation and supervision of insurers to which the respective territories are the home regulators;

Review of the Industry

Insurance (Cont'd)

	Total	PORCs[6]	Captives[7]	Domestic	Brokers	Managers	Represen-tatives	Agents	Sub-Agents
New Licences	446	435	7	0	1	0	0	0	3

Table 6
Insurance Licences Issued

	Categories of Licences Outstanding								
	Total	**PORCs**	**Captives**	**Domestic**	**Brokers**	**Managers**	**Represen-tatives**	**Agents**	**Sub-Agents**
At 01/4/08	3,793	3,565	183	18	8	8	-	11	-
Issued This Year	446	435	7	-	1	-	-	-	3
At 31/3/09	4,239	4,000 [8]	190	18	9	8	-	11	3

Table 7
Licensed Insurance Entities

[6] Producer Owned Reinsurance Companies. PORCs are reinsurance companies formed for the purpose of reinsuring risks in relation to term life or product warranties policies issued in connection with the sale of products.

[7] Captive insurers are insurance companies formed to insure the risks of the owners, rather than third parties

[8] Estimate. Audit being done in this area

Review of the Industry

Insurance (Cont'd)

(b) Instituting a policy change regarding domestic insurers where branches would be prohibited and only locally incorporated entities would be licensed to do business in the jurisdiction;

(c) The Insurance Ordinance is to be revisited in an effort to create a more robust piece of legislation. Changes would be required to be made in respect of capital adequacy; reserving, risk weighting of assets for capital adequacy purposes; creation of an insurance solvency fund; liquidity; sanctions for non-compliance and the issuance of guidelines for applications for licences. The review of the Ordinance is expected to commence in the next financial year and

(d) A complete review of the operations and systems capabilities of the department has been commissioned. Among the measures taken in this regard is to ensure that all insurers and insurance entities have the required restricted deposit as required by the regulations. A manpower review is to be done to determine the human resources needs of the department.

The department participated in a number of international events, most notable of which was the Caribbean Association of Regulators (CAIR)/CARTAC/World Bank Insurance Supervision Workshop held in Jamaica in November 2008.

Insurance companies and entities are now subject to a yearly review exercise in order for them to obtain a renewal certificate to continue to operate. These entities will have to show that they have complied with the various laws and regulations and that all relevant returns and statements have been filed.

Review of the Industry

Companies Registry, Patents and Trademarks

During the period under review the Registry, of all the departments, had the greatest disruption in its operations due to the passage of Hurricane Ike in September and the storms of late August. These caused severe flooding which destroyed documents relating to companies stored in the Filing Room. However, in order to facilitate the industry all Registry staff were required to work in less than optimal conditions. The disruption caused a major backlog of work which will have to be dealt with in the next financial year.

The current database being used had been an asset to the Department over the years, however, it has reached its capacity resulting in some statistical errors. It is hoped that the new replacement which will allow the registry to be more efficient in data processing and report generation will be installed within the first half of the next financial year.

Exempt companies continued to represent the bulk of companies incorporated in the jurisdiction followed by ordinary companies. See Table 8 for a breakdown of activity by entity type.

Company Type	2008/09	2007/08
Exempt	1,032	1,369
Ordinary	483	755
Foreign	57	14
Partnership	10	18
Limited Life	2	0
Total	1,584	2,156[9]

Table 8
Companies Incorporations

The Trademarks department saw a marked reduction in the number of applications for registration of marks. For the year 439 were registered while the previous year saw 462 registrations. This reduction (23) may perhaps be partly explained by the new requirements of the Trademarks Ordinance preventing overseas persons from directly registering trademarks with the Registry. Only local agents are now allowed to do so.

For the past twenty two (22) years the registration of patents has been minimal. Sixteen (16) patents were registered during the period, bringing the total patents on the register to 111.

[9] Revised from original data given in Annual Report 2008

Review of the Industry

Trusts, Company Managers, Investment Dealers and Mutual Funds

The Trusts Department conducted two (2) onsite examinations during the period and discrepancies identified were required to be corrected immediately. One (1) licensee had its licence revoked as it was deemed in the best interest of the jurisdiction to do so.

Four (4) inspections were conducted on company management service providers during the year. Compliance checks were conducted in relation to the Companies Ordinance, specifically the requirements in relation to bearer shares; the Proceeds of Crime Ordinance; The Anti-Money Laundering Regulations and the Prevention of Money Laundering and Terrorist Financing Code. Some deficiencies were detected and these were mandated by the Commission to be corrected immediately.

Strong regulatory measures will have to be adopted in the future to deal with service providers and trustees that continue to flout the law by paying their renewal fees late, not submitting their compliance certificates on time or failing to file annual financial statements. Amendments will be sought to the Financial Services Commission Ordinance and subsidiary legislations to give the Commission clear powers to impose interest, penalties and other fines for non-compliance in these matters.

There was little or no activity in the area of investment dealers. However, the responsibility for monitoring these and the mutual funds has been given to the Superintendent of Trusts and Company Managers effective February 2009. A complete review is being done in these areas to ensure that proper supervision is done.

There was one application for a Mutual Fund Administrator's Licence which was subsequently withdrawn. An application was also received for a Mutual Fund Licence which was still being processed as at the end of the review period. As pointed out elsewhere in this Report, one mutual fund had its licence to operate cancelled due to an investigation and prosecution by the Financial Crimes Unit as a result of alleged money laundering and fraud charges.

Like other licensed entities, licensees under this section are required to comply fully with the requirements for the renewal of licences by showing that they are fully compliant in all respects.

Administration and Operations Support

As at the end of the review period the Commission had a total of twenty five (25) employees, twenty four (24) of whom were full time and one (1) part time. There were four (4) employees who were employed under contracts ranging from one (1) year to three (3) years. The table below gives a breakdown of the number of employees by department.

	2008/2009	2007/2008
Department	# Employees	# Employees
Managing Director's	2	1
Trust & Company Managers	1	1
Insurance	3	2
Office Management	4	3
Registries[10]	8	8
Banking[11]	3	2
Finance	3	3
Systems	1	3
Total	25	23

Table 9
Employees by Department

Two (2) significant posts were filled during the period. A Senior Banking Examiner joined the staff on April 1, 2008 while a new Superintendent of Insurance was contracted in July 2008.

The Commission had begun an exercise in the previous year to scan all the important documents into its database server. Two (2) part-time officers were contracted to do the work.

[10] Companies Registry, Trademark Registry and Patents Registry

[11] Banking and Money Remittance

Administration and Operations Support (Cont'd)

The project had to be stopped after the Hurricane in September because of the loss of some of the office facilities and equipment. All full time staff had to work from the upper floor of the office in Grand Turk, which did not have the capacity to accommodate the part time scanners.

The information systems department continued to play a significant role in the ability of the Commission to effectively carry out its duties. The department was strengthened during the year as an employee from the Patents Registry completed her Associate degree in Computer Science. Whenever the systems administrator is away or the workload is heavy, this individual provides necessary support.

The planned roll out of the new electronic computer registration system (Kregistry) had to be put off due to the loss of operating capacity occasioned by the damage to the office building. As outlined before, this system will serve to allow end users to more efficiently register their companies online, thus resulting in a quicker turnaround time for new incorporations and annual returns submissions. Another aspect to the system is Kreview. This is expected to simplify and streamline the process of desktop offsite and onsite compliance monitoring of regulated entities. We are projecting that the new systems should be in place by December of the next financial year.

Towards the end of the financial year the Human Resources Committee met to consider a number of matters relating to the staff. The Committee took the decision that the Commission needed to have an organizational review which would examine a number of matters and make the required recommendations. Among the areas that would be looked at are:

1. the present organizational structure and its relevance to the needs of the Commission, going forward;

2. job descriptions of each employee and any changes needed thereto to ensure that each employee's role is relevant to the organization and

3. the development of salary scales for each post.

There was a deficiency in the construction of the existing Committee in that the staff representative was a manager and it was pointed out that the proper representative ought to be someone who was not holding

Administration and Operations Support (Cont'd)

a management post. This deficiency was corrected by the non-management staff holding a poll to determine a representative from amongst themselves.

Training continued to play a role in the development of the staff to better equip them to properly carry out their duties. In August 2008 the systems administrator attended an Electronics (Database) Management Course in Trinidad and Tobago. This course focused on some of the best practices in managing information electronically and securely.

The financial controller attended a Bank Analysis Course put on by the United States Federal Reserve Bank in Jamaica. The course focused on the analysis of banks utilizing the CAMELS (Capital, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Risk) approach. The course was considered relevant as the financial controller will play a role in the analysis of financial statements and participate in specified evaluations of some licensed entities.

The banking department also attended courses that were geared towards preparing them to deal with issues relating to the implementation of the Basel Core Principles on Banking Supervision. The materials studied included Operational and Credit Risk Management.

The former managing director, as part of the emerging issues relating to collective investment schemes, attended a training course in Jamaica during the last quarter of 2008. The Superintendent of Insurance also participated in a World Bank/CARTAC sponsored course on insurance supervision in the same quarter of 2008.

The Commission has seen the challenges which lie ahead and is taking steps to get its employees ready to deal with these. Internal assessments are being or will be done to assess the shortcomings so that they will be corrected. Staff are being trained in preparation and the necessary support services will be obtained.

PART B

AUDITED FINANCIAL STATEMENTS

FINANCIAL SERVICES COMMISSION

Financial Statements
For the Year Ended March 31, 2009

Financial Services Commission
Financial Statements
For the Year Ended March 31, 2009

CONTENTS

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AUDITORS' REPORT

To the Board of Directors of the Financial Services Commission

We have audited the accompanying financial statements of Financial Services Commission, which comprise the balance sheet as at March 31, 2009 and the statements of revenue and expenditure, changes in sources of funding and cash flow 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit.

This report, including the opinion, has been prepared for and only for the Financial Services Commission's Board, as a body, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of Audit Opinion
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 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, these financial statements present fairly, in all material respects, the financial position of the Financial Services Commission as at March 31, 2009 and the results of its operations and the cash flow for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Ltd.

Chartered Accountants
Providenciales

Date: SEPTEMBER 4. 2009

Financial Services Commission

Balance Sheet
As at March 31, 2009
(Expressed in United States Dollars)

	2009 $	2008 $
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2a)	3,929,285	3,807,916
Prepayments (Note 4)	343,076	290,136
Staff advances (Note 5)	97,106	28,482
	4,369,467	4,126,534
Fixed Assets (Note 2b & 6)	293,180	343,130
Total Assets	4,662,647	4,469,664
LIABILITIES AND SOURCES OF FUNDING		
Current Liabilities		
Accounts payable (Note 8)	2,274,352	3,126,020
Accruals	174,098	43,716
Deferred income (Note 9)	20,699	26,951
Advances for due diligence (Note 10)	1,400	2,075
	2,470,549	3,198,762
Deferred Income (Note 9)	295,631	314,896
Total Liabilities	2,766,180	3,513,658
Sources of Funding		
Reserve fund	940,461	-
Retained surplus	956,006	956,006
	1,896,467	956,006
Total Liabilities and Sources of Funding	4,662,647	4,469,664

Approved for issuance on behalf of the Board of Directors of Financial Services Commission

on September 4, 2009

Director

Director

The accompanying notes form an integral part of these financial statements

Financial Services Commission

Statement of Revenue and Expenditure
For the Year Ended March 31, 2009
(Expressed in United States Dollars)

	2009 $	2008 $
Income		
Gross revenue (Note 2c)	4,485,797	4,429,187
Transfer to TCI Government (Note 2c)	(1,849,416)	(4,019,781)
Share of revenue retained	2,636,381	409,406
Government subvention (Note 2c)	-	1,050,000
Release of government grants (Notes 2d & 11)	25,517	26,951
Interest and other income (Note 2c)	100,896	12,104
Total Income	2,762,794	1,498,461
Expenditure		
Staff costs (Note 12)	1,180,690	938,770
Travel and subsistence (Note 13)	133,578	121,957
Rental of buildings	88,730	81,000
Depreciation	66,203	60,970
Subscriptions and contributions (Note 19)	66,036	33,322
Office expense (Note 16)	40,512	33,453
Repairs and maintenance expense (Note 17)	39,655	42,436
Communication expense (Note 15)	37,737	37,906
Utility charges (Note 14)	36,984	32,101
Insurance (Note 18)	29,131	35,509
Professional and consultancy fees	21,074	8,025
Audit and accounting	19,470	16,254
Training	7,040	18,658
Security expense	3,390	955
Other operating and administrative expenses (Note 20)	52,103	37,145
Total Expenditure	1,822,333	1,498,461
NET SURPLUS	940,461	-

The accompanying notes form an integral part of these financial statements

Financial Services Commission

Statement of Changes in Sources of Funding
For the Year Ended March 31, 2009
(Expressed in United States Dollars)

	Reserve fund $	Retained surplus $	Total $
As at April 1, 2007	-	956,006	956,006
Net surplus	-	-	-
As at March 31, 2008	-	956,006	956,006
Net surplus	-	940,461	940,461
Transfer to reserve fund	940,461	(940,461)	-
As at March 31, 2009	940,461	956,006	1,896,467

Under the terms of the amended Financial Services Commission Ordinance and the transitional provisions thereto, the Financial Services Commission (FSC) is entitled to create a reserve fund to cover expected recurrent expenditure as follows:

	Percentage of expected recurrent expenditure
Year ended March 31, 2008	0%
Year ended March 31, 2009	33%
Year ended March 31, 2010	66%
Year ended March 31, 2011 and onwards	100%

The accompanying notes form an integral part of these financial statements

Financial Services Commission

Statement of Cash Flow
For the Year Ended March 31, 2009
(Expressed in United States Dollars)

	2009 $	2008 $
Operating Activities		
Net surplus	940,461	-
Depreciation	66,203	60,970
Gain on disposal of fixed assets	(14,973)	-
	991,691	60,970
Changes in working capital other than cash and cash equivalents		
Staff advances	(68,624)	(8,397)
Prepayments	(52,940)	835
Accounts payable	(851,668)	3,119,780
Accruals	130,382	(11,419)
Deferred income	(25,517)	23,049
Advances for due diligence	(675)	675
Net Cash from Operating Activities	122,649	3,185,493
Investing Activities		
Proceeds on disposal of fixed assets	26,754	-
Computer equipment	(9,626)	(40,952)
Office furniture	(883)	(12,278)
Office equipment	(17,525)	-
Motor vehicles	-	(63,554)
Net Cash used in Investing Activities	(1,280)	(116,784)
Net Increase in Cash and Cash Equivalents	121,369	3,068,709
Cash and Cash Equivalents at Beginning of Year	3,807,916	739,207
Cash and Cash Equivalents at End of Year	3,929,285	3,807,916

The accompanying notes form an integral part of these financial statements

1. General Information

The Turks and Caicos Islands Financial Services Commission (FSC) was established under the Financial Services Commission Ordinance of May 2001 and commenced operations on April 1, 2002. This was superceeded by the FSC Ordinance of October 2007.

The purposes of the FSC are to administer the provisions of the Ordinance and subsidiary legislations which grant it the power to issue and revoke licences, supervise institutions engaged in financial services businesses and advise the Government and the Governor of the Turks and Caicos Islands of changes needed to ensure the stability and security of the financial sector.

The FSC operates primarily out of the Harry E. Francis Building, P.O. Box 173, Pond Street, Grand Turk, Turks and Caicos Islands, British West Indies.

2. Summary of Significant Accounting Policies

Basis of Preparation

The financial statements of the FSC have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards (IFRS). 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 accounting policies. In the Board's opinion, there are no significant accounting estimates or judgements impacting these financial statements at the year-end.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the FSC

The FSC has elected to not early adopt any standards, amendments and interpretations to existing standards as these are not relevant or will not have a material impact on the financial statements.

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

(a) Cash and Cash Equivalents
Cash and cash equivalents consist of cash in hand, balances with banks and other financial institutions with original maturities of three months or less and fixed deposits held with banks and other financial institutions with original maturities of twelve months or less. Fixed deposits can be readily converted into cash with the loss of interest at any time.

(b) Fixed Assets
Fixed assets are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

2. Summary of Significant Accounting Policies (continued)

(b) Fixed Assets (continued)

Subsequent costs are included in the asset's carrying amount or recognised 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of revenue and expenditure during the financial period in which they are incurred.

Depreciation on fixed assets is calculated using the straight-line method to reduce the cost to their residual values over their estimated useful lives, as follows:

Building and improvements	40 years
Computer equipment	3 years
Office equipment	10 years
Office furniture	10 years
Motor vehicles	5 years

Depreciation is charged from the month of acquisition.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of revenue and expenditure.

(c) Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the FSC's activities.

The FSC recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the FSC's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the transaction have been resolved. The FSC bases its estimates on historical results, taking into consideration the type of licencee, the type of transaction and the specifics of each arrangement.

(i) Financial Services Income

Income is recognised when the right to receive payment is established. Fees collected are shown as gross revenue within the statement of revenue and expenditure and are pro-rated from October 6, 2007 between the FSC and Government of the Turks & Caicos Islands in accordance with the FSC Ordinance.

(ii) Government Subvention

Government subvention is recognised when the right to receive payment is established.

2. Summary of Significant Accounting Policies (continued)

(c) Revenue Recognition (continued)

(iii) Interest Income
Interest income is recognised on a time-proportion basis using the effective interest method.

(d) Government Grants

Grants are received from Government for development purposes and cover both capital and revenue expenditure. Revenue grants are recognised as income when the released expense has been incurred. Any grant relating to capital items is recognised as income to match the depreciation charged against the asset.

(e) Foreign Currency Transactions

Transactions in foreign currencies are translated to United States dollars at the foreign exchange rate ruling at the date of the transaction.

(f) Financial Assets

The FSC 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.

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, as they will be realised within 12 months of the balance sheet date. The FSC's loans and receivables comprise cash and cash equivalents and staff advances in the balance sheet.

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

If the market for a financial asset is not active, the FSC establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The FSC assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

3. Financial Risk Management

3.1 Financial risk factors

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

Risk management is carried out by management under policies approved by the Board. The Board provides principles for overall risk management, as well as policies covering specific areas, such as interest rate risk, credit risk and investment of excess liquidity.

(a) Cash flow and fair value interest rate risks
The FSC's interest rate risk arises from fixed deposits with fixed interest rates, which expose it to fair value interest rate risk. Fixed deposits have maturities of 12 months or less, thereby reducing fair value interest rate risk.

The FSC does not have any material interest bearing assets and liabilities subject to variable interest rates and therefore, cash flow interest rate risk is minimal.

(b) Credit risk
Credit risk arises from cash and cash equivalents however this is mitigated by only depositing with regionally recognised banks and financial institutions.

(c) Liquidity risk
The FSC maintains flexibility in funding by maintaining the majority of its assets in short-term, highly liquid instruments.

Prudent liquidity risk management implies maintaining sufficient cash to pay liabilities as they fall due.

Management monitors rolling forecasts of the FSC's liquidity reserve comprising cash and cash equivalents on the basis of expected cash flow.

The FSC's financial liabilities at the year-end have contractual maturities of less than one year from the balance sheet date.

Given the nature of FSC's operations, liquidity risk is considered minimal.

3.2 Reserve risk management

The FSC's objectives when managing reserves are to safeguard its ability to continue as a going concern in order to provide both present and future benefits to the financial services sector.

In order to maintain or adjust the reserve structure, the FSC is directed, by the Financial Services Commission Ordinance and provisions thereto, to create a reserve to fund expected recurrent expenditure.

3. Financial Risk Management (continued)

3.3 Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The FSC uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Techniques, such as estimated discounted cash flows, are used to determine the fair value all financial instruments.

4. Prepayments

This amount includes $266,000 (2008: $266,000) of payments to KPMG and REFLEXIS Systems Inc. for the supply of the KRegistry and KReview Application Software, in accordance with the contracts dated January 25, 2006 and February 1, 2006. As at the year-end, whilst work had been performed in this regard, the software and databases are not yet functional.

5. Staff Advances

This amount represents Christmas advances, Hurricane Ike loans as well as regular salary advances, taken by the members of staff to be deducted from their monthly salary.

6. Fixed Assets – Current Year Analysis

	Building and improvements $	Office furniture $	Office equipment $	Computer equipment $	Motor vehicles $	Total $
Cost						
Balance as at April 1, 2008	124,550	124,796	55,085	133,251	63,554	501,236
Acquisitions	-	883	17,525	9,626	-	28,034
Disposals	-	(6,670)	(11,217)	(12,257)	-	(30,144)
Balance as at March 31, 2009	124,550	119,009	61,393	130,620	63,554	499,126
Accumulated Depreciation						
Balance as at April 1, 2008	4,292	45,903	24,696	70,504	12,711	158,106
Depreciation	3,113	12,157	5,189	33,033	12,711	66,203
Released on disposal	-	(2,756)	(3,350)	(12,257)	-	(18,363)
Balance as at March 31, 2009	7,405	55,304	26,535	91,280	25,422	205,946
Net Book Value						
As at March 31, 2009	117,145	63,705	34,858	39,340	38,132	293,180

6. Fixed Assets – Prior Year Analysis

	Building and improvements $	Office furniture $	Office equipment $	Computer equipment $	Motor vehicles $	Total $
Cost						
Balance as at April 1, 2007	124,550	112,518	55,085	92,299	-	384,452
Acquisitions	-	12,278	-	40,952	63,554	116,784
Balance as at March 31, 2008	124,550	124,796	55,085	133,251	63,554	501,236
Accumulated Depreciation						
Balance as at April 1, 2007	1,178	33,505	19,187	43,266	-	97,136
Depreciation	3,114	12,398	5,509	27,238	12,711	60,970
Balance as at March 31, 2008	4,292	45,903	24,696	70,504	12,711	158,106
Net Book Value						
As at March 31, 2008	120,258	78,893	30,389	62,747	50,843	343,130

7. Comparison of Results with Budget

	Actual $	Budget $	Variance $
Revenue			
Gross revenue	4,485,797	6,167,770	(1,681,973)
Transfer to TCI Government	(1,849,416)	(3,369,940)	1,520,524
Share of revenue retained	2,636,381	2,797,830	(161,449)
Release of government grants	25,517	-	25,517
Interest and other income	100,896	-	100,896
	2,762,794	2,797,830	(35,036)
Expenditure			
Staff costs	1,180,690	1,365,395	(184,705)
Travel and subsistence	133,578	231,936	(98,358)
Rental of buildings	88,730	104,616	(15,886)
Depreciation	66,203	-	66,203
Subscriptions and contributions	66,036	77,716	(11,680)
Office expense	40,512	41,364	(852)
Repairs and maintenance expense	39,655	237,462	(197,807)
Communication expense	37,737	42,429	(4,692)
Utility charges	36,984	40,917	(3,933)
Insurance	29,131	53,160	(24,029)
Professional and consultancy fees	21,074	150,000	(128,926)
Audit and accounting	19,470	15,000	4,470
Training	7,040	90,430	(83,390)
Security expense	3,390	5,000	(1,610)
Other operating and administrative expenses	52,103	63,435	(11,332)
	1,822,333	2,518,860	(696,527)
Net Surplus	940,461	278,970	661,491

8. Accounts Payable

Included within accounts payable is rent owing to the Government of $nil (2008: $6,240). Under the terms of the Ordinance, the Government's share of revenues and any surplus in excess of recurrent expenditure is to be settled to the Government for payment into the consolidated fund. At the year-end, $2,274,352 (2008: $3,119,780) was due to the Government in this regard.

9. Deferred Income

Projects	Initial Capital Warrant Amounts $	Accumulated Amortisation $	Balance Remaining 2009 $	Balance Remaining 2008 $
No. 2061	72,143	54,024	18,119	23,298
No. 1905	22,833	14,272	8,561	3,278
No. 1902	7,147	4,584	2,563	10,845
No. 2714	24,693	14,615	10,078	13,312
No. 2878	308,746	31,737	277,009	291,114
Total	435,562	119,232	316,330	341,847

Deferred income to be released over the next 12 months will be $20,699 (2008: $26,951). Amounts to be released in over 12 months will be $295,631 (2008: $314,896).

a) Project No. 2061

During the financial year ended March 31, 2003, the Commission received a Development Warrant to the order of $72,263 of which $72,143 was for the purchase of office equipment and furniture for its new offices at the Harry E. Francis Building on Pond Street. The funds from the warrant are released to income on the same basis as the assets are depreciated. $118 was released immediately as it related to a direct expense.

b) Project No. 1905

During the financial year ended March 31, 2003, the Commission received a Development Warrant of $24,342 of which $22,833 was to purchase the telephone system for its new offices located on Pond Street. The funds from the warrant are released to income on the same basis as the assets are depreciated. $1,509 was released immediately as it related to a direct expense.

c) Project No. 1902

During the financial year ended March 31, 2003, the Commission received a Development Warrant of $35,300 of which $7,147 was to purchase a filing system for the Companies Registry Archive, which is located in one of the Franklyn Misick Buildings on Church Folly Road. The funds from the warrant are released to income on the same basis as the assets are depreciated. $28,153 was released immediately as it related to a direct expense.

9. Deferred Income (continued)

d) Project No. 2714

During the financial year ended March 31, 2006, the Commission received a Development Warrant of up to $53,410 to purchase furniture, equipment and vehicles. The funds from the warrant are released to income on the same basis as the assets are depreciated. $28,657 was received during 2006 of which $3,965 was released immediately as it related to a direct expense.

e) Project No. 2878

During the financial year ended March 31, 2006, the Commission received Development Warrants up to $300,000, for the Financial Services Commission E-Initiative of which $216,000 was paid as an initial deposit to KPMG and REFLEXIS Systems Inc. as per signed contracts for the supply of KReview and KRegistry Application Software. $200 was released immediately as it related to a direct expense.

During the financial year ended March 31, 2007, the Commission received a further sum of $42,810 in respect of the same project for the acquisition of a server. The sum of $65 was released immediately as it related to a direct expense.

During the year ended March 31, 2008, the Commission received a further sum of $50,000 in respect of the said project.

As at the year-end, work is still being carried out with a view to having the databases and software set up and functional as soon as feasibly possible.

10. Advances for Due Diligence

This amount represents amounts received from applicants to cover the costs of due diligence to be carried out relating to license applications.

11. Release of Government Grants

This can be analysed as follows:

	2009 $	2008 $
Revenue cost	-	-
Amortisation of deferred income	25,517	26,951
	25,517	26,951

12. Staff Costs

This can be analysed as follows:

	2009 $	2008 $
Salaries and wages	937,344	780,669
National insurance	28,500	25,194
Allowances	38,932	26,988
Gratuities	105,036	30,740
Directors' fees and expenses	70,878	75,179
	1,180,690	938,770

13. Travel and Subsistence

This can be analysed as follows:

	2009 $	2008 $
Accommodation and subsistence - local travel	40,510	44,160
Transport - air and sea fares	18,024	23,693
Transport - other	10,374	7,372
Accommodation and subsistence - international travel	23,134	21,301
Airfares - international travel	38,859	20,232
Other cost on international travel	2,677	5,199
	133,578	121,957

14. Utility Charges

This can be analysed as follows:

	2009 $	2008 $
Electricity charges	35,805	30,958
Water charges	1,179	1,143
	36,984	32,101

15. Communication Expense

This can be analysed as follows:

	2009 $	2008 $
Facsimile - local cost	436	1,766
Facsimile - international cost	175	207
Telephone - local cost	15,434	15,825
Telephone - international cost	2,619	2,839
Internet charges	5,696	5,200
Postage and courier	1,181	1,729
Line rental	12,196	10,340
	37,737	37,906

16. Office Expense

This can be analysed as follows:

	2009 $	2008 $
Office supplies	40,512	32,318
Printing and binding	-	1,135
	40,512	33,453

17. Repairs and Maintenance Expense

This can be analysed as follows:

	2009 $	2008 $
Maintenance-fixed assets/air conditioning	5,900	10,775
General property maintenance	24,744	18,659
Repairs to office equipment	500	2,557
Maintenance of software	2,184	861
Maintenance of property	5,677	6,795
Maintenance of hardware	650	2,352
Service vehicles	-	437
	39,655	42,436

18. Insurance

This can be analysed as follows:

	2009 $	2008 $
Motor vehicle insurance	2,929	4,521
Peril insurance	13,820	12,963
Employee medical	12,382	18,025
	29,131	35,509

19. Subscriptions and Contributions

This can be analysed as follows:

	2009 $	2008 $
Subscriptions	6,039	6,060
Contributions to international institutions	20,751	10,862
Contributions to regional institutions	39,246	16,400
	66,036	33,322

20. Other Operating and Administrative Expenses

This can be analysed as follows:

	2009 $	2008 $
Bank charges	3,587	1,800
Local hosting and entertainment	43,016	25,565
Meetings and conferences	1,550	3,533
Advertising	3,950	5,105
Other operating expenses	-	1,142
	52,103	37,145

21. Employee Numbers

The average number of people, both temporary and permanent, employed by the FSC during the year was 27 (2008: 21).

22. Commitments and Contingencies

Commitments as at March 31, 2009 consist of:

a) Application software

	Falling due within one year $	Total $
KPMG	50,000	50,000
REFLEXIS Systems Inc.	250,000	250,000
	300,000	300,000

b) Terminal benefits

The Commission has granted terminal benefits for established employees not otherwise entitled to a gratuity, who retire or resign from their employment after having been continuously employed by the Commission for not less than five consecutive years. The benefit is a lump sum payment at the rate of five percent of the employees annual salary for each completed year of service provided that it does not exceed one year's salary.

22. Commitments and Contingencies (continued)

b) Terminal benefits (continued)

As at March 31, 2009, the Commission has 9 employees within its employ who are entitled to such benefit but have not been employed for more than 5 years. The contingent liability in relation thereto is $17,338 at the year-end.

PART C

STATEMENT OF POLICY AND APPENDIX

Statement of Policy #1

Statement of Bank Licensing Policy

The Turks & Caicos Banking Ordinance of 1979, as amended, regulates the business of banking in and from within the jurisdiction. It provides for two classes of license: a National license under which domestic business may be conducted with Belongers and residents; and an Oversea license under which business may be conducted from the jurisdiction with other persons (but not with Belongers or residents). Institutions may be granted both a National and an Oversea license in appropriate cases; however, separate accounting arrangements must be applied.

The Banking Ordinance must also be read in conjunction with the Financial Services Commission Ordinance 2007('the FSC Ordinance') which, among other matters, provides for the Commission to administer the various financial services Ordinances and to supervise and regulate licensees, and monitor their compliance with the financial services Ordinances as well as with the Anti-Money Laundering Regulations and related provisions.

Section 4(2) of the FSC Ordinance also provides that, in discharging its functions, the Commission may take into account any matter which it considers to be appropriate; but also requires that it shall, in particular, have regard to:

- a) the protection of the public, whether within or outside the Islands, against financial loss arising out of the dishonesty, incompetence, malpractice or insolvency of persons engaged in financial services business in the Islands;

- b) the protection and enhancement of the reputation of the Islands as a financial services centre; and

- c) the reduction of financial crime and of other unlawful activities relating to financial services.

Statement of Policy #1

Statement of Bank Licensing Policy (cont'd)

Section 4(3) further clarifies that, for the purposes of section 4(2), 'the public' includes both customers and potential customers of persons engaged in financial services business.

The Financial Services Commission believes that it will be of assistance to the market and to intending applicants for banking licenses for it to provide some clarification of the policy that it applies in judging the acceptability of applications for such licenses.

The Commission is committed to maintaining and promoting the safety and stability of the banking system in the Islands, both to protect the wider national economy and to protect the general public from undue risk of financial loss. To that end, it recognizes that high licensing standards are a necessary part of ensuring effective regulation and supervision of licensed banks. The Commission has to satisfy itself in each case that applicants are 'fit and proper' persons, that they have a sound business plan and that they can be expected to conduct their activities with proper prudence and banking skills. Where it is unable to be so satisfied, applications are rejected. Accordingly, all applications for banking licenses are subject to rigorous scrutiny and analysis.

In the case of Oversea licenses, applicants should be able (in the case of applications for a branch presence) to demonstrate a successful track record of similar business as a bank in a jurisdiction that is recognized internationally as implementing banking supervision in full conformity with the Basel Core Principles for Effective Banking Supervision. An application from a subsidiary of such a foreign bank will also comply with the Commission's licensing policy. All applicants for Oversea licenses must be able to demonstrate that they have the support of the banking regulatory authorities in their 'home' jurisdiction. The home regulatory authority will also have to confirm to the Commission that the TCI operations will be fully covered by its consolidated prudential supervision of the bank or the group to which it belongs.

Statement of Policy #1

Statement of Bank Licensing Policy (cont'd)

Where an applicant for an Oversea license also wishes to apply for a National license, additional considerations are taken into account by the Commission. In particular, the Commission is conscious of the relatively small scale of the domestic banking market. While the Commission believes very firmly in the benefits for consumers, for the market and for the wider economy of ensuring adequate competition in the provision of banking services, it must equally take into account the potential impact on costs confronting the sector as a whole, as well as the profitability (and hence potentially the stability) of individual licensed institutions. Accordingly, it needs to strike an appropriate balance between those factors. In reviewing such applications, therefore, the Commission looks very carefully at the potential impact on staff and other costs. It also looks carefully for evidence in the business plan that the applicant would introduce additional services into the domestic market or has legitimate expectations of being able to increase the volume of local business (for example, by bringing back to the market some business that may have been conducted offshore in the past).

Applicants for stand-alone National banking licenses must involve at least 51% Belonger ownership. Such applications raise rather different considerations. The Commission is supportive of efforts to maintain and increase the degree of local control over the financial services sector, subject always to the need to ensure that regulatory standards are met. Such applications are not, therefore, subject to an evaluation of market competition in the way that applies where an Oversea licensee seeks to enter the National market.

However, where any new venture is concerned, the Commission needs to be satisfied that the applicant has a viable business plan, the resources necessary to support the business through its start-up phase, and an effective management team to ensure that the operations will be conducted with prudence and integrity as well as with appropriate banking skills. The difficulties of meeting the necessary standards should not be under-

Statement of Policy #1

Statement of Bank Licensing Policy (cont'd)

estimated. For example, the Commission has identified that the difficulties can be particularly acute where such an applicant has no track-record of successful lending. Where an applicant can demonstrate no relevant track-record, the Commission is unlikely to be prepared to grant a license. Instead, it may encourage an applicant to begin by building up a track-record of successful lending, making use of the funds of the principals themselves or of funds borrowed by them, before returning to seek at a rather later stage a license permitting the applicant to conduct lending business on the basis of deposits.

Appendix I: Financial Services Related Laws

Financial Services Commission Ordinance 2007

Banking Ordinance (Cap 118)

Insurance Ordinance (Cap 112)

Trusts Ordinance (Cap 124)

Trustees Licensing Ordinance (Cap 123)

Company Management (Licensing) Ordinance 1999

Companies Ordinance (Cap 122)

Mutual Funds Ordinance 1998

Investment Dealers (Licensing) Ordinance 2001

Trade Marks Ordinance (Cap 132)

Patents Ordinance (Cap 131)

Limited Partnerships Ordinance (Cap 126)

Money Transmitters Ordinance 2007

Business Names (Registration) Ordinance (Cap 128)

Proceeds of Crime Ordinance 2007

Anti-Money Laundering Regulations 2007

Anti-Money Laundering and Prevention of Terrorist Financing Code 2007

Anti-Terrorism (Financial and Other Measures)(Overseas Territories) Order 2002

International Financial Institutions Ordinance (Cap 120)

Confidential Relationships Ordinance (Cap 125)

Mutual Legal Assistance (U.S.A.) Ordinance (Cap 37)