BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

2016 Annual Report

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Mission Statement

To uphold the integrity of the British Virgin Islands (BVI) as a well-regulated international finance centre and safeguard the economic interests of the territory by:

Protecting the interest of the public and market participants

Ensuring industry compliance with the highest international regulatory standards and best business practices

Ensuring that the BVI plays its part in the fight against cross-border white collar crime, while safeguarding the privacy and confidentiality of legimate business transaction

We Pledge

Integrity

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

Vigilance

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

Accountability

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

Leadership

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

Strategic Aims

1. To be fully aware of international standards and their application to the BVI and issue guidelines to the industry as necessary

2. To ensure that all entities we authorise and supervise are operating in compliance with BVI legislation, regulation and international standards of best practice

3. To ensure that all entities we authorise and supervise meet "fit and proper" criteria at the licensing stage and on an ongoing basis

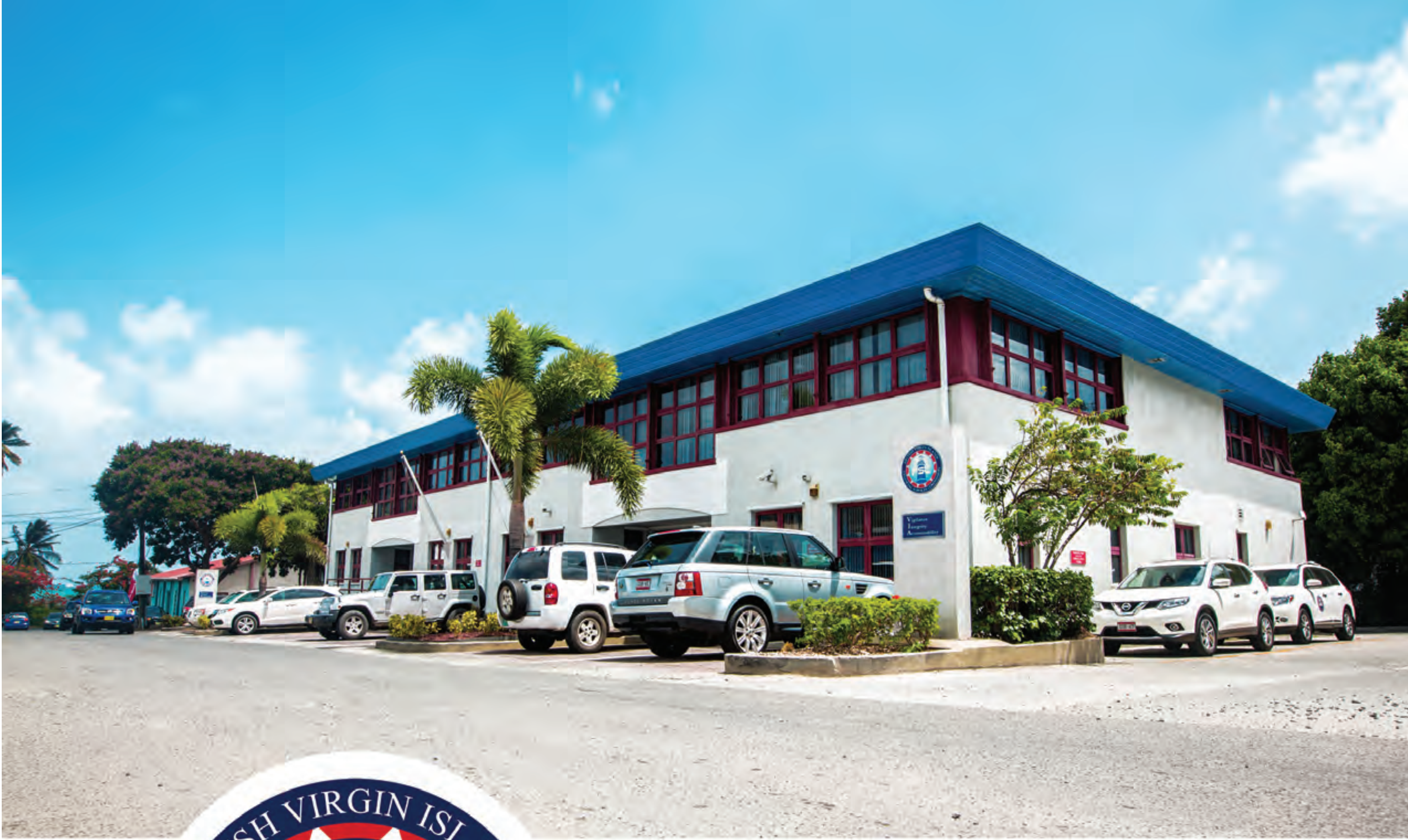
4. To conduct ongoing review of financial services legislation and make recommendations for changes, where applicable

5. To ensure that the FSC operates effectively and efficiently

6. To identify and deter abuses and breaches of legislation

7. To raise public awareness of the BVI financial services industry and develop and implement a system of continuing education for industry practitioners

8. To ensure that the Registry of Corporate Affairs provide world class services to ensure the international competitiveness of the BVI



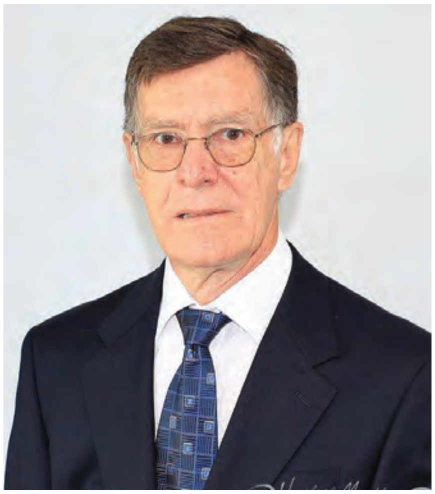
Our Logo:

The Lighthouse

Just as a lighthouse provides terrestrial travellers of today with the same sense of hope and re-assurance that it provided mariners years ago, the Commission's logo bears testimony to the Commission's dedication to upholding standards befitting a premier international finance centre.

It is symbolic of our commitment to preserving the safety and soundness of the BVI's financial services system so as to maintain the confidence of clients doing business from and within the BVI.

Chairman's Statement



Robin Gaul
Chairman

It is my pleasure to report to the Government and people of the British Virgin Islands through the Honourable Premier and Minister of Finance concerning the activities of the Commission during 2016.

The Territory continues to be adversely impacted by pressures on the Territory and the offshore world generally for increased transparency in operations, and by the expanding demands and requirements of other countries. Those pressures, combined with ongoing negative publicity to which offshore centers are subject, continue to depress revenues and the operating results of the Commission

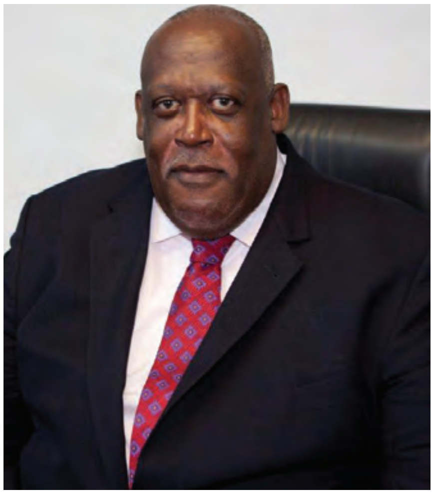
Against this backdrop, the results for 2016 reflect total fees collected on behalf of Government of $193.7million, down $12 million from the previous year, and net payments to Government of $169.8 million, down $10.7 million. This downturn in fees collected results in Commission income being sufficient only to cover operational costs, albeit these continue to be held in check.

I commend the staff of the Commission for their hard work and dedication in the performance of their duties, particularly during these difficult times.

In accordance with section 27 of the Act, I present this report on the operation and activities of the Commission for 2016, together with the enclosed auditor's report and accompanying financial statements.

Robin Gaul
Chairman

Managing Director's Statement



Robert A. Mathavious

MD/CEO

Welcome to the British Virgin Islands Financial Services Commission's 2016 Annual Report, which sets out our ethos, vision, activities, accomplishments and plans.

The Commission is an integrated regulatory and supervisory statutory body. We are mandated by the FSC Act to supervise, regulate and inspect all financial services activities and institutions operating in and from within the Territory. We also operate the Registry of Corporate Affairs, advise the Government of the Virgin Islands (Government) on financial services matters and help local and overseas authorities detect and prevent financial crime.

With international finance centres in an ever harsher global spotlight, the Commission is rigorous and persistent in ensuring that the Territory responds effectively to international expectations and competitive challenges. We know that competitiveness and compliance are two sides of the same coin for any financial centre which has long-term ambitions.

We are determined that the Territory's hard-won good reputation should not be tarnished by lapses and failure to prevent, deter and properly address risks. The BVI cannot afford to be perceived as a haven for the ethically challenged as a result of the indifference, inertia, ignorance, ineptitude or incompetence of anyone associated with the financial services sector.

To this end, the Commission nurtures a strong working relationship with the Government, industry and other key stakeholders. This all-hands-on-deck approach aims to ensure that everyone shares responsibility for preserving and safeguarding our financial services sector's competitiveness, integrity and reputation.

The Commission expects full compliance with the BVI's regulatory laws and rules and we enforce these firmly. In November, we imposed our largest ever fine on a service provider. This followed the so-called "Panama Papers" leak in April of documents from the same provider, and an investigation by the Commission into the firm. We also cooperated fully with related requests from international law enforcement agencies conducting their own investigations.

We ensure that the Commission operates in an accountable and transparent way. Our annual report, audited financial statements and strategic work plan are tabled in the House of Assembly and posted on our website for all to see.

A core part of the Commission's role lies in assisting Government and the industry to respond effectively to regulatory developments. To this end, we continued this year to scan the global horizon actively for changes and regulatory developments affecting the BVI. We also participated in regional and international groups and standards-setting bodies, including the International Organisation of Securities Commissions (IOSCO), International Association of Insurance Supervisors (IAIS), Group of International Finance Centre Supervisors (GIFCS) and Caribbean Financial Action Task Force (CFATF). As the UK pursues Brexit negotiations, the Commission will analyse developments and make any recommendations to the Government.

In 2016, the Commission was pleased to continue to lead and champion the Territory's comprehensive National Risk Assessment (NRA) exercise. As the Commission's Managing Director/CEO, I sit on the NRA Council, which oversees the assessment, provides policy guidance, ensures high-level political commitment and ensures any weaknesses identified are remedied. Other senior Commission officials, including the Deputy Managing Director for Regulation, sit on the NRA Steering Group.

We are determined to make full use of the opportunities the NRA provides to enhance our industry's compliance and the BVI's overall standing by identifying and rectifying any gaps in our AML/CFT regime in preparation for the CFATF's mutual evaluation exercise in 2017/2018. We look forward to driving the implementation of the NRA's eventual recommendations.

Already last year, the Commission modified its internal procedures to facilitate the obtaining of information by overseas agencies. As a result of this and the Territory's responsiveness to requests for information, France removed the BVI from its list of non-cooperative tax jurisdictions in December 2015.

We undertook further work this year on the introduction of a new risk-based supervisory regime. This will enable the Commission to focus its efforts on entities categorised as having higher levels of risk and to propose amendments for any regulatory gaps identified.

Turning from compliance to competitiveness, 2016 saw a number of initiatives to enhance the Territory's attractions for international business, and the BVI's position rose significantly in the Global Financial Centres Index, which measures the competitiveness of financial centres.

We launched the BVI's International Arbitration Centre with the ambition of becoming the regional centre of choice for arbitration arising from business activity worldwide.

And to ensure the BVI remains leader in business incorporations in Hong Kong, we introduced VIRRGIN Lite, making it easier for users to perform company searches and name reservations. All certificates can also now be printed in Hong Kong.

Together with BVI House Asia, the Commission's Hong Kong office has continued close engagement with industry across Asia, for example through a financial services seminar, a "Meet the Regulator" forum and a BVI Asia trade mission.

As a result, our Hong Kong office has received a growing number of inquiries about establishing trust companies and about licensing and approval under Securities and Investment Business Act and investment business rules.

Looking forward to 2017, improvements will include the following:

- Launching VIRRGIN 3 to automate license applications, renewals and modifications;
- Attracting more ship registrations by addressing rules and fees;
- A new Limited Partnership Bill to attract more private equity and venture capital;
- New rules to expand the scope and use of segregated portfolio companies; and
- More work on the licensing and supervision of investment exchanges under Category 7 of SIBA.

Next year, we will also be working with the Government and industry to ensure that the Territory is well prepared for the onsite GIFCS review expected in 2018 and the fourth round of CFATF mutual evaluations expected in 2019.

We place great store on training Commission employees. That ranged this year from in-house AML/CFT training for new staff to sending staff to the 3rd Annual Anti-Money Laundering & Financial Crimes conference and to RIMS. We also pursued training opportunities with regional and international bodies, including the IAIS, the Group of International Insurance Centre Supervisors and the Caribbean Association of Insurance Regulators.

I am most grateful to the Commission's talented and dedicated employees for their ongoing dedication and for being willing to serve on various Governmental boards, committees and task forces and industry liaison groups, as well as not-for-profit organisations.

In these demanding times, the continuing support, challenge and guidance of our Chairman and Board are hugely appreciated and the whole Commission owes them a huge debt of gratitude.

Robert A. Mathavious
MD/CEO

Board of Commissioners

MR. ROBIN GAUL
Chairman
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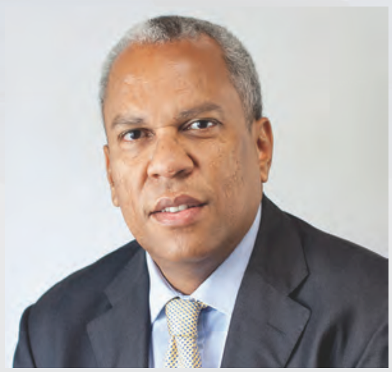
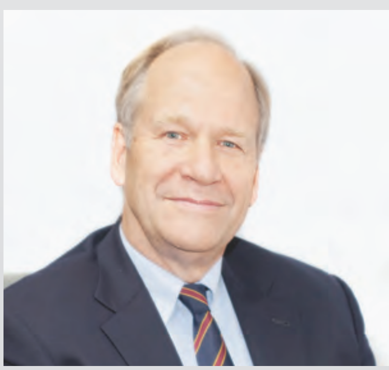


MR. COLIN O'NEAL
Deputy Chairman
—

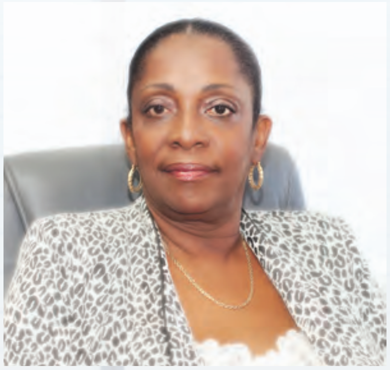


MR. JONATHAN FIECHTER
Member
—

MR. ROBERT MATHAVIOUS
Managing Director/CEO
—

MR. RICHARD PETERS
Member
—

MR. EDWARD PRICE
Member
—



MS. DENISE REOVAN
Member
—

MR. IAN SMITH
Member
—

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

In October 2014, the Board welcomed new members as long-serving inaugural members retired from service. The Premier and the Chairman extended heartfelt gratitude to the retiring members. New members attended their first meeting on the morning of 21 October. The composition below represents the Board of Commissioners at the close of 2016.

Organisational Structure

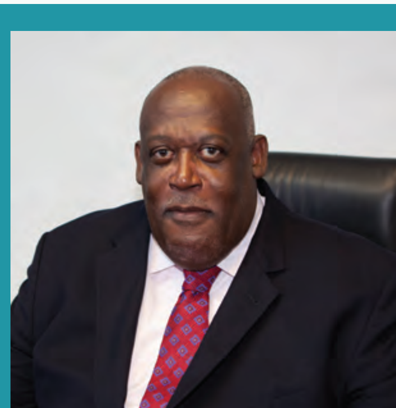
Cabinet

Board of Commissioners

Robin Gaul (Chairman), Colin ONeal (Deputy Chairman), Denise Reovan, Ian Smith, Jonathan Fiechter, Edward Price, Richard Peters

FSC (HK) Ltd.

Asia Representative
Leon Wheatley



Robert A. Mathavious
Managing Director/CEO

Jennifer Potter-Questelles
Deputy Managing Director - Corporate Services

Kenneth Baker
Deputy Managing Director - Regulation

Cherno Jallow, QC
Policy, Research and Statistics Division

Annet Mactavious
Human Resources Manager

Dawn Smith
Legal and Enforcement Division

Policy, Research and Statistics Division

Director
Cherno Jallow, QC

Deputy Director
M. Alva McCall

Human Resources Division

Director
Annet Mactavious

Deputy Director
Carolin Romney-Peters

Legal and Enforcement Division

Director
Dawn Smith

Deputy Director: Legal
Stephen Grayson

Deputy Director: Enforcement
Diana Nedvidek

Board Secretary
Annet Mactavious

Corporate Services Division
Director
Jennifer Potter-Questelles

Finance
Director
Sheldon Scatliffe

Registry of Corporate Affairs
Director
Myrna Herbert
Deputy Director
Lydia George

Banking, Insolvency and Fiduciary Services
Director
Kenneth Baker
Deputy Director: Fiduciary
Simone Martin

Investment Business Division
Director
Glenford Malone
Deputy Director

Insurance Division
Director
Stanley Dawson
Deputy Director
Trevecca Hodge

Executive Management Team

Robert Mathavious
Managing Director/CEO

Jennifer Potter-Questelles
Deputy Managing Director - Corporate Services

Kenneth Baker
Deputy Managing Director - Regulation

Dawn Smith
Director - Legal and Enforcement (Legal Counsel)

Cherno Jallow, QC
Director - Policy, Research and Statistics

Annet Mactavious
Director - Human Resources
Secretary, Board of Commissioners

REGULATORY OVERVIEW

BVI FSC (HK) Limited

BVI House Asia allows the BVI to more efficiently maintain and service key business relationships within the financial services industry of the Region.

Introduction

BVI Financial Services Commission (HK) Limited (the "FSC HK") is a limited liability company incorporated in Hong Kong, Special Administrative Region ("HK, SAR") that promotes and represents the Commision throughout Asia. FSC HK collaborates and cooperates with Asian public and private sector stakeholders to foster the continuous development of a financial services environment that will remain competitive and attractive for legitimate business. Through its relations with Asian practitioners, FSC HK also assesses the need for legislative reform with a view of keeping attuned to domestic and international developments affecting the financial services industry to continually strengthen the scope of services that the BVI provides.

FSC HK collaborated with BVI House Asia to inform practitioners of revised processes for the filing of Registers of Directors as required under the BVI Business Companies (Amendment) Act, 2015 (the "BC Amendment Act") as well as on the Guidance Notes addressing the compliance period for the collection of Beneficial Ownership information.

FSC HK also received a number of inquiries on the requirements for the establishment of Trust Companies under the Banks and Trust Companies Act, 1990 as well as the application requirements for licensing and approval under the Securities and Investment Business Act, 2010 and the Investment Business (Approved Managers) Regulations, 2012 respectively.

There was also continued interest in the pending launch of VIRRGIN Lite .

Other industry liasion activities included:

- Notification to the industry of the extension of the fee neutral period to 31 December 2016 for the filing of Registers of Directors.
- Issuing amended Procedural Guidance for the filing of Registers of Directors.
- VIRRGIN Lite Subscription Updates.
- Notification to industry of amendments to the Regulatory Code, 2009.
- Issuing highlights from the Meet the Regulator Forum held on 15 July 2016.

The increase is largely attributed to the Meet the Regulator ("MTR") forum held in Hong Kong in July 2016 as well as the BVI Asia Trade Mission 2016 ("the Mission"), conducted in Asia from 17-28 October, 2016. In addition, during as well as subsequent to the Mission, the FSC HK noted that there was a renewed interest in the Insurance sector, which is reflected in the number of inquiries received over the second half of 2016.

The Director of BVI House Asia and the FSC HK Asia Representative also served as presenters and facilitators at a seminar for industry participants in February. Topics, included: the implications of the largely compliant OECD rating, removal from the French blacklist, new funds and trademark legislation, development of the arbitration centre, the offering of Registry's premium services and VIRRGIN Lite.

In July, the BVIFSC held a week of meetings that included its annual meetings with legal practitioners and corporate services providers in Hong Kong. Representatives of the Commission also conducted a Meet-the-Regulator forum in Hong Kong.

FSC HK will continue to monitor developments in de-risking of financial institutions in order to identify any subsequent actions that are likely to impact BVI business.

Expand BVI's Regulatory Footprint in the Asia- Pacific Region- REGULATORY PARTICIPANTS. The FSC HK continues to engage Asia-Pacific regulatory agencies with a view to increasing key stakeholder engagement.

FSC HK must continue to review the scope of its activities with a view to ensuring that it has sufficient resources to carry out functions in a timely and effective manner. An additional post, Administrative Assistant, was added to the head count in February as the office's activities and objectives expand.

VIRRGIN Lite was officially launched on 7 September 2016 provided registered HK Users with access to the VIRRGIN system for the purpose of filing, amongst other things, name reservations and conducting company searches. In addition, FSC HK is now able to issue certified copies of documents, including, Certificates of Incorporation and Memorandum and Articles of Association. The industry has received the launch with great enthusiasm and have made a number of inquiries on the process for gaining access to the new service.

Since the launch, there has been a steady increase in the use of VIRRGIN Lite for the purpose of carrying out name reservations.

Month	Name Reservations
September	1,805
October	2,871
November	3,376
December	4,254

As can be seen, name reservations have more than doubled between quarters.

Requests for certifications showed some growth over the first three months (i.e. September- November) peaking in November before declining in December. Public searches have yet to eclipse a total of 10 in any month since the service was initially offered.

The Asia Representative and Administrative Assistant were each appointed to the post of Assistant Registrar of Corporate Affairs effective 15 September, 2016 and 16 December, 2016 respectively in order to be better equipped to carry out the additional activities introduced by VIRRGIN LITE.

The Government of the Virgin Islands embarked on a Mission to the Asia Pacific Region in October, 2016. FSC HK participated in the mission by addressing regulatory concerns in each forum held.

Over the course of the Mission, members of the delegation participated in the Business BVI Conference held in Hong Kong, conducted Road Shows in Beijing, Tianjin, Hangzhou and Shanghai as well as held meetings with Chinese Government officials and with key business leaders.

The delegation was able to address how the introduction of the Common Reporting Standard would impact entities operating from within the BVI, which has been an issue that clients from Mainland China have expressed great interest in.

Banking, Insolvency and Fiduciary Services

Banking Unit

Regulatory Outlook

The Commission has been actively monitoring the non-performing loans which have averaged around 4% of total loans during 2016. Whilst the average non-performing loans have remained relatively low, which indicated good asset quality during 2016, we have seen fluctuations in the individual banks and have been exercising heightened supervision over particular banks which have above average levels of non-performing loans.

Balance Sheet Analysis – The BVI banking sector's total asset were recorded at $2.26 billion at the end of 2016. Loans and advances continue to demonstrate incremental growth. The banking sector's asset size remains stable but balance sheet components show the movement of liquid assets into longer term commitments, the reduction of liabilities and investment in other assets.

Income Statement Analysis - Retained earnings increased 19% to $34.7 million from $29.1 million last year. The primary factor attributing to the increase is the jurisdiction's 8.78% increase in interest income of $4.6 million supplemented by the (11%) or $2.6 million reduction in non-interest related expenses.

Capital and Liquidity Analysis – Capital levels at 42% remain above the regulatory requirement of 12% and continues to grow incrementally. Liquidity financial soundness indicators show some decline due to liquidity being converted into longer term assets such as loans and investments. Liquid assets as a percentage of total deposits indicates that the banking sector will be able to satisfy primary short term liabilities and current obligations.

Supervision review and regulatory engagement

The Unit continued its heightened engagement with two fiduciary services licensees that exhibited material compliance challenges. One licensee is the holder of a Class I Trust Licence, the other holds a Company Management Licence. Both entities were subject to enforcement action following the conduct of on-site compliance inspections. Engagement with the licensees now fall to the Legal and Enforcement Division with continued support by the Fiduciary Services Department. Supervisory reviews provide the Commission with the opportunity to evaluate material operations of licensees and to evaluate general compliance, corporate governance and future business strategy. These evaluations are factored into the risk assessment for development of a risk profile.

Conditional approval was granted for a restricted Class I Banking Licence.

Engagement with the Industry

Engagement with the industry and participation in international forums and conferences was an integral function of the Banking Unit in 2016 and will continue into 2017.

Continued engagement with Regional and International Bodies

The Caribbean Technical Assistance Committee's (CARTAC) assistance to the Caribbean Group of Banking Supervisors (CGBS) with Basel II implementation continued in 2016. The BVI is able to use the resources and the progress of the CARTAC/CGBS initiative for its own adoption of the Basel II Standard.

The Unit attended the annual conference hosted by the World Bank and the members meeting for the Caribbean Group of Banking Supervisors.

Meetings were held with the BVI Bankers Association and Ministry of Finance in relation to the Virgin Islands Deposit Insurance Act, 2016 and other current issues impacting the jurisdiction.

Fiduciary Services

Licensees that fall under the remit of Fiduciary Services, which are collectively known as Trust and Corporate Service Providers ("TCSPs"), are licensed under the Banks and Trust Companies Act, 1990 ("BTCA") or Company Management Act, 1990 ("CMA").

During the year, Fiduciary Services received a total of 6 applications.

Changes

Change	Number of Requests/ Applications
Change of Principle Office	6
Change in Aurhtorised Agent	9
Change of Particulars	26
Change in Ownership	9
Change in Name and Certain Approvals	18
Change of Auditor	7

Revenue

In 2016, the Department collected an aggregate of $2,235,330, with $126,150 attributable to post-licensing application fees.

As at the end of the year the Commission holds $8,700,000 in Regulatory Deposits on behalf of licensees under the BTCA.

There were 10 full and 3 thematic onsite inspections during the year.

Resources

At the end of the year, resources allocated are as follows: the Deputy Director, Fiduciary Services, one Senior Regular, one Regulator II, two Regulator I, one Executive Officer and one Cadet.

Insolvency Services

The Insolvency Services Unit currently supervises 25 licensed Insolvency Practitioners (IPs). This reflects an increase of one (1) as compared to 2015. The licensing activity (new licences and revocations) primarily represents the expansion of existing firms and replacement of Insolvency Practitioners who are no longer resident in the Territory.

Locally, firms have seen an overall increase in the number of case appointments during the year. The increase was due to a combination of Court and Member Liquidations. A number of new applications for licences were received near year end and an increase in the number of licensed IPs is expected in 2017.

Internationally, insolvency cases have varied depending on the region. Overall, corporate failures have decreased by approximately three percent (3%). The insolvency cases in North America (United States of America and Canada) have been stable whilst there has been an increase in the United Kingdom. The increase in the United Kingdom (UK) can be attributed primarily to personal insolvencies. The UK has put substantial effort into personal recovery and insolvency matters.

Previously, the Division has been faced with challenges of Insolvency Practitioners surrendering their licence without providing sufficient notice of their intent to do so and in proper handling of their open cases. As a result, the Division developed a revised procedure to handle the voluntary revocation of a licence to act as a BVI Insolvency Practitioner. This measure has helped to alleviate a number of issues previously encountered.

Internationally, there have been some new developments in Insolvency Regulation. In April 2016, the period for submitting Director conduct reports was reduced from six (6) months to three (3) months for the UK and Ireland. The Third Parties (Rights Against Insurers) Act 2010 came into effect 1 August, 2016 and amended how insured claims against an insolvent person or entity are handled. In October 2016, in the case of Horton v Henry, it was clarified that Trustees cannot access undrawn pension funds to include in the bankrupt estate for the benefit of the creditor. England and Wales Insolvency Rules 2016, were laid in Parliament October 2016. Scotland's Bankruptcy Act 2016 took effect 30 November, 2016.

Onsite Inspections/ Enforcement Actions

Five thematic inspections were conducted in 2016. Additionally, no enforcement action was taken against licensed IPs during the year.

Future Outlook

Cross border matters continue to pose challenges globally. This is especially relevant for the BVI Insolvency Industry, given there are many companies registered in the BVI with their operations and centre of main interest in another jurisdiction. In the interim, it is anticipated there will be an increase in the number of joint appointments with overseas Insolvency Practitioners to help alleviate some of the issues faced when dealing with offshore and cross border matters.

Annual Returns

The Annual Returns due from Insolvency Practitioners provide industry statistics on the number of insolvency cases brought forward from previous years, cases opened, closed, transferred to or from in any given year and the number of cases going forward to the following year, along with the new cases, jurisdictions for center of commerce.

As of 31 December, 2016 the statistical summary of cases by classification for the year showed that the territory began the year with 385 cases in progress. During the year 2016, 83 new cases were opened, 46 cases were closed, 26 cases were transferred from and 26 were transferred to IPs. This resulted in 422 being the overall number of cases in progress at the end of the year, an increase from 385 the previous year. This case load was handled by 23 of the 25 Insolvency Practitioners (including the Official Receiver). These figures are based on the Annual Return statistical information submitted by Insolvency Practitioners.

The Court appointed liquidations account for approximately 52% of the total cases, Receiverships 17%, Liquidations by Members 28%, Company Creditors Arrangements 1%, Administrative Receiverships 1% and Provisional Liquidators 1%. There was no activity as it pertains to Bankruptcies, Individual Creditors & Administrations, they remain at 0%.

The Center of Operations shows that the European Union countries accounted for 23% of the new cases, which is a decrease from 41% in the previous year. Far East accounted for 30% which is a decrease from 35% as compared to the previous year. However, there were some increases, North America accounted for 11%, showing an increase from 6% last year; Rest of the World accounted for 29%, which is an increase from 18% in the previous year. BVI accounted for 7%, which is also an increase from 0% of the previous year. The Caribbean (Other than BVI) showed no new cases, which is the same as the previous year. Most of the applications are from Far East, which outpaces the Rest of the World by 1%.

Overseas Joint Appointments

In 2016, the Unit, on behalf of the Commission, consented to the appointment of 29 overseas Insolvency Practitioners. Overseas practitioners may be appointed jointly with BVI practitioners to mitigate the risk in asset recovery in the jurisdiction in which such assets are located. In such cases the joint appointee must possess similar qualifications from a recognized jurisdiction, as required locally in order to be appointed. The overseas joint appointments for 2016 included several locations worldwide, with the majority of requests coming from Hong Kong. There were fourteen from Hong Kong, two from Singapore, five from the U.K, five from the Cayman Islands, and three from Bermuda. The Unit, in consenting to the requests was satisfied that consent to act was given, and that the overseas practitioners had sufficient qualifications and security to adequately perform their functions.

Reports to Official Receiver from Insolvency Practitioners

There were twelve (12) Reports to the Official Receiver from Insolvency Practitioners for the year 2016. Eight of the reports were preliminary reports, one was first interim report to Creditors, one was director's conduct and two were final reports.

Staff

During 2016, the Unit operated with a staff complement of two persons. The Deputy Director and Administrative Assistant.

The Deputy Director's main role is to handle regulatory matters of the Insolvency Practitioners such as overseas joint appointments, onsite inspections, and assist with Official Receiver cases.

Training

The division was represented at the 3rd Annual Anti-Money Laundering & Financial Crimes conference held 5-7 April, 2016 in Miami, Florida. It focused primarily on providing the highest levels of practical experience needed to be effective in AML/CFT compliance for the Caribbean Region and it was hosted by ComplianceAid partnered with the AMLFC Institute.

Insolvency Surplus Account

The Insolvency Surplus Account (ISA) is described in the Insolvency Rules, 2005, Section 327. The balance at the end of the year amounted to $360,772.89, which includes interest earned in the amount of $1,243.44. There were no disbursements for the year, however there was a deposit of $17,389.22 (less bank fees) made in relation to Ark Discovery Fund (Offshore) Limited which was deposited by William R. Shepard of Self Employed Retirement Plan & Trust (a non-local Receiver and firm).

Accordingly, the cumulative receipts amount to $389,999.51 (excluding accrued interest) whilst the cumulative disbursements remain at $45,063.16.

Investment Business

During 2016, the Investment Business Division was able to progress strategic matters in addition to its substantial initiatives as supervisor of the sector.

As part of the Division's administration of the Securities and Investment Business Act, 2010, (SIBA), the Investment Business Division placed greater focus on implementing a regime that improves on current levels of compliance. Specific to supervision of the sector, is the large number of licensees that operate without a physical presence in the jurisdiction and the risks associated with each entity's operations.

The Division launched a specific exercise to engage licensees to improve compliance with legislative requirements, regarding the submission of audited financial statements. The exercise resulted in a larger than usual number of administrative penalties being levied. The exercise proved beneficial in increasing the overall volume of licensees who are now compliant in this area.

A comprehensive desk-based review of all licensees was also undertaken by the Division this year. This review and subsequent actions by the Division resulted in a number of licenses being resolved as well as a number of voluntary requests for cancellations.

The cancellations during the year, against the number of successful applications for recognition and registration of new funds, resulted in a net contraction of the number of funds on the territory's register at the close of 2016.

Completing the exercise allowed the division to essentially remove abandoned and inactive funds from the register. The register now more accurately reflects the true size of the sector.

Incubator and approved funds though active on introduction, have not provided any significant shifts in the overall size of the register.

The Investment Business Division continued to primarily engage members of the private investment business sector through liaising with the BVI Investment Funds Association. Key topics of engagement in 2016 included: administrative penalties, related to late or missing submissions of annual returns (MFAR) and audited financial statements. The BVI Fund Association was also consulted for feedback on the impact of amendments to the AML Code of Practice and Regulations, as well as the Commission's progress on developing AIFMD complaints regulations.

By volume, managing mutual funds, continues to be the dominant category for investment business licenses granted. This along with managing other investment types, continues to account for the majority of applications received for the grant of new licenses.

Each year, the division identifies priority initiatives aimed at expanding its effectiveness. These initiatives relate to the monitoring and supervisory investment activity undertaken, using BVI Products, and within the regulatory landscape. During 2016, the Investment Business Division drafted proposals for an expansion of the scope and utilisation of segregated portfolio companies (SPCs). The Division anticipates that the proposal will be translated into the required legislative amendments to the BVI Business Companies Act, 2004 and the existing SPC Regulations, 2016 and be finalized in 2017.

An ad-hoc team was also tasked with developing a proposal to introduce a licensing and supervising regime relevant to entities that would like to seek licensing under SIBA category 7 (Operation of an Investment Exchange) The initial research and feasibility information is expected to be presented during 2017

Revenue Statistics and Analysis

The Division's annual revenue has been on a decline for the fourth consecutive year as expected, given the decline in the number of mutual funds under the Division's remit. However, the revenue figures exceeded the Division's projected revenue of $2,702,700 for the year, with administrative penalties and fines accounting for the majority of the revenue above projected figures. Fines almost quadrupled the amount collected in 2016, due to the Division's pursuit of enforcement action against entities for their failure to submit audited financial statements within the relevant timeframe, as well as the issuance of penalty notices relating to MFAR filings. The Division does not envisage this continuing into 2017.

Resourcing Issues

Shifts in the Division's resources were evident as a number of mid to senior level employees departed the Division over the course of the year. At its onset, the Division's deputy director function was left vacant, as the Ag. Deputy Director, was seconded to BVI FSC (HK) Limited. Further, during the fourth quarter, two (2) of the Division's employees, were transferred to the Policy, Research & Statistics Division and Compliance Inspection Unit. With the reduced resources, the Division ensured continuity by reallocating roles and responsibilities as required. This allowed for employees' exposure to a widened cross-section of Divisional, as well as Commission-wide matters and the delegation of some supervisory functions.

In addition to undertaking the Division's regulatory responsibilities, staff members within the Division have been dedicated to a number of Commission-wide and, in some cases, jurisdictional initiatives. This included, the conduct of the BVI's National Risk Assessment and production of the final report, the development of the Commission's VIRRGIN III Software, development of the Commission's Risk-Based Supervisory Framework and analysis of Compliance Officer functions of all licensed entities.

Two (2) temporary employees were assigned to the Division during the summer. Mr. Kenneskie Manning returned and Ms. Kyla Forbes was introduced. They provided assistance with MFAR and audited financial statements filings and the mutual fund revocation project. The Division also hosted Mr. Amoui Williams, a recent high school graduate, exposing him to the professional work environment.

The Division's outlook for 2017 is expected to be resource heavy, requiring the staff's dedication to a number priority initiatives. With this in mind, the Division's management is cognizant of the need to introduce resources to ensure efficient functionality of the Division. It is anticipated that new regulators will be brought into the Division as early as Q1, 2017. Management will continue to monitor the impact of changing resources on the Division's functionality.

Progress against the Work Plan

Development of Public Issuers Code

Whilst the development of the Public Issuers Code comprised part the Division's work plan for the year, the Division has not initiated any action on this item. This was due to the lack of industry interest in the development of this document and the need to focus resources on priority matters. Notwithstanding, the Division intends to evaluate industry interest in order to determine whether it will become a priority item for 2017.

Legislative Amendments for Segregated Portfolio Companies

During the year, proposals for the expansion of the scope of the Segregated Portfolio (SPC) Regime to include virtually all BVI Business Companies, were considered. Relevant amendments to the BVI Business Companies Act, 2004 and the Segregated Portfolio Companies Regulations, 2016 were drafted, after consultation with SIBAC and the Investment Funds Association. It is anticipated that these amendments will be finalized within 2017.

Licensing and Operation of an Investment Exchange

The Division convened a team aimed at developing a licensing and supervisory regime relevant for entities that intend to operate under Category 7 of SIBA (Operation of an Investment Exchange). The team is currently undertaking research on the regulatory landscape and environment of various investment exchanges. It is anticipated that initial research will be completed during 2017.

Foreign Fund Regulations

The Division considered the level of oversight required for foreign funds and presented a proposal for the development of relevant regulations. The proposal was approved by the Managing Director and is with the Policy, Research & Statistics Division for development. It is hoped that the draft regulations will be circulated to relevant industry bodies for comments and consultation during the early part of 2017.

Key Issues and Challenges

Alternative Investment Fund Managers Directive (AIFMD)

In anticipation of the European Securities and Markets Authority's (ESMA) evaluation of non-EU countries for the purpose of possibly extending the marketing passport to these countries, the Division made recommendations for the amendment of the BVI's regulatory regime to implement the necessary regulatory infrastructure. The proposed dual regime encompassed the creation of a new certified fund product, as well as a new category of Investment Manager. During the year, AIFMD compliant regulations were drafted and finalized and subsequently approved by Cabinet. Development of relevant application forms and guidelines is also a priority matter for the Division, as it contemplates the most appropriate time for commencement of the regulations. However, the Division's point of contact at ESMA has indicated that issues such as BREXIT has taken priority and that the European Commission has yet to provide instructions to ESMA on the assessment of other third party jurisdictions such as the BVI. The Division will continue dialogue with ESMA to monitor the progress of assessments.

Collection of Statistical Data

During the year, a total of 1,162 funds filed MFARs in relation to the 2015 reporting period, accounting for approximately 73% of active funds. In pursuit of outstanding statistical returns, the Division issued approximately 163 penalty notices to active funds, 78 of which subsequently filed their returns. Penalties amounting to $48,600 were collected as a result of this exercise.

The Division was hopeful that the revised MFAR platform would be available for the submission of returns prior to 30 June, 2016. However, this was not realized, as the Division and IT Unit continued to collaborate with developers in order to ensure the production of a platform that can be utilized as a data analysis tool for internal, as well as international reporting to bodies such as IOSCO. It is anticipated that the revised platform will be completed within the first quarter of 2017 and unveiled for filing prior to the 30 June 2017 deadline.

Risk Based Supervisory Framework

Members of the Division's staff were included on the Commission-wide team tasked with the development of the Risk Based Supervisory Framework. The framework was developed and approved by management at the end of the year. The Division intends to utilize the framework by centering a substantial portion of its supervisory efforts on entities categorized as having higher levels of risk.

Audited Financial Statements

The Division pursued enforcement action against a number of entities that failed to submit audited financial statements for the year 2014 within the relevant time period. As a result, a number of penalty notices were issued, including penalties to a few or several authorised representatives who were found liable.

Given the level of resources involved in pursuing such contraventions, the Commission has initiated development of a short-form enforcement process, delegating the automatic issuance of proposed penalty notices for entities that failed to prepare and/or submit audited financial statements within the required timeframe. The Division anticipated that this policy would have come into force prior to the end of the year, as the Division identified 1,280 entities that failed to submit their relevant 2015 financial statements and 33 entities that filed these statements outside the relevant timeframe. The Division is hopeful that the policy will be finalized within the first quarter of 2017, to allow for the streamlined progression of these matters.

Outlook & Strategy for 2017

From a Commission-wide perspective, 2017 is anticipated to be a particularly challenging year as the Commission aims to implement initiatives, while aiding in the jurisdiction's preparation for the 4th round CFATF mutual evaluation.

With the finalization and circulation of the NRA Report, the Division has been apprised of the results of the NRA specific to the Division and the Investment Business Sector. Key recommendations emanating from the report will be considered and implemented as a matter of priority. This includes implementing the recently approved risk-based supervisory regime, conducting risk assessments of all active investment business licensees, engaging in outreach with relevant sector participants and developing relevant prudential returns for investment business licensees.

In order to ensure an accurate depiction of the jurisdiction's investment business industry, the Division intends to progress with its mutual fund revocation exercise, revoking the statuses of entities that have been non-responsive to the Commission and have been struck from the Register maintained by the Registry of Corporate Affairs. Although a total of 301 mutual funds have been revoked for the year 2016, the Division estimates approximately 50 more mutual funds will be subject to this revocation process. The Division also intends to embark on this exercise in relation to its licensees during the year.

Given the stance taken by the Commission to pursue enforcement action against entities that failed to file audited financial statements within the required timeframe, the Division anticipates widespread compliance in this area. With the submission of these statements, the Division however recognizes the need for detailed analysis on investment business entities, particularly those that will fall into higher categories of risk. In this regard, the Division will be seeking further training in this area, or to allow the dedication of a team to perform this role.

Throughout the year 2016, the Division received a number of investor complaints from retail investors trading on foreign exchange platforms of licensees licensed under Category 1. The Division has expended significant resources in seeking to address these complaints, which for the most part appear to be trade disputes between licensees and clients, where licensees act in accordance with their rules and regulations as stipulated in their client agreements. Notwithstanding, some investors publicly express dissatisfaction with the Commission's review, which has the potential to cause significant reputational damage to the jurisdiction, including the Commission. In this regard, during 2017 the Division intends to collaborate with other regulators to develop a course of action to resolve these matters. Additionally, the Division also intends to embark on a review of licensees' trading rules and regulations, against those of entities licensed in other recognised jurisdictions, with the aim of determining whether the trading rules are fair and equitable.

Insurance

The Captive Insurance sector continues to change based on mostly external forces. In response to market changes, the Insurance Act was amended to provide additional flexibility for users. The legislative changes introduced on 1 November, 2016 included an expansion of the captive insurance regime with the introduction of two new classes of captives.

The Domestic Insurance sector saw some significant changes during the year with the introduction and implantation of a National Health Insurance (NHI) programme. Owing to the introduction of NHI, some insurers experienced a decline. Some companies introduced additional health plan products to provide second tier insurance. The division continues to receive applications and expressions of interest from prospective new entrants to the market. There was little statistical change in the intermediaries sector during the year; the number of licenses in this area remains stable.

Industry liaison groups perving the Insurance sector remained active during the year and provided opportunities for discussion on changes in the legislation and an impact analysis on the introduction of NHI. The Commission maintained dialogue with the domestice trade associations, namely: The Domestic Insurance Advisory Council (DIAC) and Captive Insurance Advisory Council (CIAC)

As part of its wide commitment to effective regulation and supervision of the sector, the division on behalf of the Commission, contributed valuable input to an IAIS peer assessment on international exchange and supervisory Cooperation.

Training

The opportunities to engage with other regulations at the international level afforded division members additional professional development avenues. Division personnel also assisted with regulatory education in the sector through participation at conferences held by the Risk and Insurance Management Society (RIMS) and American Society for Health Care Risk Management (ASHRM).

The division members worked on improving their skills through training provided and conducted by regional and international bodies including: International Association of Insurance Supervisors (IAIS), Group of International Insurance Centre Supervisors and Caribbean Association of Insurance Regulators. The division along with a representative from the Legal and Enforcement Division (LED) participated in a peer assessment group with the IAIS on International Exchange and Supervisory Cooperation. LED and the division provided valuable input focusing on international cooperation matters which assisted in promoting the jurisdictions commitment to international regulatory standards.

Companies	No. of Insurance Licensees
Captives	137
Domestic	39

Intermediaries	No. of Insurance Licensees
Agents	15
Brokers	4
Managers	11
Loss Adjusters	3

Intermediaries

A loss adjuster cancelled its licence in 2016. The number of licensed loss adjusters at the end of the year was 3.

The intermediary market continues to remain stable in 2016.

Resources

The division's human resources in 2016 comprised a team of 9 for the first half of the year and 7 for the second half. The division fulfilled its mandate including initial licensing activities, post licensing activities, financial statement analysis and on-going monitoring of licensees.

Industry Discussions

To achieve the Commission's objectives to support and provide continuing education and improve compliance levels, the division participated in discussions with liaison groups including the Domestic Insurance Advisory Council (DIAC). The DIAC which was constituted in 2015 met quarterly in 2016 to discuss the amendments to the Insurance Act and Insurance Regulations, the amendments to the Fees Regulations, work of the DIAC and the impact of the newly implemented National Health Insurance on licensees.

The division additionally worked with the Captive Insurance Advisory Council (CIAC). The CIAC met to discuss the proposed legislative amendments, the proposed insurance guidelines, the proposed Fees Amendment Regulations and the promotion of the Territory.

Attendance and participation in events hosted by the afore-mentioned bodies afforded team members the opportunity for professional development, networking and the experience to assist in making recommendations for changes to the regulatory approaches used in the sector. Team members were also able to connect and maintain relationships with key personnel in the insurance arena.
In 2016 the Division collaborated with BVI Finance, (the Government Department responsible for promotion of the financial services sector) and made presentations on regulatory matters at conferences hosted by the Risk and Insurance Management Society, and the American Society for Healthcare Risk Management.

Registry of Corporate Affairs

Introduction

The Registry of Corporate Affairs (the Registry), is responsible for the administration of all legislation governing the formation and administration of corporate structures. The current legislation suite includes the BVI Business Companies Act, 2004, The Partnership Act, The Trade Marks Act and the Registration of UK Patents Act.

The Registry's primary function is to maintain the registers that are required by the governing legislation and to ensure the integrity of the registers.

A greater percentage of the activities of the Registry relates to companies formed or re-registered under the BVI Business Companies Act, 2004. However the restructured Intellectual Property Department is experiencing new growth in its activities.

Sector Overview

BVI Business Companies Act

The BVI Business Companies (Amendment) Act, 2015, which required mandatory filings of particulars of directors came into force in 2016.
Other notable provisions included:

- Enabling a business company to acquire its own shares for no consideration.
- Allowing the electronic transfer of company shares (listed on a recognized exchange)
- Clarification of requirements for companies to continue outside the BVI
- Empowering the Commission to revoke appointment of an authorised custodian or recognised custodian.

Procedural guidance for filing particulars of directors was issued to the industry and the VIRRGIN System was modified to accommodate single and batch filings of these transactions.

Each BVI business company on the Register at the time the change took effect is required to make the director filings.

By order of Cabinet, the fee neutral period for filing Register of Directors was extended from 30th September to 31st December, 2016 to facilitate the filing of large volumes of particulars of directors.

Guidance on filings for continuations was published in 2016. This was accompanied by an approved form for the director's certificate for continuation into the Virgin Islands and the approved form for a declaration for a continuation out of the Virgin Islands. These approved forms were published to ensure consistency in information provided for filing and to comply with the requirement of the Act for filings to be made in approved forms.

VIRRGIN

The Commission began accepting applications for VIRRGIN Administrators for subscriptions to VIRRGIN in July of 2016. Applications for VIRRGIN Lite subscribers' access for Hong Kong users were also accepted. VIRRGIN Lite went live in 2016. The VIRRGIN Lite services expands VIRRGIN users to include employees of Registered Agents resident outside the Virgin Islands for limited functions.

Trade Marks

To encourage dialogue between the Office of the Registrar of Trade Marks and the Trade Marks agents, a meeting with Trade Marks agents was held in October 2016. The aim was to obtain direct input from agents to assist in improving the quality of service offered and ultimately develop the sector by gaining greater insight into the demands being placed on the industry.

A delegation of three persons from the BVI Trade Marks Office visited the Canadian Intellectual Property Office (CIPO) in Quebec, Canada to observe the filing and processing procedures in relation to Trade Marks. The main focus of the visit was to gain insight in the practices of CIPO in administering modern IP legislation.

Trade Mark new registrations totaled 320 for 2016. There were 27 new patent registrations.

Plans are being developed for the automation of the Trade Marks Office.

BVI Business Companies

Registrations by Company Types

Company Type	2014	2015	2016
No. of Companies Limited by Shares	50,759	45,852	31,730
No. of Unlmited Companies	30	36	18
No. of Companies Limited by Guarantee	32	35	25
No. of Foreign Companies	13	17	17
Totals	50,834	45,940	31,776

Post Incorporations

The chart below shows a sample of post incorporations transactions from 2014 – 2016.

Post Incorporations	2014	2015	2016
Request for Certificate of Good Standing	59,288	53,124	52,167
Filing of Notice of Completion of Liquidation	7,994	9,375	10,896
Filing of Notice of Completion of Liquidator	8,236	9,134	11,553
Request for Certifications (BC)	7,563	6,569	6,675
Notice of Change of Registered Agent	10,119	9,249	8,808
Filing of Register of Directors	361	271	319,829
Application for Registration of Charge	7,393	8,603	7,047
Notice of Continuation Out of the Virgin Islands (Discontinuation)	345	443	718
Request for Special Certificate	703	923	829
Notice of Intent to Resign	1,080	5,081	4,573
Resignation of Registered Agent	537	1,658	2,992

Some transactions filed in 2016 were reflective of amendments to the BVI Business Companies Act as well as other Financial Services legislation, such as the Anti-Money Laundering (Amendment) Regulations, 2015, which require information to be obtained on beneficial owners. The requirement to file Register of Directors resulted in a drastic increase in filing this transaction as seen in the increase from 271 Register of Directors filed in 2015 to filings in excess of 300,000 in 2016. Notice of Intent to Resign and Resignations of Registered Agents also increased in the years 2015 and 2016.

Annual renewals for 2016 totaled 400,087 companies.

NON-SUPERVISORY DIVISIONS

Legal and Enforcement Division

The Legal Unit

Counsel's Role

The Legal Unit is in-house counsel to the Commission. The Unit provides Advice and Litigation services to the Managing Director, the Board of Commissioners and the administrative and the regulatory divisions within the Commission. During 2016 the Unit handled 124 requests for legal advice on compliance inspection reports, contravention of legislation and the review of documents. In all cases where enforcement action has been proposed, Legal have advised on the regulatory and legislative breaches and the powers available to the Enforcement Committee.

The Unit also had responsibility for dealing with 141 new litigation cases comprising chiefly of applications to the Court to restore dissolved companies and including a number of ongoing cases where the Commission has applied to the Court for the appointment of a liquidator in a BVI company regulated by the Commission. The Unit also prepared a case for hearing in the Court of Appeal following a conjoined appeal by 2 BVI companies against a decision in the High Court concerning bearer shares. The outcome of the appeal, which will affect a number of current litigation cases, is awaited.

During 2016 the Legal Unit also provided legal services to the Trade Marks registration Unit at the Registry of Corporate Affairs as well as providing advice and drafting services to the administrative divisions on leases and contracts entered into by the Commission.

The Enforcement Unit

Matters are referred to our Enforcement Unit to investigate financial services regulatory breaches arising under the Territory's financial laws. The Unit also gathers intelligence and cooperates with domestic and international law enforcement agencies through membership of the Financial Crime Information Network ("FIN-NET") and under the international cooperation provisions in our legislation. FIN-NET facilitates the sharing of financial crime related intelligence between law enforcement, regulators and government departments. The Unit's investigation work ranges from regulatory breaches, for example involving entities providing unauthorised financial services, to cases where BVI companies are being used as vehicles for unlawful Forex trading where overseas investors are at risk of losing considerable sums. The Unit also receives and investigates complaints received by the Commission. During 2016, Enforcement received 64 complaints, the more serious of which concerned fraudulent behavior involving Forex-related business being conducted by unregistered and unlicensed companies and other unauthorised financial services business.

Financial Services Appeals Board Matters

During 2016 the newly-constituted Financial Services Appeal Board commenced hearing appeals against decisions made by the Commission. The Board commenced hearing four outstanding appeals received in the period prior to 1 January 2016 (a fifth case is awaiting a hearing because of a conflict of interest by a Board member) and one new appeal received after the commencement of the new appeals structure. Of the appeals concluded in 2016, one appeal was withdrawn, one appeal succeeded, one appeal was dismissed and the other matters were adjourned for hearings in 2017.

International Cooperation Matters

Legal has primary responsibility for dealing with incoming and outgoing international cooperation requests received and issued by the Commission. During 2016 the Commission received 255 requests and issued 98 requests to other regulators. The requests arise mainly under our obligations as a signatory and member of the International Organization of Securities Commissions' (IOSCO) Multi-Lateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information but also involve other requests from international financial regulatory and law enforcement agencies and from FIN-NET.

Policy, Research and Statistics

The Policy Research & Statistics Division ("the Division") is responsible for developing and implementing policies, guidelines and legislation that allow for the effective regulation and supervision of the jurisdiction's financial services industry. In fulfilling these responsibilities during the year 2016, the Division continued to monitor developments in global regulation and legislative reform, research issues affecting the local and global financial services industry, produce industry statistics and coordinate reforms to meet international standards.

The Division has also been involved in the jurisdiction's preparation for onsite reviews by the Group of International Financial Centre Supervisors (GIFCS) slated 2018 and the Caribbean Financial Action Task Force (CFATF) slated for 2019. Being charged with the responsibility of undertaking and coordinating all matters relating to money laundering and terrorist financing issues, the Division has been heavily involved in the conduct of the National Risk Assessment (NRA) exercise which concluded during the year.

The annual report details the Division's activities in performing its functions and provides an overview of the Division's resourcing matters, along with an outlook for the year 2017.

Divisional Activities

Legislative Developments

The Division has the responsibility of developing the jurisdiction's financial services legislation in tandem with the Attorney General's Chambers. The Division's role in this regard encompasses the drafting of Bills, Regulations and other subsidiary legislation for review by the Attorney General's Chambers and onward transmission to Cabinet and the House of Assembly for enactment. Amendments to existing legislation relevant to the regulation of the financial services sector are also executed by the Division.

Whilst no new financial services legislation were developed during 2016, amendments to different legislation were made during the year, which included:

Financial Services (Fees)(Amendment) Regulations, 2016

The Financial Services (Fees) Regulations, 2010 were amended to encompass fees resulting from the introduction of new provisions within the Insurance (Amendment) Act, 2015. These included the introduction of fees for new categories of insurance licences (Categories E and F), the variation of conversion of an insurance licence, the approval or merger, consolidation, arrangement, etc. under the BVI Business Companies, 2004, the addition of a segregated portfolio or cell, and the licensing of a loss adjuster. Increases in application fees were also included in this amendment, along with new fees associated with the provisions of the Insurance Regulations, 2009.

BVI Business Companies (Amendment) Act, 2016

This amended certain provisions within the BVI Business Companies Act, 2004 relating to the particulars of directors required for filing a Register of Director at the Registry of Corporate Affairs. The amendment also introduced incremental penalty fees for companies that failed to file Registers of Directors by 31st March 2017, or by the end of the period of extension (where an extension was granted).

BVI Business Companies (Amendment of Schedule 1) (No. 3) Order, 2016

Following a comprehensive review of the fees applicable to BVI Business Companies, the Order amended Schedule 1 of the BVI Business Companies Act with a view to augmenting the applicable fees regime. The Order was scheduled to come into force on 1 July 2017, but was however further amended via BVI Business Companies Act (Amendment of

Schedules) Order, 2017 to take effect as of 1 January 2018.

The following legislative amendment was finalised in 2017; however, actions were undertaken in 2016 for its development:

Financial Services (Fees)(Amendment) Regulations, 2017

This involved a review of the regulatory fees across the banks and trust companies, insurance, securities and investment business, and financing and money services regimes and sought to streamline fees across all the regulated sectors.

Development of Guidelines

The Division's function in developing policies, also extends to the development of industry guidelines with respect to financial services business. The following guidelines and Guidance Notes were developed and issued during 2016:

Compliance Period Extended under Schedule in Anti-Money Laundering Regulations, 2008 – Guidance Notes

These Guidance Notes provide guidance on how to apply and how the Commission would administer applications for extension of time to complete collection of beneficial ownership information, which was required to be filed under the Anti-Money Laundering Regulations, 2008 by 31 December 2016.

Money Services Business Guidelines

These Guidelines aim to provide MSBs with basic guidance on understanding ML and TF, emphasize the importance of AML/CFT procedures in the fight against ML/TF, outline the licensing requirements, as well as the ongoing obligations of Money Services Businesses, and emphasize the need to execute their duties with vigilance.

National Risk Assessment (NRA)

In 2014, the Division put forward a policy paper for approval and onward transmission to the Government of the Virgin Islands outlining a strategy for the conduct of the Territory's first NRA. This initiative was in response to the FATF's Fourth Round of Mutual Evaluation requirements for countries to be able to identify, assess and understand their money laundering and terrorist financing (ML/TF) risks. This is supported in Recommendation 1 of the FATF's 40 Recommendations on AML/CFT.

During the year 2016, the National Risk Assessment exercise was completed and the NRA Report was finalised and produced. The Division provided an overview of the NRA Report to the Board and relevant sections of the report relating to the Commission were disseminated to corresponding Divisions/Units within the Commission for action. The Commission subsequently assembled an NRA Action Plan Implementation Team to monitor the progress of Divisions/Units in implementing the recommendations of the Report.

Support to the Regulatory and Registry Divisions of the Commission

During 2016 the Division continued to provide policy support to the regulatory Divisions. Much of the support related to the review of documents produced by the Divisions to ensure policy consistency and advising on matters not directly addressed by the regulatory laws and therefore needing policy direction. Similar action was also undertaken in relation to the Registry of Corporate Affairs, in addition to advising and responding to industry queries regarding the application of provisions of the BVI Business Companies Act, the Registry's queries regarding content of memorandum and articles of association and the suit of intellectual property legislation.

Coordination of and Engagement with Financial Services Liaison Groups

The Division coordinates substantive amendments to legislation and the issuance of guidelines with several advisory bodies which comprise Commission staff and industry professionals. During the year, the Division continued to convene meetings with these advisory bodies:

Company Law Review Advisory Committee (CLRAC)
CLRAC is comprised of Commission staff and industry professionals and has been established as a consultative body for the review of legislation and guidelines pertaining to company law within the British Virgin Islands. Being comprised of industry practitioners, CLRAC also provides a platform through which industry representations concerning company law can be made and reviewed.

Inter-governmental Committee on AML/CFT Matters (IGC)

The IGC promotes cooperation between the Territory's law enforcement and regulatory authorities in the fight against ML/TF. The IGC meets at least once a quarter to share information on activities which might have AML/CFT implications, to provide updates on any AML/CFT matters encountered by members and to deliberate on how best to coordinate efforts to effectively combat financial crime. The Division is responsible for coordinating the activities of the Committee, and for the collection and analysis of AML/CFT statistics submitted by its members.

Joint Anti-money Laundering and Terrorist Financing Advisory Committee (JALTFAC)

JALTFAC is an advisory body tasked with ensuring the stability of the jurisdiction's financial sector and comprises both public and private sector members. JALTFAC meets on a quarterly basis and is often consulted on matters concerning the Territory's AML/CFT regime. The Division is responsible for coordinating the activities of the Committee.

Other Liaison Groups

The Division also sits on, and provides necessary guidance to, the Securities and Investment Business Advisory Committee (SIBAC) and the Captive Insurance Advisory Committee (CIAC) respectively coordinated by the Investment Business Division and the Insurance Division.

Collection of Statistical Data

The Division is responsible for the collection and collation of statistical data from regulatory Divisions/Units of the Commission, as well as the Registry of Corporate Affairs. This data is collated and utilised to produce the Commission's quarterly Statistical Bulletin. The statistics are used to illustrate the growth and performance of each sector of the industry, as well as data related to regulatory enforcement and international cooperation matters.

The compilation of the various AML/CFT statistics required to be maintained by the members of the IGC Matters is another important facet of the Division's statistical responsibilities. These statistics are maintained to ensure compliance with the FATF's 40 Recommendations on Anti-money Laundering and Terrorist Financing.

AML/CFT Training

During December 2016, the Division facilitated a one-day AML/CFT Training at the Commission for its staff. Training was geared towards new employees and employees newly assigned to the Compliance Inspection Unit and sought to convey a basic understanding of ML/TF and associated concepts, outline the jurisdiction's AML/CFT framework and detail measures for mitigating against ML/TF risks. A total of 49 employees were trained during the day's session, which involved presentations by a number of employees within the Commission holding knowledge and expertise in AML/CFT matters.

Miscellaneous Activities
Questionnaires and Surveys

The Division during the year responded to a number of questionnaires and surveys relating to the jurisdiction's financial services sector. Such surveys included the GIFCS Summary Statement Survey, World Bank Entrepreneurial Surveys and CARTAC Surveys relating to regulated sectors. Surveys are usually completed in consultation with relevant Divisions/Units and/or Registry of Corporate Affairs.

Fiduciary Services Prudential Returns

During the year, the Division collated data received with respect to Prudential Returns for the semi-annual periods ended June and December 2014 and 2015. This data was analysed and the results of the analysis were detailed in relevant reports for each semi-annual period.

Working Groups

The Division's staff during the year, also participated in various Commission-wide established working groups and teams.

Resourcing Issues

During the year 2016, the resourcing in the Division experienced a number of key changes. Given the conclusion of the NRA exercise, staff members employed within the NRA Secretariat were transitioned into the Division forming part of its staff complement. These employees have been devoted to conducting policy research, as well as assisting in the implementation of recommendations emanating from the NRA Report.

Additionally, the Division's Deputy Director, was seconded to the Government of the Virgin Islands during the year. In the absence of the deputy director function, the post of Principal Policy Research and Statistics Officer was created to fulfill selected responsibilities of the Deputy Director.

During the year, a team member was promoted to the post of Senior, Policy Research and Statistics Officer. Additionally, another employee was transferred to the Division and also promoted to the post of Senior, Policy Research and Statistics Officer.

With the said changes, the staff complement at the end of 2016 comprised of the following:

- (1) Director, Policy Research and Statistics;
- (3) Senior Policy Research and Statistics Officers;
- (2) Assistant Policy Research and Statistics Officers;
- (1) Executive Assistant; and
- (2) Administrative Cadets (Temporary employees).

Outlook for 2017

With the completion of the NRA exercise, it is anticipated that significant focus will be placed on addressing any deficiencies identified in the NRA during 2017. This will include conducting a benchmark assessment of the jurisdiction's legislation against the requirements of the FATF recommendations and making draft amendments to current legislation or new legislation to satisfy requirements. Additionally, it is also envisaged that the Division will place focus on developing the AML/CFT Guidelines with respect to relevant sectors and certain high risk situations.

As part of the Commission's implementation of the NRA recommendations, the Division has also been tasked with conducting a review and update of the Compliance Inspection Manual to address any deficiencies and inefficiencies, finalising the Business Risk Management Framework, developing a policy paper on the establishment of a special asset fund and determining the dissuasiveness of enforcement actions. It is envisioned that these matters will be addressed during the first half of 2017.

Given that the GIFCS review of the jurisdiction is slated for 2018, it is anticipated that the Division will work closely with relevant personnel of the Fiduciary Services Division in identifying any gaps in the jurisdiction's regulation of Trust and Company Services Providers and making relevant amendments in legislation where applicable.

In addition to the matters outlined above, the Division will continue to develop policies and guidelines based on the issues identified by the Licensing and Supervisory Committee, the Enforcement Committee and the Board of Commissioners as required.

Corporate Services

Information Technology

The Commission's Information technology infrastructure continues to evolve as the world's technology and cyber security risks become more and more complex and creative. The Commission's IT team in 2016 focused its resources on staying current in monitoring and supporting all technologies being used internally and externally by clients. All gaps identified were quickly closed by implementing corrective and in some cases preventative solutions.

With over 160 employees, maintaining key IT services like network access, email access, database access and document management is paramount. Building access is also managed by the IT team and the team performed an internal audit addressing many loop holes and access issues. We also continue to offer controlled access to VIRRGIN lite for users in VIRRGIN, the Commission's proprietary, online application for users of the Registry of Corporate Affairs which continues to provide needed capacity as a critical enterprise software application. VIRRGIN's uptime in 2016 was again close to 100%. As was done isnprevious years, in 2016 the Commission explored ways of enhancing the application to improve the user experience citing agent's feedback and internal inefficiencies and processing times. The Commission implemented a pilot project for the regulatory arm of VIRRGIN that would service the Regulatory Divisions (VIRRGIN 3) following a comprehensive requirements gathering and planning period. Once completed, this will be a significant milestone for the Commission, completely automating the processing of application for licenses, renewals, and all modifications to Regulator issued licenses.

To maintain the required level of information and asset security, the IT team continues to fortify the infrastructure by introducing redundancy in all aspects of the environment. Assessing all our gaps always results in additional technical and administrative controls being introduced solely for mitigating risk at all levels of the Commission's Operations. IT has also completed additional upgrades of the infrastructure to support the VIRRGIN 3 application and in preparation for offering more services at the Commission's representative office in Asia. With the use of innovative technologies and more powerful and faster servers and network equipment the Commission is poised to continue to deliver a dependable and secure services to internal and external users.

Finance

The Finance Division is the financial reporting arm of the Commission, it provides monthly reports to management and the Board of Commissioners on the financial status and activities of the Commission. The Division ensures that policies and procedures are in compliance with international accounting standards and best practices.
The monthly reports comprehensively present on revenue, expenditure, cash flows, investment product performance and the overall financial position as at that time.
Total assets as at the end of 2016 equaled $38.9 million, of which 63.6 % were sourced from reserves.
The Banks and Trust Companies Act, 1990 as well as the Regulatory Code stipulate the levels that are to be held as regulatory deposits. As at 31 December, 2016, the Commission maintained $8.7 million in regulatory deposits, held in respect of licensees and invested in accordance with a Board approved investment policy to retain its value.
Revenues recorded, on behalf of Government at the end of 2016, totaled $193.8 million. Its collection in 2016 dropped 6% in comparison to 2015 and 8% within budget projections.

The Commission retained 11.5% in revenue, same as 2015 and had $24.4 million available in direct revenue to fund its operations. Total operating expenses for 2016 are reported at $24.2 million, which is a 16% increase over 2015. Increase attributable to increased staff cost and funding the operations of the BVI International Arbitration Centre. The financial statements provide the revenue and expenditure figures for the fiscal year 2016, as audited by BDO Limited.

Human Resources

Employment

The Human Resources Division's staff assists applicants and employees with all phases of the employment process through oversight of recruitment, interviewing, testing, background checks, while also assisting Directors and Managers with the selection of suitable candidates.

Staffing

Staffing within the Commission at the end of 2016 was 159 regular full-time employees with three temporary hires.

Staff Complement

Category	Total
Regulatory	49
Non-Regulatory	110
Total	**162**

There was a notable increase in employee turnover in 2016, which was primarily related to early retirements; this is in comparison to 2015 which had only eight separations. The commission for the first time introduced an early retirement incentive programme. Ten employees on eligibility, were approved for the package. Early retirement allowed The Commission to review utilization of staff and availability of specific skills.

2016 Total Turnover

Early Retirement	10
Other	10
Total	**20**

One employee proceeded on a two-year leave of absence during the second quarter of 2016 and an employee was seconded to the Civil Service during the third quarter.

Recruitment

- Human Resources received and processed over 160 employment inquiries for long-term as well as temporary employment
- 17 positions were posted in 2016
- 12 positions were filled; 4 positions remained open at the end of the year. Recruitment for one advertised position was discontinued.
- 22 temporary employees were hired, 20 of whom were summer interns.
- There were 14 new hires, which was the same as in 2015

Compensation Administration

A moderate salary adjustment was given to staff across the board in consideration of the National Health Insurance which came on stream on 1 January 2016. Salary adjustments were also given for promotions and/or transfers.

Salary Administration

- Two employees received promotions on transfer; six received lateral transfers, four of which occurred due the dissolution of one division – Insolvency Services.
- Final compensation, including pension payments, were processed for the early retirees. Pension payments were also processed for the other individuals who separated from the Commission and who were participants of the Pension Plan.

Educational Assistance

- Two employees were granted educational/tuition assistance – one to complete a postgraduate degree in Communication, via distance learning, and the other to complete a graduate degree in Business Administration via traditional/classroom based learning.

Benefit Administration

The Human Resources staff assists employees throughout the year with benefits-related matters. This includes rendering assistance with the processing of employee loans, medical claims, and pension payments.

In November 2016, management of the Pension Plan was outsourced. With the new arrangements, employees now have electronic access to their pension account and balances.

Training and Development

The Human Resources Division, in collaboration with the Managing Director's Office, continued training efforts in 2016. During the course of 2016, training opportunities extended to employees included the following:

2016 Training

Seminar	# of Employees
Introductory AML/CFT Training	51
Islamic Finance Seminar	16
Risk-based Supervision Workshop	18
Basel II Implementation Workshop	8
BVI Business Outlook 2016 Conference	7
Intellectual Property	1

The table below lists the diploma courses or professional designations which employees enrolled in or completed in 2016:

Certification Courses/Professional Designations

Title	# of Employees
ICA Diploma	1
STEP – Trust Creation Law	1
STEP – Certificate in International Trust	1
Harvard Law School Global Certificate	1
STEP – Certificate in Anti-money Laundering	1
ICA – Int'l Advanced Certificate in Compliance	1
ICA Diploma in Governance, Risk and Compliance	3
Bond Solon Training – Internet Investigations	10

Employee Relations

The Human Resources Division planned and coordinated the following employee relations events that occurred during the year:

- Retirement Dinner
- Annual Cancer Awareness Walk
- Annual Christmas Party for FSC Kids

The Employee Assistance Program which provides the mechanisms for employees to obtain assistance through self-referral and supervisory-referral continues to be available to employees. There were no referrals in 2016.

Policies and Job Descriptions

- Job Descriptions continue to be reviewed and updated, particularly as open positions become available
- An Early Separation of Employment Policy was finalised, following which the Commission bade farewell to its first cohort of retirees

Future Goals:

- Ensure complete automation of HR transcations and processes.
- Ensure the development of simplified pay and reward policies and the design and implementation of an effective reward and recognition programme.
- Ensure compensation and performance management processes are appropriately designed and executed to align and maximize performance with the goals of the Commission.
- Ensure efficiency and internal customer satisfaction in the administration of HR policies.

AUDITED FINANCIAL STATEMENTS

BRITISH VIRGIN ISLANDS
FINANCIAL SERVICES COMMISSION

Audited Consolidated Financial Statements

For The Year Ended December 31, 2016

BDO

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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Directory
For the Year Ended December 31, 2016

BOARD OF COMMISSIONERS

Mr. Robin Gaul	Chairman
Mr. Colin O'Neal	Deputy Chairman
Ms. Denise Reovan	Commissioner
Mr. Richard Peters	Commissioner
Mr. Ian Smith	Commissioner
Mr. Edward Price	Commissioner
Mr. Jonathan Fiechter	Commissioner
Mr. Robert Mathavious	Managing Director/CEO, ex officio Commissioner

REGISTERED OFFICE

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

COMMISSION SECRETARY

Ms. Annet Mactavious

INDEPENDENT AUDITORS

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British Virgin Islands

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of the British Virgin Islands Financial Services Commission and its subsidiaries (the "Group"), which comprise of the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of comprehensive income, changes in reserves and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

BDO Limited

Tortola, British Virgin Islands
December 18, 2017

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Financial Position
As at December 31, 2016
Expressed in United States Dollars

	Notes	2016 $	2015 $
ASSETS			
Non-current assets			
Property and equipment	4	7,099,880	5,648,340
VIRRGIN project under development	5	386,401	1,758,944
		7,486,281	7,407,284
Current assets			
Regulatory deposits	7	8,735,634	8,672,854
Cash and cash equivalents	8,19	16,211,294	16,145,893
Time deposits	9	5,120,734	5,079,996
Financial assets at fair value through profit or loss	10	-	3,039,586
Other receivables and deposits	11	1,347,290	532,363
		31,414,952	33,470,692
TOTAL ASSETS		**38,901,233**	**40,877,976**
RESERVES AND LIABILITIES			
Capital reserves			
Contributed capital	12	3,993,900	3,993,900
Property and equipment reserve	12	7,486,281	7,407,284
Total capital reserves		11,480,181	11,401,184
Revenue reserves			
Training reserve	12	400,000	400,000
Loan revolving reserve	12	165,000	165,000
Future capital expansion reserve	12	7,500,000	7,500,000
Refunds reserve	12	50,000	50,000
Enforcement reserve	12	2,000,000	2,000,000
Contingency reserve	12	1,512,594	1,988,382
Administrative penalties fund reserve	12	1,636,166	-
Total revenue reserves		**13,263,760**	**12,103,382**
Total reserves		**24,743,941**	**23,504,566**
Current liabilities			
Trade and other payables	13	2,124,643	2,231,513
Deposits on account	14	3,297,015	2,469,043
Distribution payable to Government	15	-	4,000,000
Regulatory deposits from licensed entities	7	8,735,634	8,672,854
Total liabilities		**14,157,292**	**17,373,410**
TOTAL RESERVES AND LIABILITIES		**38,901,233**	**40,877,976**

Signed on behalf of the Commission on December 12, 2017

Chairman *Managing Director*

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

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Comprehensive Income
For The Year Ended December 31, 2016
Expressed in United States Dollars

	Notes	2016 $	2015 $
INCOME			
Fees collected on behalf of the Government	8	193,756,051	205,674,937
Less: Fees due to the Government	8	(169,851,534)	(180,524,498)
Fees retained by the Commission		23,904,517	25,150,439
Other income	16	319,398	412,708
Interest income		132,486	176,351
Net changes in fair value on financial assets at fair value through profit or loss	10	(1,903)	(42,479)
TOTAL INCOME		24,354,498	25,697,019
EXPENSES			
Advertising		21,869	9,073
BVI House Asia funding		236,389	222,946
Conferences and seminars		150,917	146,373
Contributions		3,871	59,978
Depreciation	4	1,403,809	599,402
Financial Investigations Agency funding		500,000	500,000
Financial Services Institute funding		221,336	250,000
Insurance		152,476	97,455
International Arbitration Centre funding		1,094,724	302,103
Licenses and fees		68,059	63,332
Literature and reference		100,563	122,950
Maintenance and hire		714,644	476,842
Memberships and subscriptions		98,834	84,515
Miscellaneous		9,316	3,825
Office expenses		191,513	254,078
Professional services		1,239,354	1,139,714
Public relations		78,018	44,392
Rent and lease		1,172,167	1,085,116
Staff costs	18	15,174,964	13,786,515
Travel and subsistence		736,951	872,910
Telephone and communications		591,060	533,794
Utilities		216,725	193,915
TOTAL EXPENSES		**24,177,559**	**20,849,228**
SURPLUS BEFORE GOVERNMENT DISTRIBUTION AND ENFORCEMENT PROCEEDS		**176,939**	**4,847,791**
Distribution to Government	15	-	(4,000,000)
SURPLUS BEFORE ENFORCEMENT PROCEEDS		**176,939**	**847,791**
Enforcement proceeds	17	1,062,436	573,730
SURPLUS FOR THE YEAR		**1,239,375**	**1,421,521**

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

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Changes in Reserves
For The Year Ended December 31, 2016
Expressed in United States Dollars

	Opening balance $	Surplus for the year $	Transfers $	Closing balance $
2016:				
Surplus	-	1,239,375	(1,239,375)	-
Contributed capital	3,993,900	-	-	3,993,900
Property & equipment reserve	7,407,284	-	78,997	7,486,281
Training reserve	400,000	-	-	400,000
Loan revolving reserve	165,000	-	-	165,000
Future capital expansion reserve	7,500,000	-	-	7,500,000
Refunds & drawbacks reserve	50,000	-	-	50,000
Enforcement reserve	2,000,000	-	-	2,000,000
Contingency reserve	1,988,382	-	(475,788)	1,512,594
Administrative penalties fund reserve	-	-	1,636,166	1,636,166
	23,504,566	**1,239,375**	**-**	**24,743,941**
2015:				
Surplus for the year	-	1,421,521	(1,421,521)	-
Contributed capital	3,993,900	-	-	3,993,900
Property & equipment reserve	6,503,550	-	903,734	7,407,284
Training reserve	400,000	-	-	400,000
Loan revolving reserve	165,000	-	-	165,000
Future capital expansion reserve	7,500,000	-	-	7,500,000
Refunds & drawbacks reserve	50,000	-	-	50,000
Enforcement reserve	2,000,000	-	-	2,000,000
Contingency reserve	1,470,595	-	517,787	1,988,382
	22,083,045	**1,421,521**	**-**	**$ 23,504,566**

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

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Cash Flows
For The Year Ended December 31, 2016
Expressed in United States Dollars

	2016 $	2015 $
CASH FLOW FROM OPERATING ACTIVITIES		
Surplus for the year	1,239,375	1,421,521
Adjustment to reconcile net surplus to net cash from operating activities before working capital changes:		
Depreciation	1,403,809	599,402
Interest income	(132,486)	(176,351)
Gain or loss on disposal of property and equipment	(20,000)	(23,560)
Net changes in fair value on financial assets at fair value through profit or loss	1,903	42,479
Operating surplus before working capital changes	2,492,601	1,863,491
(Increase) decrease in other receivables and deposits	(814,927)	495,638
(Decrease) increase in trade and other payables	(106,870)	7,759
Increase in deposits on account	827,972	751,512
(Decrease) increase in distribution payable to Government	(4,000,000)	1,000,000
Net cash generated from operations	(1,601,224)	4,118,400
CASH FLOW FROM INVESTING ACTIVITIES		
Increase in time deposits - net	(40,738)	(47,521)
Proceeds from sale (purchase of) financial assets at fair value through profit and loss - net	3,037,683	(29,529)
Acquisition of property and equipment-net	(1,482,806)	(1,503,136)
Proceeds from sale of property and equipment	20,000	23,560
Interest received	132,486	176,351
Net cash used in investing activities	1,666,625	(1,380,275)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	65,401	2,738,125
CASH AND CASH EQUIVALENTS		
At beginning of year	16,145,893	13,407,768
At end of year	**16,211,294**	**16,145,893**

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

1. ORGANISATION AND OBJECTIVES

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Presentation of financial statements

(i) Accounting convention

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

(ii) Presentation and functional currency

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

(iii) Significant accounting estimates and judgement

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

2.2 IFRS compliance and adoption

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

2.3 Standards, amendments and interpretations to existing standards effective and relevant to the Group

Amendments to IAS 1 Disclosure Initiative. The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the consolidated statement(s) of profit or loss and other comprehensive income (OCI) and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to consolidated financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the consolidated statement of financial position and the statement(s) of profit or loss and OCI.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- **Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization.** The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather that the economic benefits that are consumed through use of the asset. As a result, a revenue based method cannot be used to depreciate property and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are applied prospectively.

- **Amendments to IAS 27: Equity Method in Separate Financial Statements**. The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively.

- **Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidated Exception**. The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves. The amendments apply retrospectively.

- **Annual Improvements to IFRSs 2012-2014 Cycle.** *The Annual Improvements to IFRSs 2012-2014 Cycle* include a number of amendments to various IFRSs, which are summarized below.

  IFRS 7 Financial Instruments: Disclosure. The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract in continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

  IAS 19 Employee Benefits. The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of the above mentioned amendments had no significant effect on the current period or any prior period. None of the other new standards, interpretations and amendments effective for the first time from January 1, 2016 have had a material effect on the consolidated financial statements.

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

- **IAS 7 Disclosure Initiative – Amendments to IAS 7**. The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- **IFRS 9, Financial Instruments (as revised in 2014).** In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The new standard introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment methodology and general hedge accounting. IFRS 9 introduces a logical approach for classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in OCI rather than within profit or loss.

  The new model also results in a single impairment model being applied to all financial instruments. The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

  IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model aligns the accounting treatment with risk management activities. Greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of nonfinancial items that are eligible for hedge accounting (effective for annual periods beginning on or after January 1, 2018).

- **IFRS 15, Revenue from Contracts with Customers.** IFRS 15 specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with informative and relevant disclosures. The standard provides a single principle based five step model to be applied to all contracts with customers. Its core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 supersedes the following revenue Standards and Interpretations upon its effective date (effective for annual periods beginning on or after January 1, 2018):

  - *IAS 18 Revenue*
  - *IAS 11 Construction Contracts*
  - *IFRIC 13 Customer Loyalty Programmes*
  - *IFRIC 15 Agreements for the Construction of Real Estate*
  - *IFRIC 18 Transfers of Assets from Customers; and*
  - *SIC 31 Revenue Barter Transactions Involving Advertising Services*

- **IFRS 16 Leases.** IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

  IFRS 16 distinguishes leases and services contracts on the basis of whether and identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

IFRS 16 distinguishes leases and services contracts on the basis of whether and identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and no interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or financing lease.

Furthermore, extensive disclosures are required by IFRS 16.

None of the other new standards, interpretations and amendments, which are effective for periods beginning after January 1, 2016 and which have not been adopted early, are expected to have a material effect on the Group's future consolidated financial statements.

2.5 Basis of consolidation

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Basis of consolidation (Continued)

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

2.6 Property and equipment

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

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

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

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

2.7 VIRRGIN project under development

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

2.8 Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as available-for-sale.

(i) Fair value through profit or loss

This category comprises investments held long and financial contracts in an asset. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of comprehensive income within "Net changes in fair value on financial assets at fair value through profit or loss".

(ii) Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognized when there is objective evidence that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

The Group's loans and receivables comprise regulatory deposits, cash and cash equivalents and other receivables.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (continued)

(ii) Loans and receivables (continued)

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three month or less .

Regulatory deposits are carried at costs and consist of current deposits held at commercial banks and US Treasury Bills with maturity dates of one year or less.

(iii) Held to maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity where the Group has the intention and the ability to hold in the long-term or until maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method.

Time deposits with maturities of greater than three months from the acquisition date have been classified as held-to-maturity investments.

2.9 Financial liabilities

Financial liabilities include trade and other payables, deposits on account, distribution payable to Government, due to Government and regulatory deposits from licensed entities.

Financial liabilities are recognised when the Company becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as an expense in the statements of comprehensive income.

Accounts payable and accruals and other short-term monetary liabilities are recognised initially at their fair values and subsequently measured at amortized cost less settlement payments.

Financial liabilities are derecognised from the statements of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2.10 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Group measures instruments quoted in an active market at a mid price.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Fair value hierarchy

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

The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical financial assets and financial liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the financial assets and the financial liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2);
- Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs) (Level 3).

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

2.12 Revenue recognition

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

The Group records investment transactions based on settlement date. Realised gain or loss on financial assets and financial liabilities at fair value through profit or loss is determined on the average cost basis.

Dividend income and expense from financial assets at fair value through profit or loss are recognised when the Group's right to receive payments or the Group's obligation is established, usually the ex-dividend date.

2.13 Taxation

In accordance with Section 28 of the Act, the Commission is exempt from the payment of taxes on its income and operations. Certain investment income may be subject to withholding taxes at its source from the country of origin.

2.14 Foreign currencies

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Foreign currencies (continued)

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

2.15 Leases

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

2.16 Pension plan

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

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

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

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATE UNCERTAINTY

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

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

(a) Critical judgements in applying accounting policies

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

Operating and finance leases

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

(b) Key sources of estimate uncertainty

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

Useful lives of property and equipment

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property, plant and equipment are analysed in Note 4. Based on management's assessment as at December 31, 2016, there is no change in estimated useful lives of property and equipment during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

Expressed in United States Dollars

4. PROPERTY AND EQUIPMENT

	Freehold land $	Leasehold land $	Motor vehicles $	Furniture and equipment $	Computer and software $	Leasehold improvements $	Total $
Cost							
Balance at December 31, 2015	4,500,000	130,000	339,597	2,633,052	11,610,799	2,364,849	21,578,297
Additions	-	-	-	171,560	1,254,892	56,354	1,482,806
Transfers from capital work-in-progress	-	-	-	-	1,372,543	-	1,372,543
Disposals	-	-	(74,800)	-	-	-	(74,800)
Balance at December 31, 2016	4,500,000	130,000	264,797	2,804,612	14,238,234 $	2,421,203	24,358,846
Accumulated depreciation							
Balance at December 31, 2015	-	22,701	164,022	2,398,413	11,079,052	2,265,769	15,929,957
Depreciation	-	2,063	46,319	119,768	1,180,607	55,052	1,403,809
Disposals	-	-	(74,800)	-	-	-	(74,800)
Balance at December 31, 2016	-	24,764	135,541	2,518,181	12,259,659	2,320,821	17,258,966
Carrying amount							
At December 31, 2016	4,500,000	105,236	129,256	286,431	1,978,575	100,382	7,099,880
Cost							
Balance at December 31, 2014	4,500,000	130,000	208,003	2,455,740	10,929,956	2,307,552	20,531,251
Additions	-	-	183,094	177,312	680,843	57,297	1,098,546
Disposals	-	-	(51,500)	-	-	-	(51,500)
Balance at December 31, 2015	4,500,000	130,000	339,597	2,633,052	11,610,799 $	2,634,849	21,578,297
Accumulated depreciation							
December 31, 2014	-	20,638	169,203	2,291,199	10,696,832	2,204,183	15,382,055
Depreciation	-	2,063	46,319	107,214	382,220	61,586	599,402
Disposals	-	-	(51,500)	-	-	-	(51,500)
Balance at December 31, 2015	-	22,701	164,022	2,398,413	11,079,052	2,265,769	15,929,957
Carrying amount							
At December 31, 2015	4,500,000	107,299	175,575	234,639	531,747	369,080	5,648,340

Expressed in United States Dollars

5. VIRRGIN PROJECT UNDER DEVELOPMENT

As of December 31, 2016, the Commission has an existing contract with NCS Pte. Ltd (formerly Singapore Computer Systems Limited) relating to the development of an internet-based information system featuring electronic filing of documents called Virtual Integrated Registry and Regulatory General Information Network ("VIRRGIN").

VIRRGIN will be completed in three phases of development, each of which will be released separately. The VIRRGIN project costs to be capitalized will include (a) registry engine license; (b) implementation and development costs for Phases I, II and III; other additional consultancy and software implementation charges; and airfares, accommodation and other travel expenses incurred relating to the implementation of the project. Cost relating to Phase I and II of VIRRGIN have been capitalized as Computer and Software as part of Property and Equipment (see Note 4). The cost of $386,401 (2015: $1,758,944) relates to the uncompleted Phase III. During the year ended December 31, 2016, the Commission transferred assets totaling to $1,372,543 from the uncompleted Phase III portion of the project to Computer and Software (see Note 4) as they were deemed ready for use. The estimated costs to completion of the project, excluding any additional costs, is SGD102,278 equivalent to $70,664 (2015: SGD102,278; $75,324).

6. SUBSIDIARIES

Composition

The Parent has three wholly-owned subsidiaries as at December 31, 2016, two of which are domiciled in the British Virgin Islands and one in Hong Kong. These subsidiaries provide disaster recovery and Hong Kong liaison services to the Parent. Two of the subsidiaries commenced operations in 2014.

Financial support

The Parent is providing financial support to all three subsidiaries which currently do not derive revenue on their own therefore are dependent on the Parent for their operating financial requirements.

7. REGULATORY DEPOSITS

By statute, certain entities licensed to operate in the financial services sector within the British Virgin Islands are required to place a deposit with the Group. The Group has undertaken to hold these amounts in a designated interest-bearing account $8,735,634 (2015: $2,069,918) and fixed income securities $Nil (2015: $6,602,936) and distributes interest thereon to the licensees on a semi-annual basis. The deposits are refundable upon surrender of the licence. For the year ended December 31, 2016, the deposits earned an average rate of interest of 0.20% (2015: 0.08%). Total interest income earned for these deposits amounted to $17,601 (2015: $6,717).

8. CASH AND CASH EQUIVALENTS

	2016 **$**	**2015** **$**
Cash held in Government Trust Account	8,108,383	6,166,500
Payable to Government	(4,591,164)	(4,004,435)
Net cash held in Government Trust Account	3,517,219	2,162,065
Cash in operating accounts	12,333,302	13,641,619
Cash in insolvency account	360,773	342,209
Total cash and cash equivalents	**16,211,294**	**16,145,893**

Fees collected on behalf of the Government are paid into a trust account maintained jointly in the name of the Commission and the Government. Prior to the commencement of the Group's financial year, the Government's Cabinet ("Cabinet") determines the percentage of fees collected on their behalf that is to be remitted to them, with the Commission retaining the balance. For the year ended December 31, 2016, the Commission retained 11.5% (2015: 11.5%) of revenue up to the projected revenue stream and thereafter, the Commission retained 7.5% (2015: 7.5%) of any revenue in excess of the projected revenue stream. This resulted in cash of $4,591,164 (2015: $4,004,435) being held on behalf of the Government as at December 31, 2016.

Expressed in United States Dollars

8. CASH AND CASH EQUIVALENTS (continued)

The cash and cash equivalents disclosed above and in the statement of cash flows include $1,294,615 (2015: $566,336) which are held in a separate bank account. These deposits relate to funds received for enforcement penalties and not available for general use by the Commission (see Note 12 for restrictions on the administrative penalties fund reserve).

9. TIME DEPOSITS

Time deposits represent short term placements with the local depository banks whose maturity dates are between 5 and 206 days from the reporting date (2015: between 3 and 207 days), and are more than three months from the placement date with an average interest rate of 0.75% (2015: 0.80%). For the year ended December 31, 2016, total interest earned from time deposits amounted to $38,608 (2015: $41,006).

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 $	2015 $
Government and agency fixed income securities	-	951,263
Corporate bonds	-	2,088,323
	-	**3,039,586**

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

	2016 $	2015 $
Realised losses	(30,748)	(22,498)
Unrealised movement	28,845	(19,981)
	($ 1,903)	**($ 42,479)**

The net realised and unrealised gains and losses are presented under “Net changes in fair value on financial assets at fair value through profit or loss” in the statement of comprehensive income.

11. OTHER RECEIVABLES AND DEPOSITS

	2016 $	2015 $
Loan to employees	41,955	36,809
Travel advances	43,531	49,842
Interest receivable	12,872	37,706
Prepaid expenses	807,757	346,216
Receivable from licensee – penalty	340,000	-
Due from BVI House Asia	101,175	61,790
	1,347,290	**532,363**

12. RESERVES

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

Expressed in United States Dollars

12. RESERVES (continued)

Capital reserves

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

Revenue reserves

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

13. TRADE AND OTHER PAYABLES

	2016 $	2015 $
Accounts payable and accrued expenses	680,325	690,965
Insolvency surplus reserve	344,936	327,616
Deferred revenue	259,230	301,317
Employee deductions and benefits payable	840,152	911,615
	2,124,643	**2,231,513**

Employee deductions and benefits payable includes accrued unpaid vacation benefits totalling $838,352 (2015: $820,773) payable to the Commission's employees.

Pursuant to the Insolvency Rules, 2005, the insolvency surplus reserve pertains to monies representing unclaimed assets received from liquidators or bankruptcy trustees after the completion of a liquidation or bankruptcy.

Funds are paid out of the reserve to any person the Commission is satisfied to make payment with respect to the insolvency proceedings for which the monies were paid into the reserve.

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

14. DEPOSITS ON ACCOUNT

In 2006, the Commission introduced a new internet-based information system (VIRRGIN) that allows companies to administer transactions online. As a result of this development, companies are required to deposit funds with the Commission in advance of effecting an online transaction. As at December 31, 2016, the balance on this account amounted to $3,297,015 (2015: $2,469,043).

15. DISTRIBUTION PAYABLE TO GOVERNMENT

On September 20, 2016, the Board of Commissioners approved a distribution to Government of $4,000,000 from surplus earned by the Commission during the year ended December 31, 2015. The Board of Commissioners have not approved a distribution from surplus earned for the year ended December 31, 2016.

Expressed in United States Dollars

16. OTHER INCOME

	2016 $	2015 $
Court ordered legal cost receipts	115,250	85,500
Miscellaneous income	204,148	327,208
	319,398	**412,708**

17. ENFORCEMENT PROCEEDS

Enforcement proceeds relates to fees imposed and received for enforcement actions against licensees. These fees are not available for general use by the Commission. Refer to Notes 8 and 12.

18. STAFF COSTS

	2016 $	2015 $
Wages and salaries	11,337,499	10,651,447
Allowances and benefits	2,389,645	2,033,516
Social Security benefits	292,404	278,591
Employment costs	239,007	265,101
National health insurance	345,370	-
Payroll taxes	571,039	557,860
	15,174,964	**13,786,515**

The average number of full time employees in 2016 was 184 (2015: 178).

During the year ended December 31, 2016, the Commission paid $1,388,374 (2015: $1,322,208) for current service costs toward a defined contribution plan (the "Plan"), which has been included in allowances and benefits.

19. RELATED PARTY TRANSACTIONS

The Government's Financial Secretary and Accountant General along with the Chairman of the Board of Commissioners and the Managing Director of the Commission are signatories to a joint account maintained in the names of the Government and the Commission referred to as the Government Trust Account as per Section 19 (1) and (7) of the Act (see Note 8).

20. COMMITMENTS AND CONTINGENCIES

Commitments

As explained in Note 5, the Group is contracted with NCS Pte. Ltd (formerly Singapore Computer Systems Limited) to design and implement the VIRRGIN project. The contracted cost to completion of the design and implementation of the project is SGD102,278 (2015: SGD102,278) as at December 31, 2016.

The Group has an existing contract with Digicel wherein Digicel will provide the Group with dedicated internet access to and from the Group's data center at a monthly cost of $14,506. The contract commenced in March 2014 and will run for three years.

In a separate agreement, the Group also contracted Equinix Hong Kong Limited to provide the Group with data center services. The contract commenced in 2014 with a monthly cost of $3,886.

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

20. COMMITMENTS AND CONTINGENCIES (continued)

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

	2016	2015
	$	$
Within one year	1,217,760	1,100,689
Between one and five years	2,187,346	1,816,485
Five years and beyond	-	-
	3,405,106	2,917,174

For the year ended December 31, 2016, the Group recognized rent expense amounting to $1,172,167 (2015: $1,085,116).

Contingencies

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

21. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

Risk management is carried out by management under policies approved by the Board of Commissioners. The management identifies, evaluates and hedges financial risks in close co-operation with the Board of Commissioners. The Board of Commissioners provides guidance for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

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

21.1 Market risk

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

(i) Foreign currency risk

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

The Group is exposed to foreign currency risk on the agreement to supply, develop, implement and commission the VIRRGIN project (Note 5). The contracted costs for the project are in Singapore Dollars (SGD). As at December 31, 2016, the foreign exchange rate was $0.6909 (2015: $0.7071) per SGD. Had the Singapore dollar foreign exchange rates strengthened against the US dollar by 1% (2015: 1%) with all other variables remaining constant, the overall costs to complete the project, including maintenance/support costs, would increase by $707 (2015: $6,888). A weakening of 1% in the Singapore dollar against the US dollar, with all other variables held constant, would have an equal but opposite effect.

21. FINANCIAL RISK MANAGEMENT (Continued)

21.1 Market Risk (continued)

(ii) Interest rate risk

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

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and cash equivalents and time deposits. As at December 31, 2016 approximately 64% (2015: 61%) of the Group's assets were held in bank accounts, with floating interest rates.

Cash flow interest rate sensitivity analysis

With all other variables held constant, given a 25 basis point increase in the market interest rate, the Group's surplus would increase by $62,207 (2015: increase by $62,043). A decrease of 25 basis points in the market interest rate, with all other variables held constant, would decrease the Group's surplus by an equal amount.

Fair value interest rate risk

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

Fair value interest rate sensitivity analysis

With all other variables held constant, given a 25 basis point increase in the yield rate of government and agency securities and corporate bonds, the Group's income and surplus would decrease by $Nil (2015: $28,163). A decrease of 25 basis points in the yield rate, with all other variables held constant, would increase the Group's income and surplus by $Nil (2015: $28,695).

21.2 Credit risk

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

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

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

Expressed in United States Dollars

21. FINANCIAL RISK MANAGEMENT (Continued)

21.2 Credit Risk (continued)

Moody's	2016 $	2015 $
Aa2	412,563	243,125
Aa3	2,552,644	2,546,362
Ba1	23,317,706	15,702,460
Baa1	-	10,840,511
Ba3	1,215,315	1,070,769
Total rated	27,498,228	30,403,227
Non-rated	3,065,436	2,721,249
Total	30,563,664	33,124,476

21.3 Liquidity risk

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

The Group is exposed to liquidity risk from its financial liabilities which include trade and other payables, deposits on account, distribution to Government, due to Government and Regulatory deposits from licensed entities.

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

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

The following table shows the Group's aging of its contractual repayment period to its creditors as of December 31, 2016:

	On demand $	Within one year $	Total $
Trade and other payables	2,006,914	117,729	2,124,643
Deposits on account	3,297,015	-	3,297,015
Distribution payable to Government	-	-	-
Regulatory deposits from licensed entities	8,735,634	-	8,735,634
Total	14,039,563	117,729	14,157,292

The following table shows the Group's aging of its contractual repayment period to its creditors as of December 31, 2015:

	On demand $	Within one year $	Total $
Trade and other payables	2,037,294	194,219	2,231,513
Deposits on account	2,469,043	-	2,469,043
Distribution payable to Government	4,000,000	-	4,000,000
Regulatory deposits from licensed entities	8,672,854	-	8,672,854
Total	17,179,191	194,219	17,373,410

22. DEFINED CONTRIBUTION PENSION PLAN

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

23. SUBSEQUENT EVENTS

No events have occurred subsequent to December 31, 2016 and before the date of the report that would have a significant effect on these financial statements other than those already disclosed in the notes.

24. COMPARATIVE FINANCIAL INFORMATION

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

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