BRITISH VIRGIN ISLANDS
FINANCIAL SERVICES COMMISSION

Audited Consolidated Financial Statements

For the Year Ended December 31, 2018

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BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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BOARD OF COMMISSIONERS

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

REGISTERED OFFICE

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Road Town, Tortola
British Virgin Islands

COMMISSION SECRETARY

Ms. Annet Mactavious

INDEPENDENT AUDITORS

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

BDO Limited

Tortola, British Virgin Islands
October 9, 2019

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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

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

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

Chairman

Managing Director

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

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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

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

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

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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

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

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

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

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

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

1. ORGANISATION AND OBJECTIVES

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Presentation of financial statements

(i) International Financial Reporting Standards (IFRS)

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

(ii) Accounting convention

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

(iii) Presentation and functional currency

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

(iv) Significant accounting estimates and judgement

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

2.2 IFRS adoption

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

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

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

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

Expressed in United States Dollars

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 IFRS adoption (continued)

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

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

  Classification and Measurements

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

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

  Impairment

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

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

  Impact of adoption of IFRS.

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

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

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

Expressed in United States Dollars

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 IFRS adoption (continued)

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

- **IFRS 9 Financial Instruments (continued)**

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 IFRS adoption (continued)

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

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

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

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

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

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

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

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

2.3 Basis of consolidation

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Basis of consolidation (continued)

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

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

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

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

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

2.4 Property and equipment

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

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

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

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

2.5 Projects under development

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Financial instruments

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

(i) Financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

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

Financial assets at amortised cost

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Financial instruments (continued)

(ii) Derecognition of financial assets

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

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

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

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

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

(iii) Impairment of financial assets

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

(iv) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

(v) Derecognition of financial liabilities

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Financial instruments (continued)

(vi) Offsetting financial instruments

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

2.7 Revenue recognition

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

Revenue Streams, Performance Obligations and Revenue Recognition Policies

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

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

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

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

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

2.8 Expense recognition

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

2.9 Taxation

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Foreign currencies

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

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

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

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

2.11 Leases

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

2.12 Pension plan

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

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

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

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATE UNCERTAINTY

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

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

(a) Critical judgements in applying accounting policies

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

Going concern

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

Operating and finance leases

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

(b) Key sources of estimate uncertainty

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

Useful lives of property and equipment

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

Expressed in United States Dollars

4. PROPERTY AND EQUIPMENT

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

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

Expressed in United States Dollars

5. PROJECTS UNDER DEVELOPMENT

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

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

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

As of December 31, 2018, the Commission has an existing contract with NCS Pte. Ltd (formerly Singapore Computer Systems Limited) relating to the development of an internet-based information system featuring electronic filing of documents called Virtual Integrated Registry and Regulatory General Information Network ("VIRRGIN").

VIRRGIN is being completed in three phases of development, each of which will be released separately. The VIRRGIN project costs to be capitalized include (a) registry engine license; (b) implementation and development costs for Phases I, II and III; other additional consultancy and software implementation charges; and airfares, accommodation and other travel expenses incurred relating to the implementation of the project. Cost relating to Phase I and II of VIRRGIN have been capitalized as Computer and Software under of Property and Equipment (see Note 4). During the year ended December 31, 2018, the Commission completed the Phase III of VIRRGIN and subsequently transferred to property and equipment.

(ii) Micro Business Companies ("MBC")

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

(iii) Resource Center ("RC")

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

6. SUBSIDIARIES

Composition

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

Financial support

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

Expressed in United States Dollars

7. REGULATORY DEPOSITS

By statute, certain entities licensed to operate in the financial services sector within the British Virgin Islands are required to place a deposit with the Group. The Group has undertaken to hold these amounts in a designated interest-bearing bank account of $614,829 (2017: $1,412,500) and in treasury bills of $8,076,670 (2017: $7,994,531). Interest earned on these interest-bearing instruments is distributed to the licensees on a semi-annual basis.

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

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

8. CASH AND CASH EQUIVALENTS

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

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

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

9. TIME DEPOSITS

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

10. OTHER RECEIVABLES AND DEPOSITS

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

Expressed in United States Dollars

11. RESERVES

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

Capital reserves

(i) Contributed capital represents an initial transfer of capital from the Government of the British Virgin Islands on the establishment of the Commission. It represented approximately 3 months of operating expenses; and

(ii) Property and equipment reserve reflects the investment into property & equipment to date, less amortisation.

Revenue reserves

(i) Training reserve for long term training / study leave of staff;

(ii) Loan revolving reserve to facilitate staff loans (personal, medical, etc.) as the Act requires those employees transferred from Government at the inception of the Commission to be no less well off than they were with Government;

(iii) Future capital expansion reserve to partly finance the securing of property, constructing and equipping the Commission's own building at a future date;

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

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

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

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

12. TRADE AND OTHER PAYABLES

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

Employee deductions and benefits payable

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

Insolvency surplus reserve

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

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

Deferred revenue

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

Expressed in United States Dollars

13. DEPOSITS ON ACCOUNT

In 2006, the Commission introduced a new internet-based information system (VIRRGIN) that allows companies to administer transactions online. As a result of this development, companies are required to deposit funds with the Commission in advance of effecting an online transaction. As at December 31, 2018, the balance on this account amounted to $4,843,577 (2017: $3,381,419). These funds are included as part of the cash in operating accounts of the Group (see Note 8).

14. DISTRIBUTION TO GOVERNMENT

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

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

15. OTHER INCOME

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

16. ENFORCEMENT PROCEEDS

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

17. STAFF COSTS

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

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

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

18. RELATED PARTY BALANCES

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

Expressed in United States Dollars

19. COMMITMENTS AND CONTINGENCIES

Commitments

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

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

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

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

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

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

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

Contingencies

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

20. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

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

Financial assets of the Group include cash and cash equivalents, financial assets at fair value through profit or loss, time deposits, regulatory deposits, other receivables and deposits. Financial liabilities include trade and

20. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (continued)

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

20.1 Market risk

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

(i) Foreign currency risk

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

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

(ii) Interest rate risk

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

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

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

20.2 Credit risk

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

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

Expressed in United States Dollars

20. FINANCIAL RISK MANAGEMENT (Continued)

20.2 Credit risk

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

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

20.3 Liquidity risk

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

The Group is exposed to liquidity risk from its financial liabilities which include trade and other payables, deposits on account, distributions to Government, amounts due to Government and regulatory deposits from licensed entities. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents to meet its current operating requirements. The Commission is not exposed to significant liquidity risk as it maintains sufficient cash and cash equivalents to meet its current and foreseeable future obligations.

The table below analyses the Commission's financial liabilities into relevant maturity groupings based on the remaining period at the date of the financial statements to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The following table shows the Group's aging of its contractual repayment period to its creditors as of December 31, 2018:

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

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

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

21. DEFINED CONTRIBUTION PENSION PLAN

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

22. SUBSEQUENT EVENTS

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

23. COMPARATIVE FINANCIAL INFORMATION

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