TURKS AND CAICOS ISLANDS
BEAUTIFUL BY NATURE

FINANCIAL SERVICES COMMISSION

ANNUAL REPORT 2011

Directors of the Financial Services Commission

SEATED LEFT TO RIGHT:

Kevin Higgins	*MANAGING*
Errol Allen	*CHAIRMAN*
Oswald Simons	*DEPUTY CHAIRMAN*

STANDING LEFT TO RIGHT:

Munro Sutherland

Neville Grant

Gordon Kerr

MISSING FROM PHOTO: *EARLE MALCOLM AND DELTON JONES (PS FINANCE).*

Directors and Senior Management

BOARD OF DIRECTORS

Errol Allen	*Chairman*
Oswald Simons	*Deputy Chairman*
Delton Jones	*Permanent Secretary, Ministry of Finance*
Gordon Kerr	*Director*
Earle Malcolm	*Director*
Munro Sutherland	*Director*
Neville Grant	*Director*
J. Kevin Higgins	*Managing Director*

SENIOR MANAGEMENT

Kenisha Bacchus	*Head, Mutual Funds, Investment Dealers & Company Managers*
Derek St. Rose	*Head, Insurance*
John James	*Registrar of Companies, Patents, Trademarks & Business Names*
Marlon Joseph	*Head, Banks and Trusts*
Desmond Morrison	*Head, Finance & Administration*
Cathrice James	*Head, Information Technology*
Deborah Ashton	*Deputy Registrar of Companies*
Nadene Harvey	*Office Manager Grand Turk*
Hyacinth Been	*Office Manager Providenciales*

CONTENTS

SECTION A

Report of the Commission

Profile of the Directors

Errol Allen

Mr. Allen is a former Deputy Governor of the Eastern Caribbean Central Bank. He is an economist and has worked with various Governments and was a special appointee for one (1) year with the International Monetary Fund (IMF). Mr. Allen was appointed to hold the post of Chairman of the Commission as from April 1, 2011 and comes to the FSC with vast experience in the field of financial regulation and supervision.

Delton Jones

Mr. Jones is an economist by profession and is the Permanent Secretary in the Ministry of Finance.

Oswald Simons

Mr. Simons, who is the deputy Chairman of the FSC, is a retired banker whose career has spanned over thirty (30) years with various banking groups. Mr. Simons is the current chairman of the Turks and Caicos Investments Agency.

Earle Malcolm

Mr. Malcolm is the chairman of the Human Resources Committee of the Board of the

Commission and he is also a director of various other government entities.

Gordon Kerr

Mr. Kerr is a lawyer by profession and is a partner with the law firm of Misick and Stanbrook.

Munro Sutherland

Mr. Sutherland worked as a central banker for over thirty (30) years, dealing with a wide range of central banking issues, including regulation of financial institutions. He is a past Executive Director of the Bermuda Monetary Authority.

Mr. Neville Grant

Mr. Grant was appointed to sit on the board with effect from April 1, 2011. Mr. Grant has a vast experience in the field of financial supervision and regulation and was a consultant to the International Monetary Fund, Governments of Jamaica, Vanuatu and Zambia. He is a past managing director of the Cayman Islands Monetary Authority.

J. Kevin Higgins

Mr. Higgins is an economist who worked in central banking for 15 years and comes to the position with experience in regulation of licensed entities. Mr. Higgins has also worked in the private banking sector and is a director of the National Insurance Board of the Turks and Caicos Islands.

Chairman's Report

Errol Allen, Chairman

I am happy to present the Commission's Annual Report for the financial year ending 31 March 2011.

My predecessor as Chairman, Mr Sanford (Sandy) Lightbourne, stepped down from his position on that date and I was appointed to replace him from 1 April 2011. I should begin by recording here the gratitude of the entire Board to Sandy for his extensive personal contribution to the Commission over many years, first as a Board member then as Chairman.

With economic conditions in the TCI remaining weak over the period to March 2011, the Commission has faced another challenging year. Recognizing the still difficult financial circumstances affecting many licensed financial institutions, the Commission had previously taken steps to bolster its oversight efforts, in order to facilitate the early identification of potential compliance breaches and other problems. This involved, in particular, an enhanced schedule of on-site examinations and related remedial action programs for some licensees.

At the same time, after two years of declining volumes of incorporation activity and new licensing applications, the period saw increased amounts of new international business coming to the Islands, as the uncertainties which have impeded financial markets during the period finally began to recede somewhat.

While dealing with these increased levels of both compliance and licensing activity, the Commission also gave high priority to reviewing the current framework for banking supervision. The failure of TCI Bank in the early part of 2010 gave rise to understandable concerns on the part of the public, and the Commission saw it as important to ensure that lessons were learned from this experience.

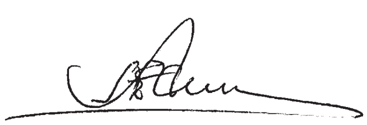
At the request of HE the Governor, the Commission played an active part in 3 reviews undertaken during 2010-2011. First, towards the end of 2010, a committee drawn from the non-executive members of the FSC Board, undertook a full review of the actions of the Commission from the time of the initial licensing application for TCI Bank until the final decision to seek the appointment of provisional liquidators. The review was conducted independently of the FSC executives and management and a detailed report on findings, including recommendations for enhancements to aspects of the framework for banking supervision, was passed to the Governor at the beginning of 2011.

Then, early in 2011, teams of external reviewers commissioned by the Government undertook specific assignments designed to help give guidance to the jurisdiction on the design of new measures for the banking sector. First, a team from the Toronto Centre, an internationally-renowned source of expertise on standards for banking supervision, undertook an assessment of the Commission's compliance with key elements of the relevant Basel standards. In parallel an expert team from the International Monetary Fund prepared analysis of possible options for enhancing deposit protection and insurance in the TCI. Both teams had full access to the FSC's staff and records, and were also provided with the non-executive directors' report on TCI Bank.

All three reports included detailed recommendations to Government and to the FSC with regard to the on-going development of banking legislation and supervisory practice in the TC.I In particular, the Commission has restructured its future work-program for banking supervision, into three inter-related projects which it will be carrying forward during the current year and beyond, in close consultation with the banking industry and other stakeholders. These projects are intended to provide the TCI with a modern Banking Ordinance that will be 'fit for purpose', together with a more complete policy framework and operating methodology.

Alongside these initiatives, the Commission will also be carrying forward with the banking industry parallel discussions on the options for enhancing deposit protection and insurance. In this effort, we will have on-going support and involvement from the International Monetary Fund team which has already drawn up initial recommendations as a basis for consultation.

I know that the entire Board of the Commission is fully committed to ensuring that we can provide the TCI with a sound, well-regulated financial sector for the 21st century; and I look forward to working with the entire staff in ensuring that we deliver high quality service consistently, promptly and efficiently.



E. Allen
Chairman

Managing Director's Report

J. Kevin Higgins, *Managing Director*

The year for which I have to report started off with the Commission having to seek the full liquidation of TCI Bank, as all previous efforts to come up with a rescue plan had failed. Any further delays in doing so would have resulted in additional losses to depositors. The liquidation proceedings are continuing. However, as at year end the extent of the recovery of depositors' funds remains unknown. One outcome of the failure of the bank was the resultant policy and operational changes which were undertaken to ensure that the overall financial sector within the jurisdiction remains sound and that such tragic collapses can be minimised.

As pointed out by the Chairman, policy decisions towards improving the regulatory framework for licensed entities included an external review of the banking sector. The board of directors also did its own evaluation. Recommendations made include updating the banking legislation; increasing the capital requirements for entities such as banks; updating insolvency law provisions and most significantly upgrading the intervention powers available to the Commission. Up-graded intervention powers would allow for graduated sanctions to be imposed.

At the operational level significant changes were made in the staffing structure by bolstering the staff complement to include persons with significant regulatory, technical and legal skills. In this regard seven (7) individuals were contracted, three (3) being assigned to the banking division, two (2) to the insurance division, one (1) to the legal division and one (1) in compliance.

In general terms, the overall staff complement grew to forty nine (49) as compared to thirty (30) in 2010 and twenty four (24) in 2009, an increase of 104% over the period. The additional staff taken on during the period, over and above those referred to in the previous paragraph, were either deployed to get the KRegistry project ready or assigned to update our other databases. At the same time, we are redoubling our efforts to retain staff and to provide relevant training to support their performance and career development. I am happy to report that staff turnover remains at a low level.

One other operational change made was the decision to relocate our supervisory teams from Grand Turk to Providenciales commencing October 1, 2010, where we have now established a much expanded office presence. This reflects the importance of locating supervisory staff much closer to the premises of the licensed businesses, both to facilitate dialogue and interaction and to make more efficient the process of supervision. I am pleased to report that, shortly after the end of the financial year, our new offices in Providenciales were completed and that the relocation process has now been successfully completed.

Compliance and Enforcement

The Commission continued its compliance and enforcement drive during this year. As a result one employee was re-assigned from administration to that department while another senior person was taken on to oversee that sub-division. Activities in this area took various forms:

A. Review of licensees to ensure compliance with the amended Proceeds of Crime Ordinance and other frameworks viz:

- i. AML/ATF manuals are in place and are approved by their boards
- ii. That MLRO and Compliance Officers are duly appointed and approved
- iii. That the banks notify the existence of all restricted deposits
- iv. That statement of affairs are in place for directors, shareholders and senior management
- v. That incorporation documents are properly crafted to address the correct legal approach to the prohibition of the issue or use of bearer shares for licensed entities.

B. Comparison of files held by the Company Management division to those held by the Companies Registry to identify discrepancies and to get licensees to correct any found.

C. Implementation of cross-review efforts to identify unregistered or unlicensed businesses.

Various enforcement actions were undertaken during the year but the two most (2) noticeable ones were in respect of First Financial Caribbean Trust Ltd. and Sunset Management Limited. The former was a trust entity that was determined to be insolvent and was at first put under administration. It was later decided that it should be put into official liquidation to protect trust assets. In respect of the latter, it held a company management licence but the shareholder was formally charged with a criminal offence thus necessitating the Commission having to take steps to protect the books and records of its clients. Joint Administrators were appointed by the court for this purpose. The licenses of both entities were revoked and the intervention operations are on-going.

Amendments to Laws and Regulations

The promised law to provide for the imposition of a fine for disciplinary breaches was finally enacted on October 29th, 2010 and came into effect immediately. However, no penalties were imposed up to the end of the financial year. This law was required so as to give the Commission additional tools to assist it in deterring licensees from willy-nilly failing to comply with payment or filing and other deadlines.

The AML Regulations were revoked and new regulations to include anti-terrorist financing, known as the Anti-Money Laundering and Prevention of Terrorist Financing Regulations 2010, came into effect on 29th July 2010.

It was deemed necessary that there be a clear definition of what constitutes a financial ordinance. To that effect the Financial Services (Financial Services Ordinance) Regulations 2010 were promulgated. Other amendments made were to complete the deletion of references in the laws to "the Permanent Secretary in the Ministry of Finance" and to replace them with "the Commission", where approvals are to be granted under the Ordinance.

Training

In respect of training of in-house staff, four (4) members are assisted with the full cost of their course of study. In addition, three (3) members involved in compliance were given the opportunity to study for the Diploma in International Compliance.

In May 2010, an AML seminar was conducted for practitioners. The focus of this seminar was to bring the industry up to date on the latest AML requirements and to ensure that they are compliant in this regard. Additional seminars held were AML seminars for money transmitters and Money Laundering Reporting and Compliance Officers and one in relation to Corporate Governance for directors of bank and trust companies.

International Co-operation

The jurisdiction continues to play its proper part in the international financial and regulatory communities. As such all efforts continue to be made for it to be heard and represented at all relevant fora. One such participation was the meeting held with IOSCO. Consultations were held with them throughout the year. In particular the Commission attended a meeting with them in Washington DC in December of 2010. The results of those consultations were very fruitful.

The jurisdiction was also represented at the Overseas Territories meeting held in Miami in which focus was placed on issues facing the territories as a group. Each territory gave an update of legislative initiatives being pursued as well as other measures being undertaken to upgrade their regulatory framework. Some of the issues discussed were the EU Solvency II regime for the insurance sector, OECD/Global Forum Peer Review Process and the future of CFATF.

The Commission continues to ensure that it attends and takes part in the half yearly CFATF plenaries.

The Financial Services Commission Ordinance 2007 ('the FSC Ordinance') imposes on the Commission a duty to cooperate appropriately with foreign regulatory authorities and other persons having functions in relation to the prevention or detection of financial crime.

Broadly, regulatory information held by the Commission which relates to the business or other affairs of any person may not be disclosed other than in accordance with the provisions of Part VIII of the FSC Ordinance 2007. Certain limited gateways for the disclosure of protected information are provided in the FSC Ordinance, including notably, to enable the Commission to cooperate with a foreign regulatory authority.

In addition, Part IV of the FSC Ordinance provides the Commission with wide information powers, including to require by notice in writing such information and documents as it reasonably requires for the discharge of its regulatory functions (section 23) and to seek to have a person examined under oath before a magistrate (section 26). These powers may also be exercised by the Commission in order to assist a foreign regulatory authority, provided the Commission is satisfied that certain strict criteria are met.

The Commission is very conscious of the need to cooperate appropriately with foreign regulatory and law enforcement authorities, having regard to the agreed international norms for such cooperation; and it considers carefully all such requests for assistance made to it. During the year in question the Commission received requests for assistance on behalf of authorities in eight (8) overseas jurisdictions and was able to provide information in each case. In none of these cases was it necessary for the Commission to make use of its powers under Part IV of the FSC ordinance to compel information.

At the same time, the Commission provided assistance in response to requests from law enforcement agencies in the Turks & Caicos Islands on 21 occasions during the year.

For some time it has been common for regulatory authorities to enter into Memoranda of Understanding ('MoU') with corresponding bodies in other jurisdictions in which the authorities document their willingness to cooperate to the full extent permitted by law and establish specific provisions and process governing their mutual assistance. More recently, there has been a trend towards multi-lateral MoUs where regulators in a number of jurisdictions document their mutual cooperation in standard terms. This has evident benefits in standardizing the commitments made and streamlining the whole process.

The Commission does not require an MoU to be in place in order to cooperate with an overseas regulatory authority. However, where the circumstances warrant – and notably where a licensed entity or a key member of its group is also regulated in another jurisdiction – the Commission is always prepared to enter into a suitable MoU with the relevant regulatory authority. During the past year, the Commission has pursued contacts with a number of overseas regulators with a view to documenting mutual commitments through an MoU. During the period 2 new MoUs have been executed – with the Cayman Islands Monetary Authority and with the Financial Services Commission, Jamaica. A further 4 MoUs are also in course of preparation, involving the Bermuda Monetary Authority, the Insurance Commission of the Bahamas, the Office of the Superintendent of Financial Institutions, Canada and the Bank of Portugal.

The Commission is also a signatory of a multi-lateral MoU which was established some years ago by central banks and other regulators of banking institutions within the Caribbean and Central American region. In an important development, discussions are currently under way aimed at expanding this document to cover a much broader range of regulated financial businesses throughout the region. The Commission is very supportive of this initiative which should be concluded shortly.

Review of the Industry

While the pace of the recovery in the world economy was slow and at times fluid, the jurisdiction saw a heightened amount of activity compared to the previous periods. Table 1 below gives a summary of new business undertaken by the Commission during the period compared to the previous periods. It also shows annual returns filings for the said period. The data shows an upturn in activity in all areas.

TABLE 1 Comparative Transactions by Type

ACTIVITY	2010/2011	2009/2010	2008/2009
Licenses Issued	526	327	453
Companies Incorporated	1,175	1,011	1,584
Business Names Registered	1,629	490	9
Annual Returns Filed	12,629	12,297	N/A

It must be noted that the jurisdiction saw the loss of one hundred and thirty five (135) licenses due to various reasons. While this resulted in the loss of revenues, the primary focus was on the protection of the jurisdiction and in some instances entities were either asked to surrender the licence or it was revoked by the Commission under various powers. In a few instances the licenses were voluntarily surrendered without any request from the Commission (see Table 2).

The banking industry remains strong with adequate capital and liquidity ratios. No new licences were issued.

The Commission has acknowledged the importance of the niche market created by the Producer Owned Reinsurance Companies (PORCs) and to this end the board agreed that the definition of such entities should be widened based upon requests from the industry so as to facilitate the growth of this sector. Instructions were given to the legislative draftsman to effect the change in the new definition. As at year end, however, this has not yet been done. A total of five hundred and twenty one (521) new entities were licensed. The collection of statistical data in relation to the domestic insurance sector is on-going and by the end of the next financial year we will be able to report such information to the public.

TABLE 2 Activities (Regulatory) by Type for Year

Type of Activity	Banks	Insurance Companies	Trusts	Company Managers	Money Transmitters	Mutual Funds	Invest. Dealers	Total
New Licenses	-	521	-	3	-	-	2	526
Inspections	2	-	3		-	-	-	5
Revocation/ Surrender	3	120	2	5	3	1	1	135
Other Regulatory Action	0	3	-	-	-	-	-	3

The program of inspection of all trust companies was continued during the period and to this end a further three (3) entities were examined. Reliance continued to be placed on external expert assistance in this area.

Work continues on the Kregistry which is on target to be implemented with the commissioning of phase 2 within the next two (2) quarters. As such additional staff were hired to upload data into the database as well as to ensure the accuracy of all data held on files.

The finances of the Commission remain strong and I am happy to report that we have reached the target of 100% of the required reserves under the Ordinance.

Way Forward

Going forward, continued focus will be placed on the hiring of additional technical staff. Dialogue will continue to be had with the Ministry of Finance with a view to having the FSC Ordinance amended to provide new provisions to enable future increases in the Commission's reserves.

The updating of the banking and insurance legislation will be vigorously pursued so as to have them in place by the end of the next financial year.

I look forward to working with the new Chairman on continuing to build the FSC and thank the board of directors for their continued support over the year. As for the staff, I say to them a hearty thank you for the support that they continue to give me. I am very grateful to the staff both for their continuing efforts and commitment during what has been a difficult year but also for embracing the particular changes in work and practices that have been necessitated by the Commission's continuing development.

J. Kevin Higgins
Managing Director

Finance and Administration Report

FINANCE DIVISION

At the start of the financial year, the Finance Department was restructured to include the Commission's administration function, which includes responsibility for human resource issues, within the new Finance and Administration Department.

A second important change occurred during October 2010 when the new Department relocated its main office from Grand Turk to Providenciales. The Department retains an officer stationed in Grand Turk, and new reporting and internal control arrangements were implemented to deal with the change of location and to ensure that the integrity of the Commission's accounting system was fully maintained.

There were no material changes to the Commission's revenue structure during the period. However, the Financial Services (Financial Penalties) Regulations 2010 were introduced during the year. These enable financial penalties for disciplinary offences to be imposed by the Commission on licensed persons in accordance with Part VII of the FSC Ordinance. In addition, the Regulations introduce powers for the Commission to impose certain fixed penalties in the event of late payment of fees and charges payable by licensed persons under the FSC Ordinance or other financial services legislation. No financial or late payment penalties were levied by the Commission during the year. However, it is currently putting in place administrative arrangements for these penalties and will be notifying licensees shortly of the standard procedures that it proposes to apply in this regard.

Financial Performance

The Commission's total core revenues amounted to some $7.2 million during the year, as against $6.5 million in the previous period, an increase of 12%. See Table 3 below for a three year comparison of core revenues by category.

TABLE 3

Income by Category[1]	2010/2011	2009/2010	2008/2009	Percentage Change 2010/11 v 2009/10
Insurance	949,363	653,964	264,385	45
Banking	372,500	397,000	194,875	-7
Trusts	55,500	78,000	52,500	-29
Company Managers	117,200	163,000	62,366	-29
Money Services	16,000	28,000	44,000	-43
Registries	5,216,738	4,587,005	3,724,522	13
Funds & Dealers	41,525	88,000	6,500	-53
Share Transfer/ Stamp Duty	479,498	471,000	136,649	1
Total Core Revenues	**7,248,324**	**6,465,969**	**4,485,797**	**12**
Other Revenues	172,538	90,985	126,413	89
Total Revenues	**$7,420,862**	**$6,556,954**	**$4,612,210**	**13**

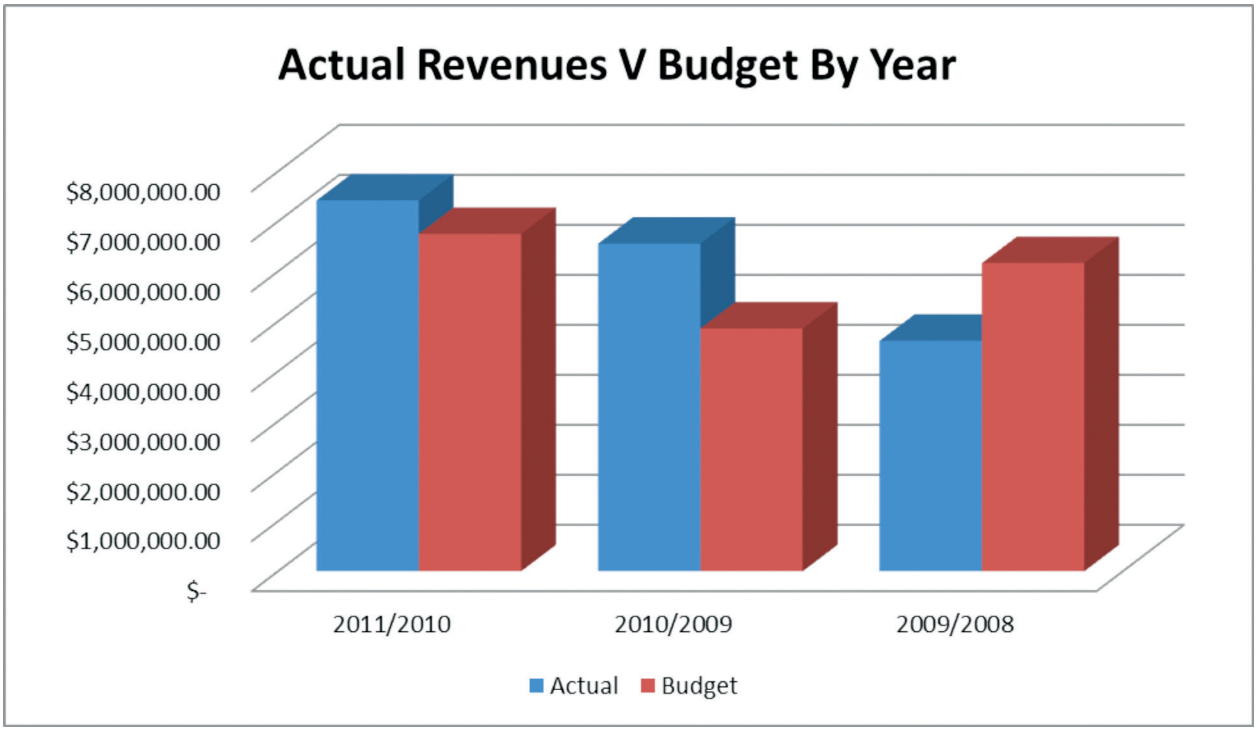
[1] *Application Fees (where applicable) and Annual Fees Combined. Registries also include sundry fee income.*

Comparative Revenues by Category

The bulk of the increase related to the insurance sector, reflecting the full flow through of fee increases implemented in the previous period and increased numbers of new applications in the sector. There were generally some declines in revenues from other regulated sectors, reflecting in particular the on-going process of consolidation as smaller providers have frequently struggled to remain profitable in economic conditions which remain difficult and at a time when they also in many cases have faced increasing costs of regulatory compliance. However, the Registries continued to provide a solid source of revenues, recording an increase of some 13% year on year.

For the second successive year, actual revenues also exceeded budget, reflecting the success of the Commission's efforts to enforce stronger compliance (a process which will also be assisted further by the new financial penalties to be introduced) and the steps taken to update and enhance its electronic data-bases. This process has been important in ensuring greater predictability of revenue flows in the future. The following chart contrasts actual and budgeted revenues over the past three years.

CHART 1 Comparison of Actual Revenues v Budget



Total operating expenses increased sharply, as compared with the previous period, rising by over a third to $3.3 million. This reflects the positive progress made by the Commission with the plans announced in last year's Report to increase materially its staff complement. The main drivers for this effort were the need to continue to build up its expert supervisory teams to meet the increasing oversight demands in the difficult trading conditions that persist as well as the increased staff resources being allocated to the Commission's electronic data-base enhancement projects, including preparing the way for the Kregistry and Kreview systems which are now reaching an advanced stage of development. Overall, total operating expenses amounted to 44% of total core revenues (i.e. revenues derived from supervisory, registry and duty fees), as compared to 36% in the previous reporting period.

Some further increase in operating expenses is planned for 2011/2012 as the Commission continues its critical program of building its core regulatory resources in order to ensure that the jurisdiction is equipped to meet international standards in the field of financial services supervision At the same time, however, the Commission is taking every opportunity to control costs in light of the very difficult financial position facing the TCI public sector. Moreover, the Commission is mindful of the effects of the recent process of consolidation affecting many of the regulated financial services sectors as a result of which it now expects core revenues for 2011/2012 to fall materially below those for 2010/2011.

As at the end of the last financial year, the Commission's total assets amounted to $7.9 million, an increase of 32% over the previous year-end figure, with cash and cash equivalents representing some 94% of the total. Liabilities as at the year-end totalled some $1 million, some 70% of which was due to the Government as its share of the Commission's surplus for the year.

The Commission's net assets therefore increased by some 74% during the period as the result of the operation of a statutory formula permitting it to retain income in order to increase its allowable reserves. This formula provided for the Commission to build up a reserve fund over the four years to the end of March 2011 to reach 100% of its expected recurrent expenditure.

Departmental Training

To assist staff in the Finance area in the application of the Commission's financial controls, a staff training manual 'FSC- A Financial and Revenue Perspective' was prepared and distributed during the year. This provided information on the different types of regulated entities including background information on company and trust law matters as well as legal and supervisory issues affecting the various sectors. It also brought together information on applicable statutory fees and on the Commission's arrangements for administering them. The Department will build on this work during the current year to include its arrangements for implementing the new financial penalty powers recently provided to it.

ADMINISTRATION DIVISION

The staff complement of the Commission increased significantly during the period with the total number of employed persons standing at 49 at the year-end, as compared to 30 at the end of the previous financial year. As noted elsewhere in this Report, the increase was planned and budgeted, reflecting the Commission's need to step up the resources devoted to supervision of the financial sector as well as the effects of important upgrading initiatives for the Registries and other electronic data-bases. A number of the new posts are temporary in character, in particular to permit the Commission to complete its various projects aimed at modernizing and streamlining its work flows through reduced use of paper records and much enhanced electronic processing.

The table below gives a breakdown of the Commission's staffing, by Departments, as at March 2011 as compared with March 2010.

TABLE 4 No. Employees by Department

2010/2011	2010/2011	2009/2010
Department	**No. of Employees**	**No. of Employees**
Managing Director's	1	2
Mutual Funds, Investment Dealers, Company Management	4[2]	2
Insurance	8	4
Banking, Trusts and Money Transmitters	6	3
Companies Registry, Patents Registry and Trademarks Registry	17	10
Finance and Administration	9	6
Information Technology	3	3
Legal and Enforcement	1	-
Total	**49**	**30**

[2] *This department includes a Compliance Sub-division*

BANKS, TRUSTS AND MONEY TRANSMITTERS

As noted in last year's report, the Department took steps to increase levels of supervision in light of the pressures on asset quality and earnings within the banking sector that were already becoming evident. The developing crisis affecting TCI Bank was a particular concern in the early part of the year. Thereafter, the Department maintained a strong focus on on-site inspection activity, on monitoring compliance and, where necessary, on overseeing remedial action programs within particular institutions. Detailed reviews of two (2) banks and three (3) trust companies were conducted during the period, in each case employing expert consultants in support of the Department's own staff.

Subsequently, the Department was also closely involved in the external review work commissioned by Government from the International Monetary Fund and the Toronto Centre, intended to assist with the further enhancement of TCI's banking supervision regime and deposit protection arrangements. This work, together with consideration of detailed proposals for new banking legislation, is on-going and represents an important priority.

Banks

Trading conditions for the local banking industry remained challenging during the year under review, reflecting the continued weakness in key sectors of the economy as well as conditions in international financial markets. But, overall, the total assets of the licensed banking sector showed a return to growth, after the small decline experienced in the previous year.

The period also saw major changes within the banking sector. By the end of March 2011, the number of licensed banks had fallen from 11 to 8. The most significant change was the closure of TCI Bank, with the appointment of provisional liquidators early in the period. In addition, however, two (2) other licensed institutions surrendered their licences (in one case before opening its doors for trading). On the other hand, one (1) new institution which had been awarded a licence previously began operating during the year.

CHART 2 Select Comparative Banking Indicators at March 31, 2009 to March 31, 2011

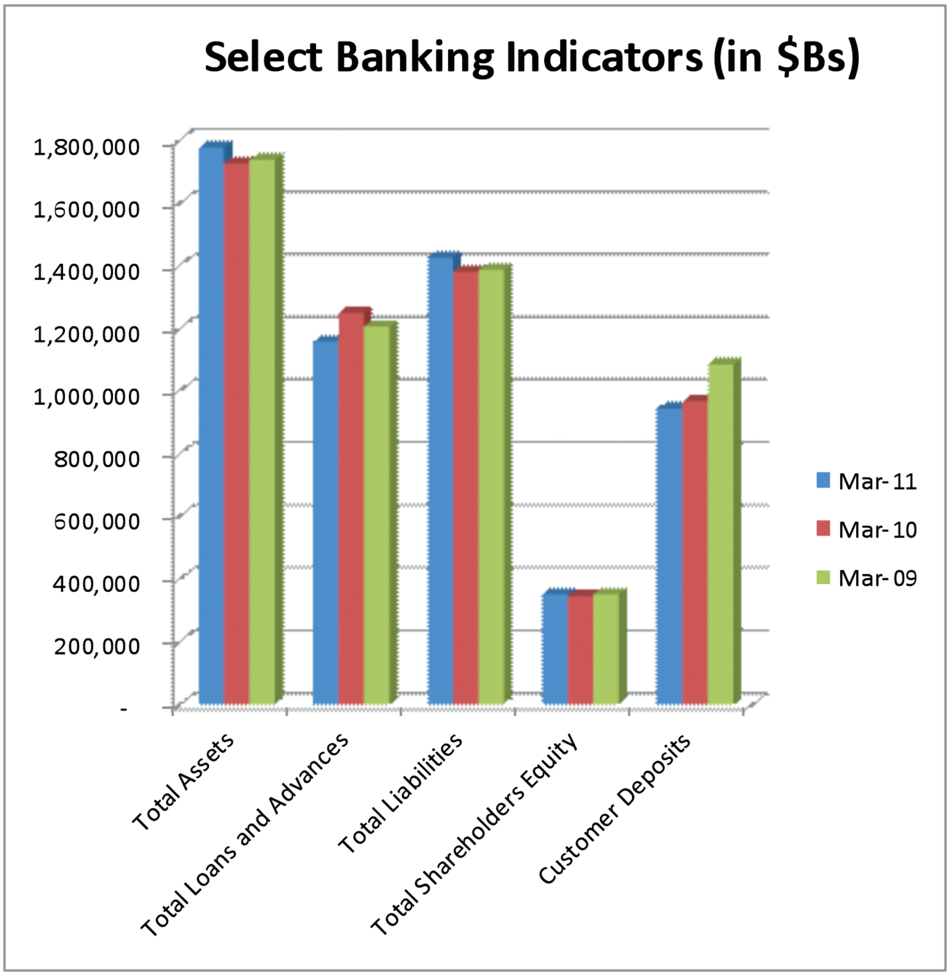


Chart 2 above shows total assets, loans, liabilities, shareholders equity and customer deposits for the three (3) year period ending March 2011.

The year also saw some shifts in the composition of the banks' balance-sheets. Total loans and advances by licensed banks recorded a decline of some 7% from the level at the end of March 2010. However, this reflects in the main the exclusion of lending by TCI Bank from the 2011 data. Many of these advances remain in place as the liquidation proceeds and we estimate that, overall, the level of bank financing to the community continued at around end-

March 2010 levels. But the effect was that loans and advances, while continuing to represent the largest portion of the assets of licensed banks, declined from 72% to 64% of total assets, as banks took steps to increase liquidity through holding additional inter-bank balances and investments.

Similarly, total customer deposits of licensed banks recorded a decline of some 2% over the period, falling from $0.96 billion to $0.93 billion. Deposits by non-residents' grew by around 8%, while deposits by residents recorded a decline of some 7% - again reflecting the fact that deposits still held with TCI Bank are no longer included within the aggregate data for 2011.

Banks were faced with lower interest income and the need to make increased provision for bad and doubtful debts, leading to an overall decline in net income for the sector approaching 40%. In response, several banks found it necessary to take firm measures to control their operating costs and help to restore levels of profitability.

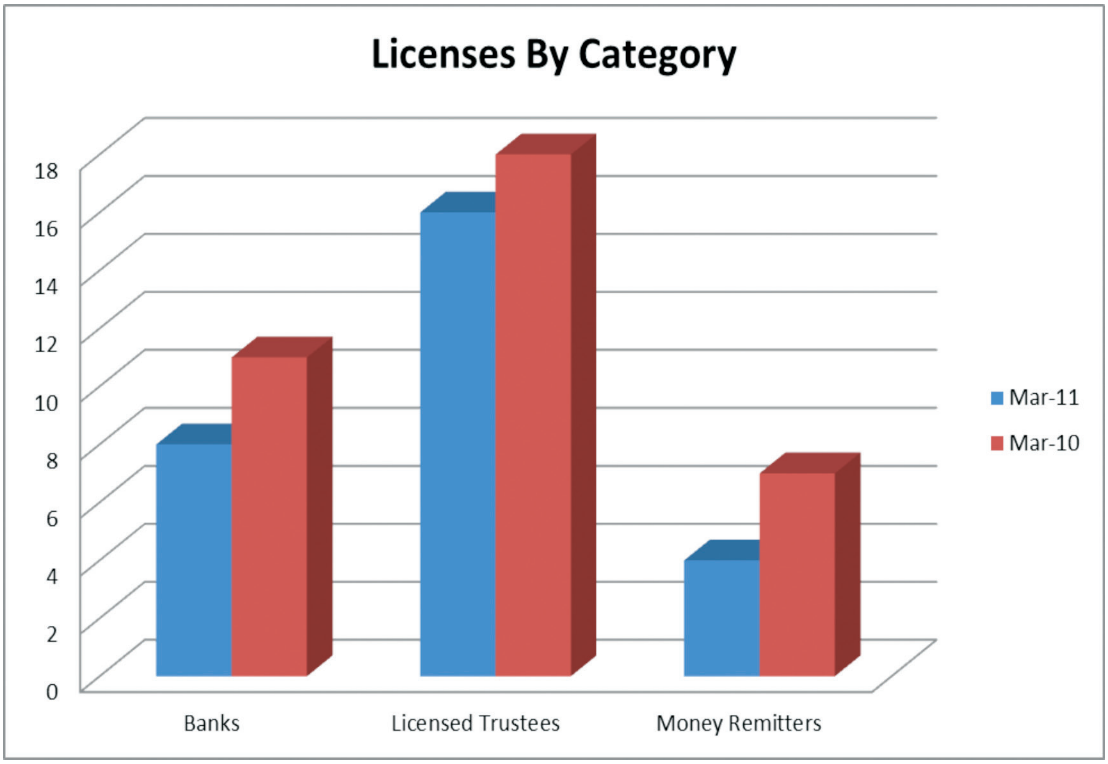
Despite the challenging trading conditions, banks have continued to meet the statutory minimum requirements which apply to their capital ratios. Indeed, the aggregate risk weighted capital adequacy ratio for the sector increased slightly during the period to 30%, reflecting in particular the removal of TCI Bank from the consolidated statistics.

Trust Companies

There was little change in the trust sector during the period. The number of licensed trust companies declined from eighteen (18) to sixteen (16), following the surrender of one (1) licence and another entering administration. The Department continued its program of onsite review work, focussed on ensuring compliance with statutory requirements. Three (3) inspections were carried out during the period with focus being placed on ensuring (1) proper segregation of trust assets (2) AML/ ATF compliance (3) proper accounting and (4) adherence to the terms of the trust deeds. To date a total of six (6) trust companies have been examined. Following each onsite visit, a detailed feedback report was provided to the institution concerned, recording any areas of weakness identified and, where appropriate, setting a timetable for necessary remedial action.

The Commission is working on the introduction of quarterly reporting for licensed trustees in order to collect information on the number and value of trusts being managed. It is projected that by the end of the next reporting period we will be able to report on those numbers.

CHART 3 Comparative Analysis of Licences at March 2011 and 2010



Money Transmitters

The year saw a substantial process of consolidation within the licensed money transmitters sector. A number of licensees were seriously affected by the closure of TCI Bank which was a significant banking counterparty for the sector. As a result, of the seven (7) entities originally licensed to provide money transmission services, only four (4) remained licensed at the end of the period under review, including one (1) licensee that was not yet operational. The Commission will be conducting initial onsite visits in this sector during the next financial year, reviewing in particular the effectiveness of systems and controls in place to protect licensees against money laundering abuse.

INSURANCE

The year was an active one for the insurance sector in the Turks and Caicos Islands with a sharp increase in the volume of licensing activity. As in the past, the industry continued to comprise predominantly the overseas sector, in particular producer-owned reinsurance companies (PORCs) and captive insurers, both accounting for some 99% of the industry. The domestic insurance sector remained overwhelmingly foreign-owned, with only 2 locally owned insurers among the 19 companies licensed to conduct local business (see Table 5 below). The bulk of domestic business involved general insurance, with only 6 of the 19 licensees conducting long-term business.

TABLE 5 Total Active Licences at March 31, 2011

Total Licences in Effect at March 31, 2011							
Total	Reinsurers	Captives	Domestic	Brokers	Agents	Sub-Agents	Managers
5,373	5,095	224	19	9	10	9	7

A total of 521 new licences were issued during the period, an increase of some 62% on the number issued in the previous period, reflecting the beginning of a return to more normal conditions in international financial markets. Table 6 provides data on this activity. The Department also dealt with a total of 7 requests for Special Dispensations[3] , all of which were approved, after review.

TABLE 6 New Licences

LICENSES ISSUED DURING THE PERIOD APRIL 1, 2010 TO MARCH 31, 2011							
Total	Reinsurers	Captives	Domestic	Brokers	Agents	Sub-Agents	Managers
521	512	7	0	0	0	2	0

---

[3]Special Dispensation requests relate to circumstances in which a licensee seeks to insure local (i.e. TCI) risk with an insurer who is not licensed in this jurisdiction. Special conditions must be met for approval. In addition, Blanket Special Dispensation had been granted for certain types of insurance coverage not available within the TCI.

At the same time, the Department was active during the year in reviewing the compliance of existing licensees. A total of 120 licences were surrendered or revoked during the period, overwhelmingly PORCs. Licences revoked related in the main to companies that had been dormant or inactive for some time, leaving them out of compliance with certain of their licensing requirements. The Department's review of compliance of existing licensees is on-going and is expected to result in further revocations during the current financial year.

As was seen in 2009/2010, the Department also had an active year with regard to enforcement actions. The actions taken previously against CLICO (Bahamas) Ltd and British American Insurance Company Limited (BAICO) following their well-publicized difficulties were referred to in last year's Report. British Atlantic Financial Services Ltd was licensed in June 2010 to allow it to purchase the business portfolio of BAICO. CLICO, however, remains in provisional liquidation while efforts to find a suitable purchaser continue.

During the year, the Commission also took action against one PORC which it concluded was insolvent. A Cessation of New Business Order was issued and remains in force while the company's existing business is run off. The Commission also initiated similar action against two other companies in order to protect the interests of policyholders. In those cases, following discussion with and remedial action by the owners, the relevant orders were subsequently lifted.

Enhancement of the Regulatory Framework

The Commission has been working for some time on developing a new Insurance Ordinance. This was delayed slightly to enable some additional provisions to be incorporated, reflecting lessons learned within the region during the prolonged efforts to deal with the CLICO and BAICO situations. However, a first draft of the new legislation was circulated to the domestic industry in February 2011 as a basis for consultation. Industry comments are now in hand and it is hoped that the new legislation can be implemented before the end of 2011.

The revised provisions include new requirements in the areas of licensing, capital, reserves, reporting and compliance, and are intended to enable the Commission to strengthen materially its regulatory framework for domestic insurers.

While the proposed legislation developed so far relates specifically to the domestic insurance sector, the Commission is also working on certain amendments to apply to the international insurance sector. These provisions will be the subject of consultation with PORCs, captive insurers and insurance managers shortly. As far as PORCs are concerned, the changes will not materially alter the present arrangement. In fact consideration was given by the board to broaden the definition of items that fall within the category of credit life and this will help to enhance the size of the sector, as the industry was lobbying for.

At the same time, the Commission has also been taking steps to enhance its cross-border cooperation with other regulators in the insurance sector. Among other recent steps, the Commission has signed Memoranda of Understanding with the Cayman Islands Monetary Authority and with the Jamaica Financial Services Commission with a view, specifically, to facilitating the exchange of relevant information regarding branches and subsidiaries of entities licensed in these jurisdictions.

MUTUAL FUNDS, INVESTMENT DEALERS AND COMPANY MANAGERS

During the year, the Department continued to focus on maintaining high levels of regulatory compliance within the licensed sectors through its on-going oversight programs.

Company Management

As at March 2011, 36 companies were licensed under the Companies Management Licensing Ordinance, either as company managers or as company agents. Three (3) new licences were issued during the year, while five (5) licences were either surrendered or revoked, mainly reflecting circumstances in which entities were no longer compliant with the licensing provisions.

TABLE 7 Departmental Regulatory Activities

Licences by Type under this Department					
Activity	Company Management	Mutual Funds	Mutual Funds Administrator	Investment Dealers	Total
At 31/3/2010	38	5	3	8	54
New Licenses	3	0	0	2	5
Revoked	-3	-1	0	0	-4
Surrendered	-2	0	0	-1	-3
At 31/3/2011	36	4	3	9	52

In light of the various weaknesses identified during onsite examinations conducted in previous periods, and having regard to recent amendments to the Proceeds of Crime Ordinance and the new AML/ATF Regulations introduced, the Commission is now devoting efforts to increase industry awareness of important elements of Know Your Customer procedures. The Department has spear-headed this effort by developing specific AML training for industry personnel and providing an initial seminar for industry representatives in May 2010. The Commission is also keen to encourage industry to take steps to promote understanding and best practice in this area, including through enhancing dialogue and liaison between compliance personnel within the financial services industry.

Mutual Funds

There was little fresh activity in the mutual funds sector in TCI during the period, reflecting among other things the continuing weakness in financial markets and the difficult economic conditions locally. One mutual fund had its licence revoked pursuant to Section 34(1)(c) of the FSC Ordinance, leaving just one (1) licensed mutual fund and three (3) registered mutual funds as at the end of the financial year. The number of mutual funds' administrator licences remained at three (3).

The Department was also engaged during the year in reviewing the Companies data-base in order to ensure that any company using in its name the restricted term 'Fund' or derivatives thereof is duly licensed under the Mutual Funds legislation.

Investment Dealers

The year saw more activity in the investment dealers' sector. Two (2) new licences were issued, while one (1) was surrendered, leaving a total of nine (9) licences in place as at the end of March 2011. As part of its program of review visits to licensed financial groups, the Commission was able to identify a small number of entities, currently unlicensed, which require licensing either as investment dealers or as investment advisers.

Other Matters

The Head of the Department continued to assist with the work of the Money Laundering Reporting Authority, participating in the operations of various sub-committees, including for the implementation of a new Anti-Money Laundering Code and for the establishment of an autonomous Financial Intelligence Unit for the Turks & Caicos Islands. In parallel, there is on-going close involvement in follow-up action pursuant to the last Mutual Evaluation Report of the TCI on behalf of the Caribbean Financial Action Task Force. Because of a number of deficiencies identified, the TCI remains subject to a program of enhanced follow-up, designed to expedite achievement of a higher level of compliance.

In addition, the Head of the Department continues to form part of the team negotiating and reviewing Tax Information Exchange Agreements on behalf of the TCI Government. Eighteen (18) such agreements have now been put in place between the TCI and other jurisdictions. In addition, the Head also was involved in the follow-up OECD Peer Review Process of the TCI for implementation of the program of agreements.

COMPANIES REGISTRY, PATENTS AND TRADEMARKS

Companies Registry

After two successive years of declines in the level of new incorporations in the jurisdiction, 2010-2011 saw the return of some increasing interest as the international climate for business became a little less uncertain. As shown in the table below, a total of 1175 companies and partnerships were established during the period, some 16% more than in 2009-2010. Most of the growth was concentrated in the exempt company classification. At the same time, some 2,500 companies were struck from the Register, overwhelmingly as a result of non-payment of annual fees. At the end of the period, total companies on the Register amounted to 14,560.

TABLE 8 Incorporations by Company Type

Company Type	2010/2011	2009/2010	2008/2009
Exempt	849	704	1,032
Ordinary	311	286	483
Foreign	10	14	57
Limited Partnerships	5	5	10
Limited Life Companies	0	2	2
Total No.	**1,175**	**1,011**	**1,584**
Percent Change	16%	-36%	-27%

During the year, Registry staff also took the opportunity to carry out physical reviews and updating of all company files as part of the preparations for the implementation of the new KRegistry system. This process also enabled the Commission to identify a number of cases of non-compliance by registered companies; these were promptly brought to the attention of the relevant company managers or agents for the recovery of relevant fees and penalties.

Arising out of this review process, the Commission will also be recommending a number of changes to the existing legal provisions affecting the Registry, including some changes to existing fees and penalties.

Registry staff also continued to be heavily involved in the process of scanning of paper files in order to ensure that full electronic records are available for use in the KRegistry system. In addition to the involvement of Registry staff, the Commission employed 3 temporary staff to assist with the entry of the relevant data.

Trademarks

The number of trademarks registered during the year rose by some 30% to 378. Work continued on new trademark rules which are intended to be implemented pursuant to the 2007 Trademarks Ordinance.

Patents

The year also saw some increase in the volume of patents submitted from the UK for registration. These totalled 23 during the year, as compared to just 10 in the previous period.

Business Names

A total of 1,629 business names were registered during the 2010-2011 year, compared to 490 in the previous period. This reflects the recent change in procedures requiring business operators first to obtain a valid business name certificate before the grant or renewal of a business licence. An amendment to the fee schedule for business names, introducing an increased $50 annual fee is expected shortly.

INFORMATION TECHNOLOGY

The Department continued to work closely with the supervisory and other Departments in supporting the Commission's on-going growth and in enhancing the efficiency of its operations.

FSC Web-site

An important initiative during the period involved the launch of a redesigned and much improved web-site for the Commission. The new web-site, launched in July 2010, is much more user-friendly, providing rapid access to a large amount of information about the Commission's role, and the licensing, supervisory and registry requirements. The Commission is committed to further steps to enhance the quantity and quality of information available to the public with regard to its own operations and activities, to the operations and status of entities licensed by it, and to the financial services industry more generally. This is intended to assist licensees and other counterparties as well as to provide increased transparency to the general public. The new web-site is an important platform which will underpin this on-going development.

The FSC's new Offices in Providenciales

As noted elsewhere in this Report, the Commission has been engaged during the period in managing a significant expansion of its presence in Providenciales. The Department has played a vital role in developing and delivering sound networking for the offices and to secure connectivity between the new Providenciales office and that in Grand Turk.

KRegistry and KReview

As reported previously, the Department continues to work closely with the Companies Registry Department on the implementation of Phase II of the KRegistry project. (Phase I has been implemented successfully, although a program of electronic scanning of old paper files remains on-going.) Phase II will allow:

(1) online search facilities of the image data-base (internally and for agents)
(2) automated requests in the event of non-availability of a company file in image format and automatic email notifications to clients
(3) processing of search fees.

The Department is also working with the licensing Departments on the implementation of KReview, which is intended to provide electronic support for the Commission's expanding on- and off-site supervision program.

SECTION B

Financial Service Commission

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2011 pwc

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Financial Services Commission

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Financial Services Commission and its subsidiary (the FSC), which comprise the consolidated statement of financial position as at March 31, 2011 and the consolidated statements of comprehensive income, changes in source of funding and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the FSC as at March 31, 2011 and their performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

PricewaterhouseCoopers Ltd.

Chartered Accountants
Providenciales, Turks & Caicos Islands

Date: September 2, 2011

Financial Services Commission (cont'd)

Consolidated Statement of Financial Position
as at March 31, 2011
(Expressed in United States Dollars)

	2011 $	2010 $
ASSETS		
Current Assets		
Cash and cash equivalents	6,884,184	5,292,624
Trade Receivables	41,903	66,622
Prepayments (Note 5)	426,132	282,361
Staff advances (Note 6)	80,886	66,087
	7,433,105	5,707,694
Fixed Assets (Note 7)	478,590	291,986
Total Assets	7,911,695	5,999,680
LIABILITIES AND SOURCES OF FUNDING		
Current Liabilities		
Accounts payable (Note 8)	742,910	1,716,308
Accruals	310,111	147,248
Deferred income (Note 9)	72,891	9,691
	1,125,912	1,873,247
Deferred Income (Note 9)	263,051	285,940
Total Liabilities	1,388,963	2,159,187
Sources of Funding		
Reserve fund	5,566,726	2,884,487
Retained surplus	956,006	956,006
	6,522,732	3,840,493
Total Liabilities and Sources of Funding	7,911,695	5,999,680

Approved for issuance on behalf of the Board of Directors of the Financial Services Commission on 2ND Sept 2011.

Director

Director

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

Consolidated Statement of Comprehensive Income
For the Year Ended March 31, 2011
(Expressed in United States Dollars)

	2011 $	2010 $
Income		
Gross revenue	7,224,891	6,465,968
Transfer to TCI Government	(1,472,425)	(2,216,308)
Share of revenue retained	5,752,466	4,249,660
Release of government grants	9,690	20,698
Interest and other income	130,247	70,287
Total Income	5,892,403	4,340,645
Expenditure		
Staff costs (Note 10)	1,925,726	1,476,610
Professional and consultancy fees	366,001	195,796
Rental of buildings	138,936	104,736
Travel and subsistence (Note 11)	84,746	101,758
Depreciation	73,964	70,303
Office expense (Note 12)	75,817	67,225
Repairs and maintenance expense (Note 13)	74,874	62,142
Provision for bad debts	-	53,500
Utility charges (Note 14)	53,680	45,217
Communication expense (Note 15)	60,596	43,251
Insurance (Note 16)	65,217	38,600
Subscriptions and contributions (Note 17)	16,310	37,826
Audit and accounting	42,000	30,524
Training	57,474	13,610
Security expense	8,282	5,031
Other operating and administrative expenses (Note 18)	166,541	50,490
Total Expenditure	3,210,164	2,396,619
NET SURPLUS	2,682,239	1,944,026

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

Consolidated Statement of Changes in Sources of Funding
For the Year Ended March 31, 2011
(Expressed in United States Dollars)

	Reserve fund $	Retained surplus $	Total $
As at April 1, 2009	940,461	956,006	1,896,467
Comprehensive income:			
Net surplus	-	1,944,026	1,944,026
Transfer to reserve fund	1,944,026	(1,944,026)	-
As at March 31, 2010	2,884,487	956,006	3,840,493
Comprehensive income:			
Net surplus	-	2,682,239	2,682,239
Transfer to reserve fund	2,682,239	(2,682,239)	-
As at March 31, 2011	5,566,726	956,006	6,522,732

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

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

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

Consolidated Statement of Cash Flow
For the Year Ended March 31, 2011
(Expressed in United States Dollars)

	2011 $	2010 $
Operating Activities		
Net surplus	2,682,239	1,944,026
Depreciation	73,964	70,303
	2,756,203	2,014,329
Changes in working capital other than cash and cash equivalents		
Trade Receivables	24,719	(66,622)
Staff advances	(14,799)	31,019
Prepayments	(143,771)	60,715
Accounts payable	(973,398)	(558,044)
Accruals	162,863	(26,850)
Deferred income	40,311	(20,699)
Advances for due diligence	-	(1,400)
Net Cash from Operating Activities	1,852,128	1,432,448
Investing Activities		
Computer equipment	(56,704)	(29,313)
Office furniture	(21,855)	(29,046)
Office equipment	(7,869)	(10,750)
Motor vehicles	(29,000)	-
Building improvements	(145,140)	-
Net Cash used in Investing Activities	(260,568)	(69,109)
Net Increase in Cash and Cash Equivalents	1,591,560	1,363,339
Cash and Cash Equivalents at Beginning of Year	5,292,624	3,929,285
Cash and Cash Equivalents at End of Year	6,884,184	5,292,624

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

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2011

1. General Information

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

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

On March 23, 2011 the FSC established a 100% owned subsidiary "FSC Property Holdings Co. Ltd." for the purpose of holding real estate assets.

The FSC operates from both the Harry E. Francis Building, P.O. Box 173, Pond Street, Grand Turk, and Caribbean Place, Providenciales, Turks & Caicos Islands, British West Indies.

2. Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the FSC have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards (IFRS). The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates, and requires management to exercise its judgement in the process of applying the accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimations are significant to the consolidated financial statements are disclosed in note 4.

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

(a) New and amended standards adopted and/or early adopted and relevant to the FSC.
Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The FSC will apply the revised standard from April 1, 2009.

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning January 1, 2010 but not currently relevant to the FSC (although they may affect the accounting for future transactions and events)

- IFRIC 17, 'Distribution of non-cash assets to owners'.
- IFRIC 18, 'Transfers of assets from customers'.

See Auditor's Report - page 34

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2011

2. Summary of Significant Accounting Policies (continued)

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

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning January 1, 2010 but not currently relevant to the FSC (although they may affect the accounting for future transactions and events) (continued)

- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement'.
- IFRIC 16, 'Hedges of a net investment in a foreign operation'.
- IAS 38 (amendment), 'Intangible assets'.
- IAS 1 (amendment), 'Presentation of financial statements'.
- IAS 27 (revised), 'Consolidated and separate financial statements'.
- IAS 36 (amendment), 'Impairment of assets'.
- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions'.
- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures'.
- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'.

(c) New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2010 and not early adopted
The FSC's assessment of the impact of these new standards and interpretations is set out below:

- IFRS 7 (amendment), 'Disclosures—Transfers of Financial Assets'. The amendment, issued in October 2010, amended the required disclosures to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position. The amendment will help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position and will promote transparency in the reporting of transfer transactions, particularly those that involve the securitization of financial assets. An entity shall provide the required disclosures for all transferred financial assets that are not derecognized and for any continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. Entities are required to apply the amendments for annual periods beginning on or after July 1, 2011. The impact of the disclosures on the FSC's financial statements when it is adopted on April 1, 2012 will depend on the FSC's facts and circumstances at the reporting date during the year of adoption.

See Auditor's Report - page 34

2. Summary of Significant Accounting Policies (continued)

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

(c) New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2010 and not early adopted (continued)

- IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. The standard specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39.

  Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged from IAS 39. The standard applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. The standard also results in one impairment method, replacing the numerous impairment methods in IAS 39 that arise from the different classification categories. The new standard is not effective until 2013 and is not expected to have a significant impact on the FSC's financial position or performance when it is adopted in April 1, 2013, as it is expected that the FSC will continue to classify its investments (both long and short) as being at fair value through profit or loss.

- 'Classification of rights issues' (amendment to IAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after February 1, 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The FSC will apply the amended standard from April 1, 2011. It is not expected to have any impact on the FSC's financial statements.

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The FSC will apply the interpretation from April 1, 2011. It is not expected to have any impact on the FSC's financial statements.

See Auditor's Report - page 34

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2011

2. Summary of Significant Accounting Policies (continued)

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

(c) New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2010 and not early adopted (continued)

- 'Prepayments of a minimum funding requirement' (amendments to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning January 1, 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The FSC will apply these amendments for the financial reporting period commencing on April 1, 2011. It is not expected to have any impact on the Company's financial statements.

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

(a) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand, cash held on account with the Company's lawyer, balances with banks and other financial institutions with original maturities of three months or less and fixed deposits held with banks and other financial institutions with original maturities of three months or less. Fixed deposits can be readily converted into cash with the loss of interest at any time.

(b) Fixed Assets

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

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

See Auditor's Report - page 34

2. Summary of Significant Accounting Policies (continued)

(b) Fixed Assets (continued)

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

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

Depreciation is charged from the month of acquisition. The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each consolidated statement of financial position date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated statement of comprehensive income.

(c) Revenue Recognition

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

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

(i) Financial Services Income

Income is recognised when the right to receive payment is established. Fees collected are shown as gross revenue within the consolidated statement of comprehensive income and are pro-rated between the FSC and Government of the Turks and Caicos Islands in accordance with the FSC Ordinance.

(ii) Interest Income

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

See Auditor's Report - page 34

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2011

2. Summary of Significant Accounting Policies (continued)

(d) Government Grants

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

(e) Financial Assets

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, as they will be realised within 12 months of the consolidated statement of financial position date. The FSC's loans and receivables comprise cash and cash equivalents, accounts receivable and staff advances in the consolidated statement of financial position.

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

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

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

(f) Accounts Receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the FSC will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of comprehensive income within expenses. When an account receivable is uncollectible, it is written off against the allowance account for accounts receivable. Subsequent recoveries of amounts previously written off are credited against expenses in the consolidated statement of comprehensive income.

See Auditor's Report - page 34

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2011

3. Financial Risk Management

3.1 Financial risk factors

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

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

(a) Cash flow and fair value interest rate risks
The FSC's interest rate risk arises from fixed deposits with fixed interest rates, which expose it to fair value interest rate risk. Fixed deposits have maturities of 3 months or less, thereby reducing fair value interest rate risk.

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

(b) Credit risk
Credit risk arises from cash and cash equivalents as well as credit exposures on outstanding receivables. Cash and cash equivalents credit risk is mitigated by only depositing with regionally recognised banks and financial institutions. The FSC manages counterparty credit risk by having all counterparties approved by the Board of Directors.

Balance held with parties with a credit rating of A- or higher	$4,074,213
Balance held with a non rated party, British Caribbean Bank	$1,066,268

Receivables are legally recoverable under the terms of the underlying applicable Ordinances to which the counterparties are subjected.

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

Prudent liquidity risk management implies maintaining sufficient cash to pay liabilities as they fall due. Management monitors rolling forecasts of the FSC's liquidity reserve comprising cash and cash equivalents on the basis of expected cash flow.

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

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

See Auditor's Report - page 34

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2011

3. Financial Risk Management (continued)

3.2 Reserve risk management

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

The FSC is directed, by the Financial Services Commission Ordinance and provisions thereto, to create a reserve to fund expected recurrent expenditure.

4. Key sources of estimation uncertainty

The FSC makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5. Prepayments

This amount includes $316,000 (2010: $266,000) of payments to KPMG and REFLEXIS Systems Inc. for the supply of the KRegistry and KReview Application Software, in accordance with the contracts dated January 25, 2006 and February 1, 2006. As at the year-end, whilst work is ongoing in this regard, the software and databases are not yet functional.

6. Staff Advances

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

See Auditor's Report - page 34

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2011

7. Fixed Assets – Current Year Analysis

	Building and improvements $	Office furniture $	Office equipment $	Computer equipment $	Motor vehicles $	Total $
Cost						
Balance as at April 1, 2010	124,550	148,055	72,143	159,933	63,554	568,235
Acquisitions	145,140	21,855	7,869	56,704	29,000	260,568
Disposals	-	-	-	(11,005)	-	(11,005)
Balance as at March 31, 2011	269,690	169,910	80,012	205,632	92,554	817,798
Accumulated Depreciation						
Balance as at April 1, 2010	10,519	69,990	33,640	123,968	38,132	276,249
Depreciation	3,780	16,351	7,742	29,997	16,094	73,964
Disposals	-	-	-	(11,005)	-	(11,005)
Balance as at March 31, 2011	14,299	86,341	41,382	142,960	54,226	339,208
Net Book Value						
As at March 31, 2011	255,391	83,569	38,630	62,672	38,328	478,590

See Auditor's Report - page 34

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2011

7. Fixed Assets – Prior Year Analysis

	Building and improvements $	Office furniture $	Office equipment $	Computer equipment $	Motor vehicles $	Total $
Cost						
Balance as at April 1, 2009	124,550	119,009	61,393	130,620	63,554	499,126
Acquisitions	-	29,046	10,750	29,313	-	69,109
Balance as at March 31, 2010	124,550	148,055	72,143	159,933	63,554	568,235
Accumulated Depreciation						
Balance as at April 1, 2009	7,405	55,304	26,535	91,280	25,422	205,946
Depreciation	3,114	14,686	7,105	32,688	12,710	70,303
Balance as at March 31, 2010	10,519	69,990	33,640	123,968	38,132	276,249
Net Book Value						
As at March 31, 2010	114,031	78,065	38,503	35,965	25,422	291,986

See Auditor's Report - page 34

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2011

8. Accounts Payable

Under the terms of the Ordinance, the Government's share of revenues and any surplus in excess of recurrent expenditure is to be settled to the Government for payment into the consolidated fund. At the year-end, $742,910 (2010: $1,716,308) was due to the Government in this regard.

9. Deferred Income

Projects	Initial Capital Warrant Amounts $	Accumulated Amortisation $	Balance Remaining 2011 $	Balance Remaining 2010 $
No. 2061	72,143	64,382	7,761	12,939
No. 1905	22,833	18,837	3,996	6,279
No. 1902	7,147	6,013	1,134	1,849
No. 2714	24,693	17,642	7,051	8,564
No. 2878	358,746	42,746	316,000	266,000
Total	485,562	149,620	335,942	295,631

Deferred income to be released over the next 12 months will be $72,891 (2010: $9,691). Amounts to be released in over 12 months will be $263,051 (2010: $285,940).

a) Project No. 2061

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

b) Project No. 1905

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

c) Project No. 1902

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

See Auditor's Report - page 34

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2011

9. Deferred Income (continued)

d) Project No. 2714

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

e) Project No. 2878

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

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

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

During the year ended March 31, 2011 the Commission received a Development warrant of $50,000, which they used towards the said project.

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

10. Staff Costs

This can be analysed as follows:

	2011 $	2010 $
Salaries and wages	1,582,782	1,184,003
National Insurance and National Health insurance	44,274	33,758
Allowances	44,580	41,783
Gratuities	78,467	80,906
Pension Contribution	42,413	37,108
Directors' Fees and Expenses	133,210	99,052
	1,925,726	1,476,610

See Auditor's Report - page 34

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2011

11. Travel and Subsistence

This can be analysed as follows:

	2011 $	2010 $
Accommodation and subsistence - local travel	36,925	34,582
Airfares - international travel	13,225	28,690
Accommodation and subsistence - international travel	13,455	18,742
Transport - air and sea fares	12,770	10,661
Transport - other	6,390	8,532
Other cost on international travel	1,981	551
	84,746	101,758

12. Office Expense

This can be analysed as follows:

	2011 $	2010 $
Office supplies	75,817	67,105
Cleaning	-	120
	75,817	67,225

13. Repairs and maintenance

This can be analysed as follows:

	2011 $	2010 $
General property maintenance	41,423	38,960
Maintenance - fixed assets/air conditioning	9,807	7,455
Maintenance of hardware	7,849	5,973
Maintenance of property	5,418	5,212
Maintenance of software	9,247	3,424
Repairs to office equipment	-	1,118
Service of vehicle	1,130	-
	74,874	62,142

See Auditor's Report - page 34

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2011

14. Utility charges

This can be analysed as follows:

	2011 $	2010 $
Electricity charges	47,824	35,212
Water charges	5,856	10,005
	53,680	45,217

15. Communication expense

This can be analysed as follows:

	2011 $	2010 $
Telephone - local cost	25,102	17,180
Line rental	18,165	11,801
Telephone - international cost	8,699	6,387
Internet charges	4,359	5,320
Postage and courier	3,677	2,236
Facsimile - local cost	540	236
Facsimile - international cost	54	91
	60,596	43,251

16. Insurance

This can be analysed as follows:

	2011 $	2010 $
Employee medical	49,411	22,898
Peril insurance	11,693	12,770
Motor vehicle insurance	4,113	2,932
	65,217	38,600

See Auditor's Report - page 34

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2011

17. Subscriptions and Contributions

This can be analysed as follows:

	2011 $	2010 $
Contributions to regional institutions	-	23,339
Subscriptions	819	13,487
Contributions to international institutions	15,491	1,000
	16,310	37,826

18. Other Operating and Administrative Expenses

This can be analysed as follows:

	2011 $	2010 $
Impairment provision	13,752	13,752
Local hosting and entertainment	48,087	20,546
Advertising	79,414	6,613
Bank charges	5,759	4,484
Meetings and Conferences	5,509	-
Other grants and donations	500	-
Other operating expenses	13,520	5,095
	166,541	50,490

FSC held a cash balance of $39,292 with TCI Bank as of March 31, 2010. TCI Bank was under provisional liquidation as of April 9, 2010, and management set up a provision of 70% of the balance based on their estimate of the recoverability thereof.

19. Employee Numbers

The average number of people, both temporary and permanent, employed by the FSC during the year was 49 (2010: 30).

See Auditor's Report - page 34

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2011

20. Related Party Transactions

Included with staff costs is $684,005 (2010: $524,839) relating to salary and allowances for directors and key management employees.

Fees paid to Misick & Stanbrook for legal services were $12,530 (2010: NIL), all transactions occurred at arms length. Misick & Stanbrook are related through FSC board member Gordon Kerr.

During the year, transactions occurred between the FSC and British Caribbean Bank who are related through FSC Board member Sanford Lightbourne. However, because of the nature of the transaction between the FSC and the bank, all transaction occurred at arms length. Licence fees paid by British Caribbean Bank to the FSC in the year amounted to $40,000 (2010: $40,000). Funds held in British Caribbean Bank by the FSC at the year end equaled $1,066,268 (2010: $1,015,353).

21. Commitments and Contingencies

Commitments as at March 31, 2011 consist of Application software as follows:

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

As at March 31, 2011 the FSC also has capital commitments outstanding of $132,846 (2010: Nil), and are committed to pay rental of the office in Caribbean Place amounting to $10,800 (2010: Nil).

See Auditor's Report - page 34

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2011

22. Comparison of Results with Budget

	Actual $	Budget $	Variance $
Revenue			
Gross revenue	7,224,891	6,708,642	516,249
Transfer to TCI Government	(1,472,425)	(2,380,206)	907,781
Share of revenue retained	5,752,466	4,328,436	1,424,030
Release of government grants	9,690	-	9,690
Interest and other income	130,247	42,000	88,247
	5,892,403	4,370,436	1,521,967
Expenditure			
Staff costs	1,925,726	2,332,702	(406,976)
Professional and consultancy fees	366,001	375,000	(8,999)
Rental of buildings	138,936	121,372	17,564
Travel and subsistence	84,746	317,955	(233,209)
Depreciation	73,964	-	73,964
Office expense	75,817	101,100	(25,283)
Repairs and maintenance expense	74,874	266,033	(191,159)
Utility charges	53,680	75,627	(21,947)
Communication expense	60,596	64,526	(3,930)
Insurance	65,217	103,732	(38,515)
Subscriptions and contributions	16,310	66,274	(49,964)
Audit and accounting	42,000	30,000	12,000
Training	57,474	115,800	(58,326)
Security expense	8,282	5,449	2,833
Other operating and administrative expenses	166,541	394,866	(228,325)
	3,210,164	4,370,436	(1,160,272)
Net Surplus	2,682,239	-	2,682,239

See Auditor's Report - page 34