

20 ANNUAL REPORT 16







BERMUDA MONETARY AUTHORITY

Bermuda Monetary Authority (Authority) is the sole regulator of the financial services sector in Bermuda. Established by statute in 1969, the Authority supervises, regulates and inspects financial institutions operating within the jurisdiction.

The Authority develops risk-based financial regulations that it applies to the supervision of Bermuda's insurers, banks, trust companies, investment businesses, investment funds, fund administrators, money service businesses and corporate service providers. It also regulates the Bermuda Stock Exchange and a credit union.

In addition, the Authority issues Bermuda's national currency, manages exchange control transactions, assists other authorities in Bermuda with the detection and prevention of financial crime, and advises Government and public bodies on banking and other financial and monetary matters.

OUR MISSION

To protect and enhance Bermuda's reputation and position as a leading international financial centre, utilising a team of highly skilled professionals acting in the public interest to promote financial stability, safeguard our currency and provide effective and efficient supervision and regulation.

OUR VALUE PROPOSITION

STABILITY

A stable environment in which financial services can flourish.

PREDICTABILITY

Certainty about the Authority's regulatory philosophy and how we will apply our brand of supervision.

REPUTATION

Recognition that Bermuda-based entities are regulated to an internationally recognised standard.

VALUE FOR MONEY

Efficient and effective supervision at a reasonable cost proportionate to risk.

ADAPTABILITY

A framework of regulations that can be adapted to reflect changes in the local and/or global environment.

PRAGMATISM

The ability to make decisions based on what is right for Bermuda while seeking global recognition for our supervisory regime.

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Our commitment

Our contribution in 2016 was to direct resources to supporting the factors that have contributed to Bermuda's success: by maintaining recognition among our jurisdictional peers as a world-class regulatory regime and by emphasising an operational environment that is perceived as favourable by financial institutions.

It is unlikely that we will ever see a year as momentous as 2016. It was a year in which Britons voted in favour of leaving Europe and Americans voted in favour of a President whose policies may yet challenge Bermuda's economic stability.

Taken together, these events have conspired to raise Bermuda's economic threat level to a point that many would describe as unprecedented. But they would be wrong. This is familiar territory for a country and a people that have learned how to thrive in adverse conditions.

Sandwiched between two of the most powerful trading blocs and shaped by years of stiff competition, Bermuda has developed strong survival techniques and one of the most resilient brands in the world, one that keeps talking long after we've left the room.

Given the market's expectations of us, the range of external challenges that lie ahead and the discretionary objectives we have set for ourselves, our reputation will need to be in mint condition if it is to help the Authority deliver on its promises.

These include implementation of an enhanced regulatory regime for commercial (re)insurers, the continued roll out of Basel III measures and preparation for the 2018 Caribbean Financial Action Task Force assessment of Bermuda's AML/ATF

performance. I am pleased to report that we have made considerable progress in each of these areas.

Progress and transition are evident throughout this report, which I encourage you to read. You will find that it provides details on enhancements to supervision in the insurance and BTCSI areas, numerous legislative changes piloted by our team, the beginnings of our promised clampdown on non-compliance with AML/ATF requirements, and the Authority's contributions to Bermuda's financial stability.

However, the pace, scale and complexity of our work have at times presented us with challenges. The Corporate Service Provider licensing regime has been especially challenging while preparation for achieving compliance with AML/ATF standards is quite simply a massive project by any standard. As our ingenuity and resources are tested, we face the ongoing pressing need to ensure we continue to find – and keep – the best people and equip them with the best tools to do their job.

Two senior colleagues left the BMA in 2016, and we decided not to replace them immediately. This was a considered decision, one that reflected well on the Authority's bench strength. When they left the BMA, the leadership team was in



the process of examining its operational infrastructure, to ensure we had the best possible model to take the organisation forward. That work will continue in 2017 as we develop our target operating model.

Demands on regulators have increased dramatically over the past decade and the BMA is leanly resourced compared with its peers around the world. The Authority must continue to be world-class, but this will not be achieved by just adding more people. Apart from anything else, that would not be affordable.

We have thought this through carefully: in order to be the best regulator for Bermuda, we needed to take a close look at ourselves. This meant making sure we had the most effective working model to enable the Authority, on the eve of its 50th year of operation, to be ready to meet the challenges ahead.

By the end of 2016, we had completed our self-study, and developed an implementation plan. We are now prepared to fill the gaps that need filling, and adjust

our infrastructure as required. It has meant a tough few months for the Authority's leadership team, because we had to ensure the good ship BMA forged ahead, business as usual, while we undertook some critical self-examination. In 2017 we will begin moving towards the target operating model developed in consultation with our partners in industry.

The BMA has a great deal of intellect, experience and expertise. Given the specificity of the skills required to do the job of regulator, we are fortunate to have this talent. What we must now do is couple our technology with our talent, equip our professionals with the tools they need to accomplish even more, even better. This means upgraded technology and adjustments to our structure, remembering always that the best technology platform will be its most effective because of the people who work with it.

Notwithstanding the progress – indeed it would be argued that because of our progress – Bermuda is exposed to

competition. Success stories like ours have an unsettling way of getting noticed, and getting copied.

Brands, like the reputations they reflect, are not cast in stone. They are there to be challenged and tested, especially when times are tough and economies and governments are struggling to do more with less. And especially when a particular brand is perceived as having had an unusually successful run.

Some of this is what is driving changes that are occurring outside our ambit. There are the potential game-changing, decision-making processes in which Bermuda does not have a vote. Like the proposal by America's President to slash the corporate tax rate in the US. It's possible that could tilt the balance against the offshore model. Then there's the more complex proposal to apply so-called border adjustment taxes.

These are the discussions we hear that seem to be ramping up perceived threat levels and making some of us nervous.

But we have been here before. It's actually Bermuda's comfort zone! Such is the price of success as an international financial centre that we have grown up with cross hairs on our forehead and a survivor's DNA to match.

For example in 1972, the United Kingdom unilaterally ended its sterling area based exchange control laws, effectively excluding Bermuda from sterling area membership privileges. Bermuda was out on its own and there was considerable fear for its economic stability.

I cannot say we have nothing to worry about. That wouldn't be true. What I can say is that independent studies have indicated that an adjustment tax would decrease the supply of reinsurance and widen the gap between economic losses and insured losses in the US. And this gap is almost certain to fall on the shoulders of the US government as providers of emergency relief.

For our part, I can tell you that regulation and regulators play a critical role in maintaining Bermuda's competitive edge. The Authority is acutely aware of this and of the importance of service standards and how these can impact international business.

Our contribution in 2016 was to direct our resources to supporting the factors that have contributed to Bermuda's success as an international financial centre: by maintaining recognition among our jurisdictional peers as a world-class regulatory regime and by emphasising an operational environment that is perceived as favourable by financial institutions.

My own personal view is that the future is still bright. While it's true that the sky maybe cloudy, it is not falling!



Jeremy Cox
Chief Executive Officer

28th April, 2017

2016 BUSINESS PLAN MILESTONES COMPLETED

INSURANCE

Enhanced regulatory regime for commercial (re)insurers implemented

Supervisory colleges participation continued

Risk-based supervision for insurance managers developed

Mandatory e-filing implemented for Bermuda's captives and SPIs from 2017

BANKING AND ASSET MANAGEMENT

Basel III implementation for Bermuda's banks continued on a phased basis

Development of an AIFMD opt-in regime for Bermuda continued

First CSP licence applications received and processed

OTHER

Preparations for AML/ATF Caribbean Financial Action Task Force (CFATF) assessment of Bermuda continued

EXECUTIVE TEAM



PICTURED FROM LEFT:

Craig Swan

*Managing Director
(Supervision)*

Marcia Woolridge-Allwood

*Acting Managing Director
(Banking, Trust, Corporate
Services & Investment)*

George Pickering

*Senior Advisor (Financial
Stability & Anti-Money
Laundering)*

Jeremy Cox

Chief Executive Officer

Sheridan Smith

*Director (Management Services
& Information Technology)*

Shanna Lespere

Chief Operating Officer

NOT SHOWN:

Shauna MacKenzie

*Director (Policy, Legal,
& Enforcement)*

Our responsibility

Over the years, many of Bermuda's finest financial brains have been engaged in the work of the Bermuda Monetary Authority, as Board members, employees and advisors. The calibre of individuals involved demonstrates the vital role the Authority has to play in protecting the long-term stability of Bermuda.

Today the need for this top talent and collaborative effort is perhaps greater than ever.

Given the size and location of Bermuda, and the nature of the hyper-connectedness of the global economy, most of the biggest risks to Bermuda are outside our control.

International events – such as the UK's decision to leave the EU, changes in leadership in the US, our closest neighbour, as well as political events within our own borders are likely to impact our work significantly. But we cannot be flotsam, waiting for things to happen to us. With apologies to our national motto "quo fata ferunt" (whither the fates will lead us) is simply not an option in this context. While we cannot control these events, we cannot afford to ignore them. Quite the opposite; we must be a regulator for all seasons and in all eventualities.

In order to meet the expected and unexpected challenges that arise from outside the BMA House sphere of influence, we need the ability to react in a measured and thoughtful manner, and to allocate resources flexibly in response to new developments.

From the Board's perspective, this usually means playing both a leadership and support role. We lead by guiding the Authority's strategic direction; we support

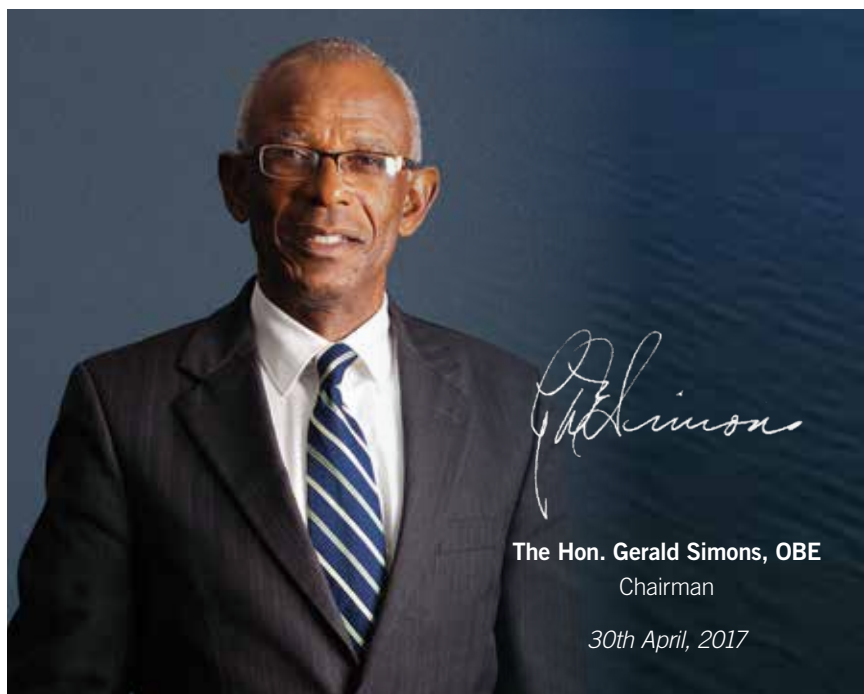
by providing assistance and encouragement to the CEO and his executive team, and ensuring the Authority is financially robust.

To enable the Board to carry out its responsibilities effectively, we remain well informed, both in our capacity as Board members and as members of the Board committees. But that is only part of the story. We also need to ensure that we are an engaged Board, modelling the behaviour and governance we require of others with our own robust processes and infrastructure.

To this end, and as part of ongoing Board governance, a survey of Board members was carried out in late 2016. The response rate was 100%. This survey is being followed up in 2017 with individual interviews with Board members carried out by an independent external organisation.

We began the survey exercise because we wanted to ensure all Board members were provided with a channel to express their satisfaction or dissatisfaction with current processes; we will continue it by probing further and diving deeper to find out how we can improve over time. An interesting aspect of the responses to the survey is that it demonstrates the cognitive diversity of the Authority's Board. Responses are varied and thoughtful, and our reaction to them will be important to future success.

In 2019, the BMA will celebrate its 50th anniversary. That in itself is testimony to how seriously Bermuda has taken and continues to take the business of regulating and supervising its financial services industry. We began well before the intensification of the worldwide regulatory requirements. It is unlikely to slow down any time soon, which means we will continue to need the best financial brains – as Board members, employees and advisors. Thank you all in anticipation of your continuing contributions.



BOARD OF DIRECTORS (AS AT 1ST JANUARY 2017)



PICTURED FROM LEFT:

Tracy Tepper
*Director, Lombard Odier Trust
(Bermuda) Limited (retired)*

Peter Hardy, OBE
*Group Corporate Secretary,
Colonial Group
(retired)*

Sharon Beesley
*CEO, BeesMont
Law Limited*

Allan Marshall
Deputy Chairman

The Hon. Gerald Simons, OBE
Chairman

Walter A. Bell
*Chairman, Swiss Re
America Holdings Corporation
(retired)*

Fiona Luck
*Executive Vice President and
Chief of Staff, XL Capital Ltd.
(retired)*

Jeremy Cox
*Chief Executive Officer,
Bermuda Monetary Authority*

Karel Van Hulle
*Professor at KU Leuven and
Goethe University Frankfurt*

Robin Masters
*Treasurer & Chief Investment
Officer, ACE Limited (retired)*

Michael Leverock
*President, Leverock
Advisors & Associates*

Anne Kast
*Director, Capital G
Investments Ltd.
(retired)*

BOARD COMMITTEES 2017

NON-EXECUTIVE DIRECTORS

Gerald Simons (Chairman)

Allan Marshall (Deputy Chairman)

Sharon Beesley

Walter Bell

Peter Hardy

Anne Kast

Michael Leverock

Fiona Luck

Robin Masters

Tracy Tepper

Karel Van Hulle

- Ensures the Authority is discharging its functions in accordance with the policy objectives and strategy determined by the Board
- Oversees the Authority's internal financial controls
- Determines the remuneration and other terms of service of the Authority's Executive Director.

INVESTMENT

Allan Marshall (Chair)

Anne Kast

Robin Masters

Jeremy Cox

- Responsible for ensuring prudent investment of the Authority's portfolio of assets, in accordance with the requirements of the BMA Act and with the investment policy guidelines that are established by the Board.

AUDIT & RISK MANAGEMENT

Fiona Luck (Chair)

Michael Leverock

Allan Marshall

- Monitors (i) the accounting and financial reporting process of the Authority, including its internal accounting and financial controls, and (ii) the integrity of the Authority's financial statements
- Retains and oversees the independent auditors of the Authority's financial statements and determines their remuneration
- Oversees the Authority's risk management process
- Provides the Board with the results of its monitoring and recommendations, as well as additional information about significant financial matters that require the Board's attention
- Oversees the internal audit function of the Authority.

LEGISLATIVE & POLICY

Tracy Tepper (Chair)

Sharon Beesley

Peter Hardy

Shauna MacKenzie

- Reviews legislative and regulatory priorities, and oversees the agenda for development of legislation related to financial services regulation
- Reviews proposed changes to primary and subsidiary legislation administered by the Authority and submitted by management
- Makes recommendations to the Board on regulatory policy.

CORPORATE GOVERNANCE & ETHICS

Michael Leverock (Chair)

Peter Hardy

Gerald Simons

Jeremy Cox

- Responsible for developing, implementing, and monitoring effective corporate governance principles, policies and procedures
- Oversees the policies and programmes to ensure that the Board, management and staff of the Authority carry out their functions in an ethical manner and apply policies that meet best practice standards for corporate governance.

HUMAN CAPITAL

Gerald Simons (Chair)

Walter Bell

Fiona Luck

Tracy Tepper

- Approves the overall compensation framework for the Authority as well as the individual remuneration levels for Directors and above
- Makes recommendations to the Non-Executive Directors Committee on the terms and conditions of employment of the Chief Executive Officer/Executive Director
- Oversees succession planning
- Oversees the development and implementation of HR policies and programmes.

Regulatory Developments & Framework Enhancement

Anti-Money Laundering/ Anti-Terrorist Financing (AML/ATF)

The Authority continues to develop the regulatory framework to ensure it remains fit for purpose for the entities which operate from Bermuda.

Legislative Amendments and Guidance Notes

The Authority worked closely over the course of 2016 with Bermuda's National Anti-Money Laundering Committee (NAMLC) to strengthen the domicile's AML/ATF legislative framework. In 2016, a number of legislative amendments were introduced to align the national AML/ATF legislative framework with Financial Action Task Force (FATF) standards and international best practices. Further amendments to Bermuda's AML/ATF legislative framework will be required and this work will continue into 2017.

The Authority revised and published its AML/ATF General Guidance Notes for the regulated financial sector. It also published, for the first time, specific AML/ATF Guidance Notes for the trust and insurance sectors to address sector-specific needs. AML/ATF Sector Guidance Notes for Investment Managers, Corporate Service Providers and Money Service Businesses will be finalised in 2017.

National Risk Assessment and Self-Assessment Exercise

As a member of NAMLC, the Authority assisted with the completion of the 2013 National Risk Assessment (NRA)

exercise. While provisional output from the NRA directly informed the Authority's 2016 supervision strategy, updated financial sector data was also required to strengthen its risk-based framework. To this end, the Authority completed a substantive data call exercise in 2016 and will analyse this data in 2017. The results of this analysis will substantially inform the planned 2017 NRA, enable the Authority to refine its existing financial sector risk assessment, and enhance the Authority's risk-based approach to supervision.

Stakeholder Engagement

In addition to cooperating on NAMLC's supervisory and operational working group committees, the Authority increased its collaboration with other competent domestic authorities and agencies by continuing its quarterly meetings with the Financial Intelligence Agency, Bermuda Police Force and the AML/ATF supervisor for Bermuda's Barristers and Accountants. These relationships will be formalised in 2017 with the introduction of Memorandums of Understanding (MoUs) between the organisations. Additional MoUs with other domestic competent authorities will be considered as appropriate.

Banking, Trust, Corporate Services & Investment Developments

BANKING

Basel III

In 2016, transitional implementation of Basel III capital standards for the sector continued, including new minimum requirements for Common Equity Tier 1 (CET1). All banks were required to hold additional capital in the form of a Capital Conservation Buffer (CCB). The phased-in CCB for 2016 was 0.63% for all banks (which will ultimately rise to 2.5% by 2019). On the liquidity front, the phasing-in of the Liquidity Coverage Ratio (LCR) component resulted in the requirement increasing from 60% to 70%. In Q4-2016, the Authority issued its first round of quantitative impact studies related to the implementation of Basel's net stable funding ratio in 2018. The expected amendments to the standardised approach to credit risk did not come to fruition during 2016, as the Basel Committee delayed the publication of the final rule and conducted a second round of consultation with industry.

TRUST AND CORPORATE SERVICE PROVIDERS (TCSP)

The Authority continued to participate on the Group of International Finance Centre Supervisor's (GIFCS) working group which focuses on TCSP initiatives. A Multilateral Memorandum of Understanding (MMoU) for the exchange of information, cooperation and consultation between members of GIFCS was developed in 2016. The MMoU is expected to be finalised and signed in 2017. During 2016, the working group also focused on developing a framework for TCSP colleges and an evaluation process that tests member jurisdictions for compliance with the new standard on the regulation of TCSPs, introduced in 2014. These working group initiatives are expected to be implemented in 2017.

Corporate Service Providers (CSPs)

The Authority launched Bermuda's CSP regime in July 2016, with an application deadline of 1st October 2016 for those entities already conducting CSP business. The Authority continues to review the applications submitted for compliance with the legislation, code and guidance posted, and expects to license qualified applicants throughout 2017.

INVESTMENT

Alternative Investment Fund Managers Directive (AIFMD)

The Authority continued its efforts to develop an appropriate opt-in regime for Bermuda Alternative Investment Fund Managers (AIFM) with a view to securing a third-country passport for such AIFMs, pursuant to the European Union's (EU) Alternative Investment Fund Managers Directive (AIFMD). During the assessment of Bermuda, the Authority maintained regular contact with the European Securities and Markets Authority (ESMA). Specific actions undertaken during the year included:

- Revisions to draft AIFMD Rules in response to consultation ending January 2016
- Submission of complete package of assessment-related information to ESMA on 31st March
- Investment Business Amendment Act 2015 brought into force on 8th July
- Investment Funds Amendment Act 2016 (which made enhancements to the Authority's enforcement powers in respect of investment funds) received assent on 14th July 2016.

On 18th July, ESMA published its opinion and advice regarding all 12 non-EU countries assessed for possible extension of the AIFMD passport. The criteria against which the regimes were assessed included:

- Investor protection
- Market disruption
- Obstacles to competition
- Monitoring of systemic risk
- Effectiveness of enforcement.

In Bermuda's case, ESMA advised that there were "no significant obstacles regarding competition, market disruption and the monitoring of systemic risk impeding the application of the AIFMD passport" to Bermuda, but that no definitive advice could be provided with respect to:

- Investor protection considerations, until the final version of the AIFMD-like regime is implemented; and
- Effectiveness of enforcement provisions, until a review of recently adopted enhancements (Investment Funds Amendment Act) was complete.

The Authority remains committed to completing the process of developing a Bermuda AIFM regime, notwithstanding the fact that the EU authorities have not identified a timeline for concluding outstanding third-country assessments, or for possible extension of the AIFMD passport to any third-countries.

Investment Funds Act/Investment Business Act Review

The Authority continued to review its existing regimes for investment funds and investment businesses, with a particular focus on peer analysis and observance levels in respect of evolving standards.

MONEY SERVICE BUSINESS (MSB)

The Money Service Business Act 2016 was passed by Parliament in 2016, effective 31st January 2017. The Act removes the regulation of MSBs from

the Bermuda Monetary Authority Act 1969 and creates a stand-alone Act for this sector. Additionally, this legislation includes power for the Minister of Finance, after consultation with the Authority, to amend the list of activities

in which MSBs are allowed to engage by adding services that the Minister deems appropriate, as and when the need arises.

Insurance

Implementation of Enhanced Commercial Regime

Having built an enhanced regulatory framework for commercial (re)insurers in 2015, the Authority's focus in 2016 shifted towards implementation of the new regime. This involved engaging with registrants to ensure awareness of the Head Office, public disclosure, and outsourcing provision requirements. The Authority held workshops for market participants on these areas.

As part of the regime changes, Bermuda insurance groups, Class 4, Class 3B, 3A general business and Class C, D and E Long-Term (life) (re)insurers were required to participate in an Economic Balance Sheet (EBS) trial run. This enabled registrants and Authority to test preparedness under the new regime. As a result of data collected during the trial run, the Authority engaged with industry on additional enhancements needed for the Bermuda Capital and Solvency Return (BSCR).

Insurance Managers

Given the vital gatekeeper role they play in the Bermuda market, the Authority

sharpened its focus on supervision and regulation of financial services intermediaries, including Insurance Managers. In August 2016, the Authority issued an Insurance Manager Code of Conduct (Code) as part of its risk-based supervisory framework for Insurance Managers. The Code establishes duties, requirements and standards for insurance managers. The Authority will be performing risk-based on-site inspections of insurance managers from Q2-2017.

Electronic Statutory Financial Return (e-SFR)

The Authority fulfilled its commitment to launch an e-SFR system in April 2016. E-SFR combines elements of the former captive market report, which gathered data via separate data-calls and surveys, with the pre-existing annual filing submission.

The launch of the e-SFR system improved the Authority's ability to analyse and compile key statistical data for Bermuda's Limited Purpose Insurers – Classes 1, 2, 3, A, B and Special Purpose Insurers (SPIs).

Following a trial run completed in December 2015, the Authority carried out extensive in-house user testing and in Q1-2016, implemented enhancements to the system that incorporated industry feedback.

Given the effort required to transition to a new filing system with additional reporting requirements, the Authority did not make electronic filings mandatory until the financial year ending 31st December 2016.

During Q4-2016, the focus was on user training. Multiple industry training sessions, live demonstrations of system functionality and an in-depth look at the new requirements were provided. The Authority also received its first electronic submissions in Q4. With the detailed information now beginning to be provided, the Authority aims to resume production of its Captive Market Report following receipt and analysis of the 31st December 2016 financial year-end submissions.

Financial Stability

During 2016, the Authority continued to solidify a foundational financial stability framework for Bermuda. This involved continued efforts to strengthen risk identification efforts and analysis while further examining linkages between emerging risks for the jurisdiction. Initiatives to enhance the Authority's analytical reach continued to progress

and resulted in renewed relationships with various government bodies to help tackle gaps within historical data sets.

In conjunction with the Financial Stability Committee, the dynamic landscape of risk was periodically monitored and evaluated through a formalised risk register. Any rating migrations between the various risk categories were monitored and

discussed by representatives of the Financial Stability Committee and action recommendations were proposed by the Financial Policy Council.

In 2016, the Authority also continued to produce various risk-related external reports such as the Coordinated Portfolio Investment Survey (CPIS) and Catastrophe Risk Report. The latter

provided analysis around the level of resilience of Bermuda's reinsurance industry to catastrophic events. The CPIS report, produced in conjunction with the International Monetary Fund,

comprises information on economies' cross-border investment holdings and quantifies the relationship of Bermuda's economy with the rest of the world as it relates to securities investment.

International Participation

The Authority's credibility as a leading risk-based supervisor makes it influential on the international regulatory front. In this context, the Authority remained active internationally in 2016 by maintaining positions on key committees within

international regulatory organisations such as the International Association of Insurance Supervisors (IAIS), four meetings of which were conducted by the Authority in Bermuda during the year. The Authority Chairs the IAIS

Reinsurance Task Force and the Self-Assessment Peer Review of Insurance Core Principles 13 & 24 Expert Group and Vice Chairs the Core Curriculum Task Force.

HIGHLIGHTS OF INTERNATIONAL PARTICIPATION FOR 2016

INSURANCE

IAIS Participation

- Capital Solvency and Field Testing Group in Washington, DC in January, in Basel in February, in Tokyo in April, in Ottawa in May, in Basel in September, October and November and in Miami in December
- Macprudential Working Group in Bermuda in February, in Lichtenstein in June, Basel in September and Washington, DC in December
- Supervisory Forum in Basel in July
- Self-Assessment Peer Review of Insurance Core Principles 13 & 24 Expert Group meeting in Bermuda in March and in Washington, DC in July
- Joint World Bank/IAIS Index-Based Insurance Working Group in Bermuda in March
- Financial Crime Task Force in Washington, DC in August
- Insurance Groups Working Group in Paris, France in August
- Reinsurance Task Force in Bermuda in September
- Committee Meetings in Budapest, Hungary in June
- Coordination Group in Asuncion, Paraguay in November
- Working Party Chairs of the Financial Stability and Technical Committee in Budapest in June and in Asuncion in November
- Committee Meetings, Annual General Meeting and Annual Conference in Asuncion in November

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS (NAIC)

- NAIC Spring Meeting in New Orleans in April
- NAIC International Insurance Forum and meeting with NAIC's Securities Valuation Office (SVO) in Washington, DC in May
- NAIC Summer Meeting in San Diego in August
- Bilateral Meeting in Bermuda in November
- NAIC Fall Meeting in Miami, Florida in December

FINANCIAL STABILITY BOARD (FSB)

- FSB Regional Consultative Group for the Americas (RCGA) Meeting in May in Montreal, Canada
 - FSB RCGA Shadow Banking Working Group Meeting in Bogota, Colombia in October
 - FSB RCGA Meeting in Nassau, Bahamas in December
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OTHER

- Met with UN's Office for Disaster Risk Reduction in London in February to discuss Bermuda's involvement in the implementation of the Sendai Framework for Disaster Risk Reduction
- Met with European Insurance Supervisory Authorities, including Autorité des Marchés Financiers (French), Finansinspektionen (Swedish), BaFin (German), Direccion General de Seguros (Spanish), as well as the European Insurance and Occupational Pensions Authority (EIOPA) and various regional insurance lobbying groups in March
- Group of International Insurance Supervisors' Annual Meeting in London in June
- EIOPA Workshop in Frankfurt, Germany in September
- EIOPA Annual Conference and EU/US Dialogue in Frankfurt, Germany in October

PRESENTATION, SEMINARS AND DELIVERY OF TECHNICAL TRAINING

- Took part in a roundtable discussion on reinsurance at the Asociación de Supervisores de Seguros de Latinoamérica (ASSAL) Annual Conference in Rio de Janeiro in April
- Took part in a Regulator's roundtable at the 4th Annual Advanced Forum on Captive Insurance in New York City in May
- In May, participated in a roundtable on captive insurance regulation at the Alternative Conference Institute's Captive Forum in New York City
- Delivered two seminars and led a case study at the Financial Stability Institute's (FSI) Regional Seminar for Insurance Supervisors in Panama City in May
- Took part in a Regulator's Roundtable at the 12th National Forum on Insurance Regulation in New York City in July
- Took part in a Regulator's Roundtable at the 14th 'Advanced Forum on Cyber & Data Risk Insurance' in San Francisco in November

BANKING

- Licensee review/regulatory meetings in London, England and Guernsey
- Supervisory Colleges: attended one in London, England
- GIFCS Meetings in London and Santiago, Chile
- Hosted one Supervisory College
- Caribbean Group of Banking Supervisors Annual Meeting in Kingston, Jamaica in May
- Santiago International Congress of Banking Supervisors (ICBS), Santiago, in November

INVESTMENT

- International Organisation of Securities Commissions (IOSCO) Annual Conference in Lima, Peru
- IOSCO AMCC Regulatory Seminar in Chicago
- Inter-American Regional Group in Lima
- Growth and Emerging Market Committee in Lima

TRUST AND COMPANY SERVICE PROVIDERS (TCSP)

- Group International Finance Centre Supervisors (GIFCS) TCPS working Group Meeting in New York

FINANCIAL ACTION TASK FORCE (FATF)

- FATF Plenary in Paris in February
 - FATF Plenary in South Korea in June
 - FATF Plenary in Paris in October
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Legislative Developments

The Authority focused on legislative amendments to position Bermuda to meet international standards and domestic needs.

Insurance Act 1978

During the first quarter of 2016, the Authority consulted industry on proposals to develop a regime for Insurance Managers by amending the Insurance Act 1978. Changes included:

- A prudential rule to be made in relation to Insurance Manager annual filing requirements
- Insurance Managers to be required to file an annual return
- Introduction of an application fee to modify or be exempted from requirements arising under any prudential rule applicable to Insurance Managers
- Insurance Managers to notify the Authority with respect to changes to officers and shareholder controllers
- Insurance Managers to have in place professional indemnity cover relative to the nature, scale and complexity of their business
- Imposition of civil penalties
- Authority to appoint a person to investigate the affairs of an Insurance Manager.

The Insurance Amendment Bill 2016 was approved by the Legislature on 21st July.

Money Service Business Act 2016

On 21st July, the Money Services Business Bill 2016 was passed by the Legislature, becoming operative on 31st January 2017. Two additional legislative instruments required to implement the MSB regime, an “Exemption Order” and “Appeals Tribunal Regulations” are being progressed by the Ministry of Finance and Attorney General’s Chambers.

Investment Funds Act 2006 (the IFA)

On 14th July, the Legislature approved amendments to the IFA granting the Authority enhanced supervisory enforcement powers. Similar amendments were approved in 2012 under the Insurance Act 1978, Banks and Deposit Companies Act 1999, Investment Business Act 2003 and Trusts (Regulation of Trust Business) Act 2001. This enforcement capability is crucial for the Authority’s regulatory framework to continue to be effective and meet international standards. The IFA amendments took effect on 28th October.

Insurance (Prudential Standards) Amendment Rules 2016

In the final quarter of 2016, the Authority gazetted a number of technical Rules:

- Insurance (Group Supervision) Amendment Rules (No.3) 2016
- Insurance (Prudential Standards) (Class 3A Solvency Requirement) Amendment (No. 3) Rules 2016
- Insurance (Prudential Standards) (Class 4 and Class 3B Solvency Requirement) Amendment (No.3) Rules 2016
- Insurance (Prudential Standards) (Class C, Class D and Class E Solvency Requirement) Amendment (No. 3) Rules 2016
- Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Amendment (No. 3) Rules 2016.

The Authority also finalised the Insurance (Prudential Standard) (Insurance Manager) Return.

Bermuda Monetary Authority (Determination of Appeals) Act 2016

The Authority sought to regularise certain appeals provisions arising under the Insurance Act 1978, Banks and Deposit Companies Act 1999, Trusts (Regulation of Trust Business) Act 2001, Investment Business Act 2003, Investment Funds Act 2006, and Corporate Service Provider Business Act 2012. Under the current “Determination of Appeals” sections of the Acts, several of the rights of appeal that arise under the relevant “Rights of Appeals” sections were inadvertently omitted.

Other Legislative Matters

- The Authority liaised with the Ministry of Finance to request for section 10 “Banking Liaison Panel” under the Banking Special Resolution Regime Act 2016 (Act) to come into force so that the Minister of Finance could appoint the Liaison Panel. The panel will comprise industry, Authority and Government to advise the Minister on matters arising under the Act, including creation of a Code of Practice
- The remaining provisions of the Corporate Service Provider Business Act 2012 came into force on 29th June
- Following a request from the Authority, a notice was published by the Minister of Finance on 19th July extending the transitional period under the Corporate Service Provider Business Act 2012 and giving CSPs an additional four months to submit licensing applications
- The Insurance Accounts Rules 2016 came into force on 3rd March.

Supervision & Licensing

The Authority supervises Bermuda's insurers, banks, trust companies, investment businesses (including funds and fund administrators), money service businesses, corporate service providers, as well as a stock exchange and a credit union.

Banking Supervision

ENHANCED REPORTING AND MONITORING

Enhanced monitoring of exposure management in the banking sector continued throughout 2016. All licensees provide regular monthly reports on their respective portfolios which are then discussed with them to determine any developments in the quality or risk structure of the entity's balance sheet.

Asset Quality

Despite continued weak but improving economic conditions, banking sector credit portfolios are showing marginal signs of recovery. In 2016, the industry's Non-Performing Loans (NPLs) fell approximately 17% to a year-end total of roughly \$717.0 million, representing 8% of gross loans. Banks have also continued to maintain a risk-averse strategy towards credit expansion as evidenced in the decline in outstanding loans. As the banks seek to secure income from safer products, there continues to be a preference for other balance sheet exposures considered to be safer. These include investments in sovereign-related debt instruments with credit risk-weighted assets registering a 6% decrease in 2016.

Balance Sheet

On a consolidated basis, total industry assets decreased 6% or \$1.4 billion, for a year-end total of \$22.7 billion. Driving this

change were loans, investments, cash and deposits, and other assets which registered declines of 3%, 8%, 6% and 2% respectively. In terms of balance sheet structure, investments retained the biggest share of total assets at 42% (43% in 2015) followed by loans at 39% (38% in 2015) with the remaining comprised of cash and deposits at 16% (16% in 2015) and other assets at 3% (3% in 2015).

Deposit liabilities fell \$1.1 billion – or 5% between the 2015 and 2016 year-ends – for a final total of \$20.2 billion. Demand and time deposits declined 9% and 6% respectively but were offset by a 2% growth in savings deposits. At the end of 2016, the largest component of deposit liabilities was demand deposits at 52% (55% in 2015) followed by savings deposits at 33% (30% in 2015) and time deposits at 15% (15% in 2015).

Other liabilities of \$572.0 million remained relatively stable year-on-year with this figure representing a \$9.0 million or 1.6% decrease.

Earnings and Profitability

2016 total income for the sector of \$795.0 million represented a \$34.0 million or 4% increase over 2015. Non-interest operating expenses registered a \$4.0 million or 0.7% decline for a total 2016 figure of \$532.0 million.

Net-Interest Income (NII) continued to be the largest component of the sector's income streams with a 2016 NII of \$515.0

million comprising 65% (64% in 2015) of total income for the year. This was followed by banking income at 17% (19% in 2015), non-banking income also at 17% (16% in 2015) and dividends/other income accounting for the remaining 1% (1% in 2015). Staff related expenses continue to comprise the largest portion of operating expenses at 51% (53% in 2015).

As a result of these movements, the sector's overall profitability increased \$57.0 million or 33% over 2015.

Capital Adequacy

Capital adequacy in the Bermuda banking sector, as measured by the Risk Asset Ratio (RAR), consistently exceeded minimum requirements. RAR for the sector was 20.4% at the end of the year compared with 21.3% at the end of 2015. Aggregated Common Equity Tier 1 Capital (CET 1) was 18.6% which exceeded the current minimum requirements. For the Basel III leverage ratio the industry aggregate was 7.2% versus the 5% minimum standard.

Risk-weighted assets for the 2016 year-end of \$8.9 billion represented a \$1.5 billion or 14.7% decline.

CREDIT UNION SUPERVISION

The Bermuda Industrial Union Credit Union is currently the sole credit union in Bermuda. The Authority continued its ongoing supervision of this entity throughout 2016 in accordance with the provision of the Credit Union Act 2010.

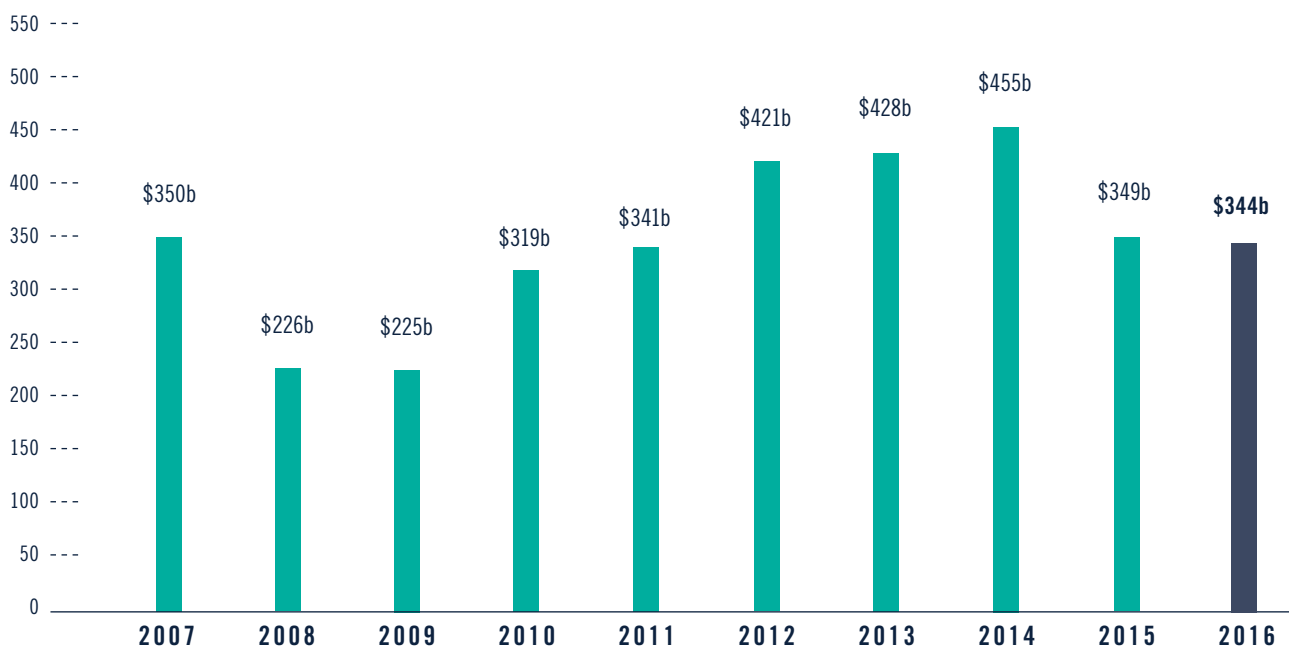
BERMUDA STOCK EXCHANGE (BSX)

The BSX ended the year with total market capitalisation of \$343.8 billion, of which approximately \$2.5 billion represented the domestic market. Total trading volume for 2016 was 8.2 million shares with a corresponding value of \$48.6 million, compared with 6.3 million shares and a corresponding value of \$22.9 million for 2015.

The RG/BSX Index closed the year at 1,923.79 for an increase of 47.52% over 2015.

In 2016, growth in new security listings across most sectors included a record 61 new Insurance Linked Securities (ILS) listings with a capitalisation value of \$6.157 billion. International debt listing activity was particularly strong, increasing from 55 to 116 listed securities. De-listings included a number of ILS vehicles, international debt structures and Butterfield's 8% preferred share class, all of which matured as part of the normal course of business.

BERMUDA STOCK EXCHANGE – MARKET CAPITALISATION (US\$ BLN)



Insurance Supervision

OVERVIEW – MARKET RESULTS

The Authority's reputation as a leading risk-based regulator continues to influence companies to select Bermuda as their jurisdiction of choice, with six new groups registered in 2016. The Authority acts as group supervisor when the primary operations of a (re)insurance group structure are controlled and managed from Bermuda. A total of 59 new insurance entities registered, 42 new (re)insurers and 17 new intermediaries. Special Purpose Insurers (SPIs) comprised around 40% (17 companies) of the new (re)insurers. General business captives accounted for a further 30% of the new (re)insurers (12 companies) with Class 1, Class 2 and Class 3 adding four companies each.

GROUP SUPERVISION

A range of supervisory activities in relation to insurance groups took place during 2016. The Authority conducted 11 group on-site reviews and 15 supervisory colleges covering groups for which the Authority is group supervisor. In addition, the Authority was host supervisor for a further 10 colleges. During the colleges, the Authority presented and received detailed analyses, and coordinated supervisory plans with overseas regulators for insurance groups with Bermuda-related operations. Work continued to establish Memoranda of Understanding (MOUs) with relevant jurisdictions in relation to group supervisory colleges.

INSURANCE-LINKED SECURITIES

Bermuda remained the leading jurisdiction for the issuance of catastrophe (cat) bonds in 2016, with Insurance-Linked Securities (ILS) issued from Bermuda representing 71.1% (\$19.2 billion of \$26.9 billion) of global outstanding ILS capacity.

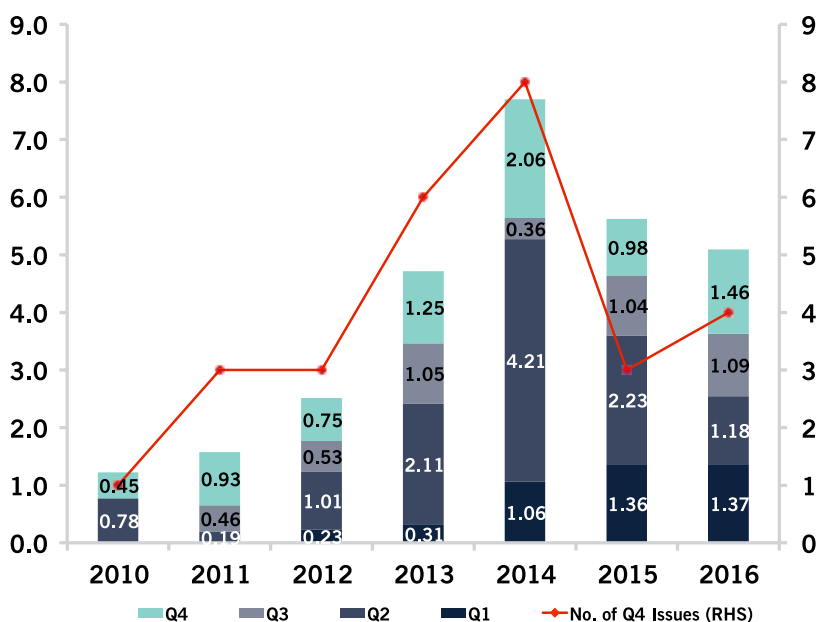
Since 2010, Bermuda-based Special Purpose Insurers (SPIs) have issued 149 ILS bonds while 174 SPIs have been registered. Bermuda is also host to foreign ILS listings which augment the depth of the secondary market. At the end of 2016, there were 84 ILS deals (124 tranches) listed on the BSX with an aggregate nominal value of \$20.1 billion.

Annual ILS issuance contracted for a second consecutive year during 2016. Global ILS issuance fell 10.9% to \$7.0 billion (\$7.9 billion in 2015) for the year while there was also a decrease in the number of deals completed. There were 38 transactions during the year (compared with 48 in 2015) with an average deal size of \$185.5 million (\$164.7 million in 2015).

Indemnity triggers continued to account for more than half the outstanding volume of ILS deals. ILS with an indemnity trigger represented 61.6% (\$16.6 billion of \$26.9 billion) of the total outstanding volume of the ILS market at the end of the year. This was followed by the industry loss index trigger type which accounted for 25.7% (\$6.9 billion) of the outstanding volume. In 2016, 66% of the issued deal volume (\$4.7 billion of \$7.0 billion) used indemnity triggers, while 28.7% used an industry loss index trigger type.

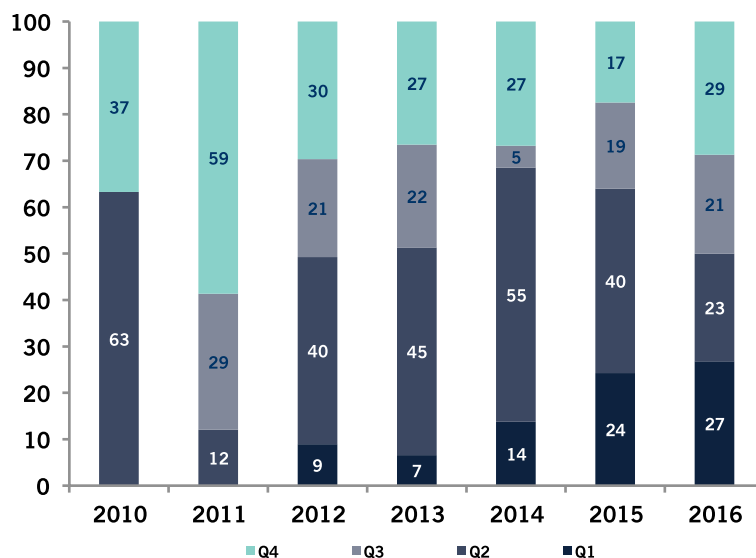
Domestic ILS issuance was down 9.5% to \$5.1 billion (\$5.6 billion in 2015) from 30 ILS deals completed during the year (38 in 2015). The average deal size during 2016 was \$169.7 million (compared to \$156.2 million in 2015).

QUARTERLY ILS ISSUANCE BY VOLUME AND NUMBER OF DEALS (IN US\$ BLN) – BERMUDA ONLY



Source: Artemis and BMA staff calculations.

QUARTERLY BREAKDOWN OF BERMUDA-ISSUED DEALS (DEAL VOLUME) 2010-2016 (IN %)



Source: Artemis and BMA staff calculations.

Anti-Money Laundering/Anti-Terrorist Financing (AML/ATF) Supervision

The Authority is responsible for supervising more than 1,320 firms for AML/ATF purposes. As international standards continued to be strengthened, the Authority continued to refine its financial sector risk assessment framework and develop its risk-based approach to supervision to include:

- Proactive supervision of the largest firms across each sector
- Enhancements to its risk-based methodology using data and analysis gathered during on-site and off-site examinations
- Enhancements to the risk-based supervisory cycle using a variety of supervisory tools
- Thematic work that focuses on risks and issues affecting multiple firms or a sector as a whole.

In 2016, the provisional output from the NRA in conjunction with other risk indicators informed the supervisory focus on the banking, corporate service provider and Long-Term (life) insurance

sectors. The Authority conducted 140 off-site reviews and 15 supervisory on-site examinations at regulated financial institutions across all financial sectors. The Authority conducted on-site examinations of three banks and closely monitored remediation of a fourth bank. The Authority also introduced close and continuous supervision by establishing regular supervisory meetings with the banking sector and held meetings with other industry groups during 2016.

The Authority conducted three on-site examinations in the insurance sector and one on-site at an Insurance Manager. This activity was supplemented by off-site reviews of nine Long-Term insurers and ongoing remediation programmes covering five Long-Term insurers based on prior on-site exams.

In the investment and fund sectors, on-site examinations were conducted at two Fund Administrators and one Investment Business with ongoing remediation continuing for a second Investment Business.

Ongoing remediation continued with four Trust companies based on previous on-site examinations, while quarterly desk-based reviews were carried out for the money service business sector. Additionally, the Authority reviewed eight applications for licensing and authorisation purposes and conducted 22 desk-based reviews of Non-Licensed Person (NLP) applications.

To meet its 2016 supervisory objectives, the Authority expanded its supervisory capabilities by selectively using professional third parties to supplement its on-site and off-site activities.

Corporate Service Provider Licensing Regime

Pursuant to the Corporate Service Provider Business Act 2012 and the issue of a corporate governance policy for Corporate Service Providers (CSPs) in Q1-2016, the Authority began the process in Q3-2016 of licensing CSPs. Whilst the CSP licensing process for 98 applications has proved to be more resource-intensive than expected, the Authority remains

committed to completing the process in 2017. Post-licensing, the Authority will use relevant data from the licensing process to implement an appropriate risk-based supervision strategy.

Upcoming CFATF 4th Round Mutual Evaluation Review

As a member of the Caribbean Financial Action Task Force (CFATF), Bermuda will be subject to a CFATF 4th round Mutual Evaluation Review (MER) in 2018. Given

the importance of the mutual evaluation to Bermuda, in 2016 the Authority worked with the National Anti-Money Laundering Committee (NAMLC) to benchmark the Authority's AML/ATF framework against the CFATF methodology, and this process will continue throughout 2017.

During the year, the Authority actively participated in a NAMLC-sponsored national self-assessment exercise designed to evaluate the effectiveness of the country's MER preparation and

identify what further action was required by the Authority and other participating national agencies in order to optimise their AML/ATF frameworks. The output from this self-assessment exercise will continue to inform the Authority's AML/ATF work plan into 2017 and will position the Authority to address the requirements of the CFATF evaluation in 2018.

Enforcement Activity

In 2016, enforcement activity increased across all financial sectors. The Authority issued decision notices to five different licensed entities. Of these, two licensed entities lodged an appeal.

Large, unpublished civil penalties were imposed on two licensed entities under the Proceeds of Crime (Anti-Money Laundering & Terrorist Financing Supervision & Enforcement) Act 2008 for serious and systemic breaches of AML/ATF obligations. The Authority imposed a civil penalty on one entity under the Investment Business Act 2003 and this decision was published (see Barrington Investments Limited below). The Authority determined to revoke the licence of one entity under the Investment Business Act 2003 and the matter is currently under appeal. The Authority also determined to restrict the licence of a Trust Company under the Trusts (Regulation of Trust Business) Act 2001, and the matter is also subject to appeal.

In March 2016, CEO Jeremy Cox announced a pivotal change of policy in relation to enforcement decisions, saying: "Until now, the Authority has chosen to limit publicly disclosed details of enforcement actions to a fairly brief

notification in its Annual Report. But from 2016 onwards, the Authority will publish details of any use of its enforcement powers. Such publicity will be in the form of a press release issued by the Authority following conclusion of any appeal or after expiry of an appeal period. The release will detail the nature of the enforcement action, the size of any penalty, the identity of the entity or person involved and the circumstances of the breach. Details will also be included in the Annual Report and on the Authority's website." Mr. Cox added that this increased transparency was critical to the reputation of the jurisdiction "and is intended to demonstrate to those who rely on our supervisory adjudications that their trust is not misplaced and that Bermuda-based entities found to be deficient in meeting their obligations run the risk of being required to account publicly for their actions."

In line with that policy, the Authority published an enforcement decision in the case of Barrington Investments Limited where a \$50,000 civil penalty was imposed for serious breaches of the Minimum Criteria for Licensing in the Investment Business Act 2003 relating to corporate governance. The company's licence was restricted preventing it from

taking on new business until matters were rectified.

In late 2016, following an investigation the Authority issued formal directions to the institution under the Insurance Act 1978.

In a ground-breaking judgement, the Insurance Appeal Tribunal upheld the Authority's decision to impose a civil penalty of \$100,000 for breaches of the Insurance Act 1978.

Throughout the year, the Authority continued to use its regulatory oversight to ensure that less significant failures in good governance and proper practice were rectified and several default fines were imposed for non-payment of the Annual Business Fee (totalling \$105,341).

Work to streamline procedures commenced with amendments to the current Statement of Principles on the Use of Enforcement Powers, and the Authority's website now publishes enforcement decisions.

A new Chief Enforcement Officer, Garrett Byrne commenced work at the Authority in early 2016.

SUMMARY OF SUPERVISORY ACTIVITY ACROSS SECTORS FOR 2016

SECTOR	FOCUS OF SUPERVISORY ACTIVITY	SUPERVISORY ACTIVITY
ALL SECTORS: ANTI-MONEY LAUNDERING/ ANTI-TERRORIST FINANCING (AML/ATF)	<ul style="list-style-type: none"> • Risk-based approach to AML/ATF supervision underpinned by the output of the National Risk Assessment • Compliance of AML/ATF regulated entities assessed under the AML legislation • Held regular supervisory meetings with the banking sector, other financial sectors and industry groups • Expanded supervisory activities by using professional third parties to supplement on-/off-site activities • Enacted legislative requirement for compulsory annual filing for licensed Long-Term (life) insurers • Ongoing remediation programs across a number of regulated financial institutions 	<p>Examinations guided by the risk-based approach included:</p> <ul style="list-style-type: none"> • 14 on-site examinations <ul style="list-style-type: none"> - Four Banks - One Money Service Business - One Insurance Manager - Four Long-Term insurers - Two Fund Administrators - One Investment Business - One Trust Company • 154 off-site reviews including: <ul style="list-style-type: none"> - 69 Non-Licensed Persons - 75 applications for Corporate Service Provider licenses - 10 licensing applications • 11 regulated entities under remediation
BANKING	Pillar II supervisory reviews of all licensed banks based on their submission of capital assessment and risk profile reports	<ul style="list-style-type: none"> • Two on-site reviews • 12 prudential meetings • Six strategy meetings • Five risk compliance and internal audit meetings • One supervisory college attended • One supervisory college hosted
CREDIT UNION	Reviews/prudential meetings assessing compliance with the requirements of the legislation	Ongoing
FUND ADMINISTRATOR	On-site inspections focused on corporate governance, enterprise risk, and compliance with the Investment Funds Act 2006, and the Code of Conduct for Fund Administrators	Four on-site reviews
INSURANCE	<ul style="list-style-type: none"> • Commercial: on-site inspections focused on risk management, corporate governance and capital adequacy • Captive: supervision continued 	<ul style="list-style-type: none"> • 11 group on-sites • 20 solo on-sites • 15 supervisory colleges as group supervisor • 10 colleges as host supervisor
INVESTMENT BUSINESS	<ul style="list-style-type: none"> • On-site inspections focused on corporate governance, enterprise risk, and compliance with the Investment Business Act 2003, General Business Conduct and Practice – Code of Conduct, and Advertising Code of Conduct • Assessing the ongoing financial viability of the firms 	<ul style="list-style-type: none"> • 13 on-site reviews • One post-licensing follow up meeting
MONEY SERVICE BUSINESS	Reviews/prudential meetings assessing compliance with the requirements of the legislation	Ongoing
STOCK EXCHANGES	Stock exchanges are financial institutions within the meaning of the Bermuda Monetary Act 1969 and are subject to supervision, regulation and inspection	Two strategy meetings
TRUST	On-site inspections focused on corporate governance, enterprise risk and compliance with the Trusts (Regulation of Trust Business) Act 2001 and the Code of Practice	Two on-site reviews

FORMAL USE OF POWERS

BANKING AND DEPOSIT COMPANIES ACT 1999

SECTION	PROVISION	USE IN 2016
35	To vet licensed institutions who give written notice to the Authority when a person becomes a director or senior executive	41 notifications received; Authority conducted the appropriate vetting

INVESTMENT BUSINESS ACT 2003

SECTION	PROVISION	USE IN 2016
28	Notification of new or increased control	No notifications received
43	Notification of change of controller or officer	42 notifications received; Authority conducted the appropriate vetting
56	Warning notices	Two notices issued
57	Decision notices	Two notices issued

INVESTMENT FUNDS ACT 2006

SECTION	PROVISION	USE IN 2016
45A	Notification of new or increased control	Four notifications received; no objections provided
46	Notification of change of director, senior executive and controller	12 notifications received; Authority conducted the appropriate vetting

TRUSTS (REGULATION OF TRUST BUSINESS) ACT 2001

SECTION	PROVISION	USE IN 2016
24	Notification of new or increased control	Two notifications received; no objections provided
15 (1)(a)	Decision notices	One notice issued
34	Notification of change of controller or officer	19 notifications received; Authority conducted the appropriate vetting

Licensing

The Authority reviewed 71 applications in 2016, 67 of them insurance related and four trust and investment related.

Insurance applications

Of the 67 insurance-related applications, 56 were approved, six were withdrawn, and five were deferred. Of the successful applications, 24 were for general business insurers ranging from Class 1 to Class 4, four were for Long-Term (life) insurers ranging from Class A to Class E, and 17 were for Special Purpose Insurers (SPIs). The remaining 11 insurance-related approvals were for insurance intermediaries, inclusive of managers and agents.

Banking, trust and investment applications

One Trust business, one Fund Administrator and two Investment Business applications were approved.

SUMMARY OF ALC-APPROVED APPLICATIONS

Class 1	7
Class 2	3
Class 3	3
Class 3A	6
Class 3B	0
Class 4	5
Class A	1
Class B	0
Class C	1
Class D	0
Class E	2
Special Purpose Insurer	17
Insurance Manager	4
Insurance Broker	0
Insurance Agent	7
Trust Company	1
Investment Business	2
Fund Administrator	1
TOTAL	60

SUMMARY OF BTCSI-RELATED LICENSEE STATUS AS AT YEAR-END 2016

SECTOR	LICENSING ACTIVITY
BANKING	Total licensees at end of the year: four (no change from 2015)
CREDIT UNION	Total at end of the year: one (no change from 2015)
FUND ADMINISTRATOR	Total licensees at end of the year: 30 (31 in 2015) Licences surrendered: two (two in 2015) New licences issued: one (zero in 2015)
INVESTMENT BUSINESS	Total licensees at end of the year: 54 (57 in 2015) Licences surrendered: five (four in 2015) New licences issued: two (two in 2015)
INVESTMENT FUNDS	New authorised funds: 18 (22 in 2015) New exempt A funds: 12 (23 in 2015) New exempt B funds : Six (nine in 2015) Total number of funds: 567 (654 in 2015)
MONEY SERVICE BUSINESS	Total licensees at end of the year: two (no change from 2015)
STOCK EXCHANGE	Total at end of the year: one (no change from 2015)
TRUST	Total licensees at end of the year: 28 (29 in 2015) Licences surrendered: two (zero in 2015) New licences issued: one (zero in 2015) New private trust companies: 21

COMPANIES, PARTNERSHIPS AND PERMITS STATISTICS – APPLICATIONS APPROVED

	Q4-2016	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015
Exempted Companies (Bermuda companies exempted from the 60% Bermudian ownership requirement)	240	216	212	238	329	198
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	21	18	47	28	38	17
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	3	2	1	1	8	5
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	5	1	13	3	3	13
Total applications approved	269	237	273	270	378	233

Designing an Improved Authority

The Authority's Operations group comprises all shared service departments: Communications, Enterprise Risk Management, Facilities, Finance & Currency, Human Resources, Information Technology, Project Management Office and Records Management.

Target Operating Model (TOM)

The Authority continued to focus on exercising fiscal prudence at a time when increased regulation and supervision is required for Bermuda to retain its world-class reputation. A commitment was made in early 2016 to carry out a review of the Authority's current operating model to ensure its structure and infrastructure remained optimum for the job of financial services regulator.

A TOM Steering Committee of Authority Executive Directors led the project with a mandate to review:

- organisational structure
- activities and processes
- resources and costs
- internal governance
- culture and values.

The resulting implementation plan will be carried out in phases over 2017 and 2018. The delivery of the TOM will support the Authority to fulfil its strategic goals, and assist the organisation to manage future challenges as Bermuda's financial sector continues to evolve.

NOTE: Essential for supporting the Authority in attaining its target operating model, are the operations units such as Project Management, Enterprise Risk Management and Communications. In 2016, these teams have been focused on upgrading and expanding their services to the organisation.

Information Technology Vision 20/20

Implementation of the Authority's IT strategy, Vision 20/20, remained a priority in 2016. Vision 20/20 aims to facilitate and support operational efficiency, data management and security. Its main goals for 2016 were to improve the IT infrastructure in order to ensure consistency and performance of the network, and to establish a road map for an integrated system, including centralised data management.

During the year, a major, multi-year project was launched to integrate the

Authority's IT systems. A company specialising in financial regulation software, is assisting development of one integrated BMA platform, Integra®, to replace the existing separate internal systems. The aim is to improve the licensing and off-site/on-site supervision using a system which supports the entire supervisory lifecycle. Integra will include: a web-based submission portal for industry; single supervision centre for the Authority; and a configuration platform built for customisation and

maintenance. Work began on the first phase of the project which will result in a much improved central beneficial ownership database for Bermuda in 2017.

In addition, the Authority continued to implement improvements to its network and data security infrastructures. Following workshops, a data governance programme is in development and is expected to be launched in 2017.

Team of Highly Skilled Professionals

The Authority continued its leadership development mentoring programmes. In an effort to build resources and develop staff, a tiered framework was created providing training appropriate

for different levels in the organisation: foundational (new employees), intermediate (two – five years) and advanced (senior managers and high potential employees). In addition, staff

development continued with the Graduate Trainee Programme, internal and external staff secondments and BMA-sponsored training opportunities for staff.

BMA MANAGEMENT TEAM (AS AT 1ST JANUARY 2016)

Jeremy Cox	Chief Executive Officer
SUPERVISION	
Craig Swan	Managing Director, Supervision
Marcia Woolridge-Allwood	Acting Managing Director, BTCSI
Ricardo Garcia	Head of Actuarial Services
Duncan Evans	Deputy Director, BTCSI
Leanne Alami-Merrouni	Assistant Director, BTCSI
Collin Anderson	Assistant Director, Insurance
Tamara Anfossi	Assistant Director, BTCSI
Laila Burke	Assistant Director, Insurance
Eric Donkoh	Assistant Director, Insurance
Timae Flood	Assistant Director, Insurance
Gerald Gakundi	Assistant Director, Insurance
Graham Lamb	Assistant Director, Insurance
David Lawler	Assistant Director, Insurance
Lee Maximchuk	Assistant Director, Insurance
Martin Maringi	Assistant Director, Insurance
Richard May	Assistant Director, Actuarial Services, Long-Term
Moses Muoki	Assistant Director, Insurance
Jeferino dos Santos	Assistant Director, Actuarial Services, Property & Casualty
Gina Smith	Assistant Director, Actuarial Services, Property & Casualty
Gary Thomas	Assistant Director, Actuarial Services, Long-Term
Don Treanor	Assistant Director, Actuarial Services, Property & Casualty
Christopher Tribley	Assistant Director, BTCSI
LICENSING & AUTHORISATIONS	
Melissa Morton	Assistant Director, Authorisations
Leslie Robinson	Assistant Director, Corporate Authorisations
Akilah Wilson	Assistant Director, Licensing
POLICY, LEGAL & ENFORCEMENT	
Shauna MacKenzie	Director
Garrett Byrne	Chief Enforcement Officer
Ifor Hughes	Assistant Director, Policy
Yvette Pierre	Assistant Director, Policy
Natalie Stevenson	Assistant Director, International Affairs
Dina Wilson	Assistant Director, Legal Services
FINANCIAL STABILITY & AML/ATF	
George Pickering	Senior Advisor
Marcelo Ramella	Deputy Director
Kevin Dolan	Assistant Director
Leo Mucheriwa	Assistant Director, Research
OPERATIONS	
Shanna Lespere	Chief Operating Officer
Sheridan Smith	Director, Management Services/Information Technology
Mesheiah Crockwell	Deputy Director, Head of Human Resources
Amanda Outerbridge	Deputy Director, Head of Communications
Terry Pitcher	Deputy Director, Head of Finance & Currency Operations
Michael Albouy	Assistant Director, IT
Elizabeth Amyoony	Assistant Director, Human Resources
Michael Bean	HR Manager
Julie Dill	Assistant Director, Human Resources
Adrian Mendoza	Financial Controller
ORGANISATIONAL DEVELOPMENT	
Verna Hollis-Smith	Assistant Director

Statistics

Collection and analysis of market data remains an important part of the Authority's work.

Financial Highlights 2016

The Authority's net income amounted to \$3.59 million in 2016, up from \$0.83 million in previous year. Total revenue increased by 9.6% year-on-year to \$48.28 million, up from \$44.06 million. The increase is mainly due to a \$5.31 million increase in supervisory and licensing fees including \$1.16 million in enforcement and insurance fines. Fee increases were approved in 2015 and remained effective in 2016, when the new tiered billing structure was introduced.

Aside from the 2015 \$0.5 million realised gain on US quoted securities, the Authority's net investment income remains level with a decrease of 1% for 2016. The Authority's held-to-maturity portfolio of investments remained at

a very high quality with all securities maintaining a rating of AA+ or better.

Expenses increased by 3.4% to \$44.69 million with marginal increases in all categories except amortisation of intangible assets.

As at 31st December 2016, the organisation's headcount relatively remained flat year over year. A marginal increase in the headcount of professional staff is likely in the coming year in order to support resourcing needs arising from the Authority's continued implementation of its enhanced regulatory and supervisory regimes. It is projected that 2017 recruitment activity will increase marginally until the Authority has reached its full complement of staff.

CURRENCY NOTES ISSUED & REDEEMED (BERMUDA DOLLAR)

Month	Notes Issued			Notes Redeemed	Notes Issued & O/S at End of Month	Net Issues During Month	
	New	Re-issued	Total			Change	% Change
January	41,106	3,500,000	3,541,106	13,339,000	106,989,999	(9,797,894)	-8.39%
February	40,526	5,600,000	5,640,526	5,148,000	107,482,525	492,526	0.46%
March	199,531	7,520,000	7,719,531	6,290,800	108,911,256	1,428,731	1.33%
April	100,006	8,480,000	8,580,006	6,690,995	110,800,267	1,889,011	1.73%
May	355,551	5,980,000	6,335,551	6,141,000	110,994,818	194,551	0.18%
June	1,160,619	7,560,000	8,720,619	7,160,000	112,555,437	1,560,619	1.41%
July	4,371,897	14,834,000	19,205,897	7,963,000	123,798,334	11,242,897	9.99%
August	29,016	4,530,000	4,559,016	15,994,008	112,363,342	(11,434,992)	-9.24%
September	139,454	6,240,000	6,379,454	7,076,000	111,666,796	(696,546)	-0.62%
October	140,277	8,040,000	8,180,277	6,141,997	113,705,076	2,038,280	1.83%
November	145,263	8,955,000	9,100,263	7,553,850	115,251,489	1,546,413	1.36%
December	910,341	12,115,000	13,025,341	6,930,000	121,346,830	6,095,341	5.29%
<i>Year</i>							
2016	7,633,587	93,354,000	100,987,587	96,428,650	121,346,830	4,558,937	3.90%
2015	6,491,110	99,260,000	105,751,110	100,783,010	116,787,893	4,968,100	4.44%

CURRENCY COINS ISSUED & REDEEMED (BERMUDA DOLLAR)

Month	Coins Issued	Coins Issued & O/S at End of Month	Net Issues During Month	
			Change	% Change
January	30,000	15,997,382	30,000	0.19%
February	4	15,997,386	4	0.00%
March	6	15,997,392	6	0.00%
April	0	15,997,392	0	0.00%
May	22	15,997,414	22	0.00%
June	12,516	16,009,930	12,516	0.08%
July	30,005	16,039,935	30,005	0.19%
August	61	16,039,996	61	0.00%
September	6	16,040,002	6	0.00%
October	24	16,040,026	24	0.00%
November	30,001	16,070,027	30,001	0.19%
December	83,003	16,153,030	83,003	0.52%
<i>Year</i>				
2016	185,648	16,153,030	185,648	1.16%
2015	341,154	15,967,382	341,154	2.18%

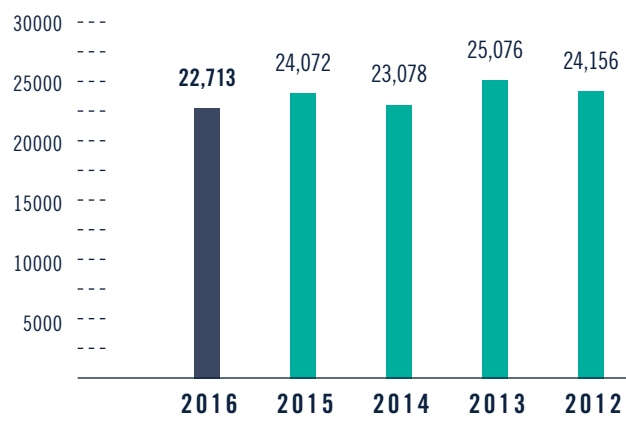
BANKING

BERMUDA MONEY SUPPLY

(BD\$ mln)	Q4-2016	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015
Notes & Coins in Circulation*	137	128	129	125	133	124
Deposit Liabilities	3,448	3,450	3,458	3,416	3,359	3,333
Total	3,586	3,578	3,587	3,541	3,492	3,457
Less: Cash at Banks & Deposit Companies	46	38	39	38	45	38
BD\$ Money Supply	3,540	3,539	3,548	3,503	3,447	3,419
% Change on Previous Period	0.01%	-0.25%	1.28%	1.63%	-0.25%	-0.22%
% Change Year-on-Year	2.68%	2.25%	1.28%	1.63%	3.53%	1.33%

* This table includes the supply of Bermuda dollars only. United States currency is also in circulation in Bermuda but the amount has not been quantified.
Totals may not add due to rounding.

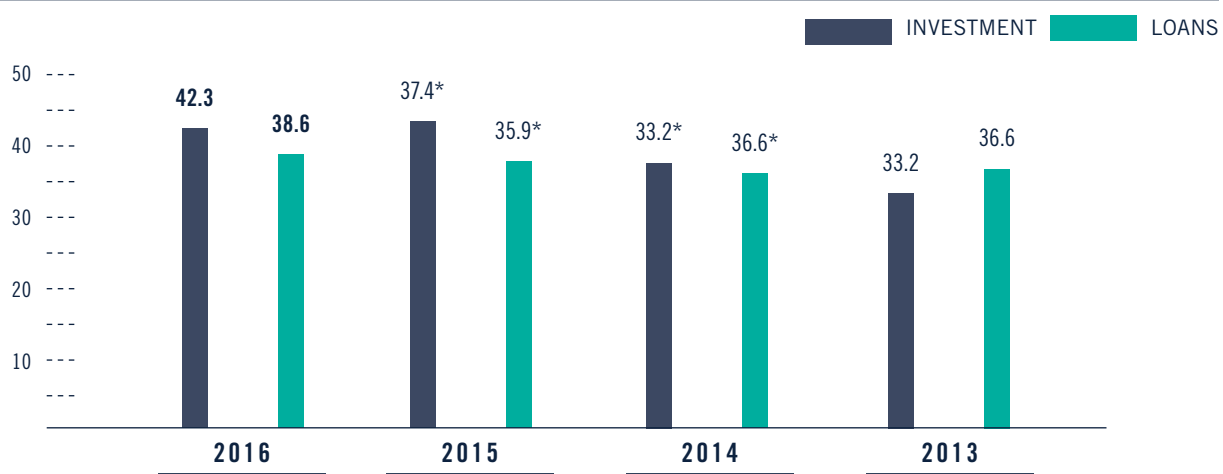
BERMUDA BANK AND DEPOSIT COMPANIES (CONSOLIDATED) TOTAL ASSETS (BD\$ BLN)



BANKING SECTOR ASSETS & DEPOSITS

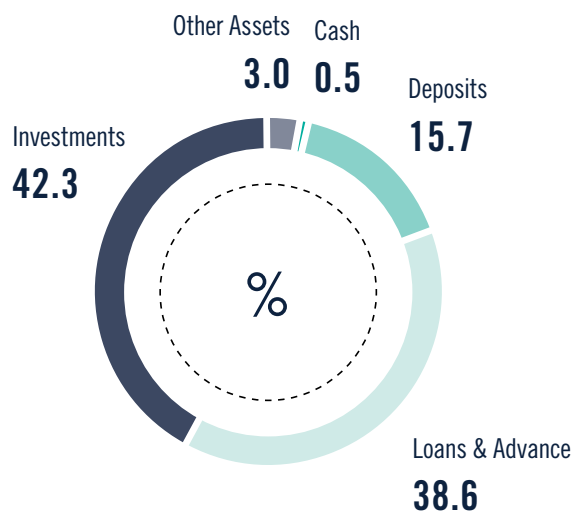
(BD\$ mln)	Q4-2016	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015
Total Assets	22,713	22,414	23,901	24,206	24,072	23,416
Quarterly Change (%)	1.3%	-6.2%	-1.3%	0.6%	2.8%	-4.9%
Total Deposits	20,216	19,501	21,051	21,275	21,365	20,662
Quarterly Change (%)	3.7%	-7.4%	-1.1%	-0.4%	3.4%	-6.3%

LOANS AND INVESTMENTS AS A PROPORTION OF TOTAL ASSETS (%)



* Restated

COMPOSITION OF BANKS' ASSETS AS AT 31ST DECEMBER 2016

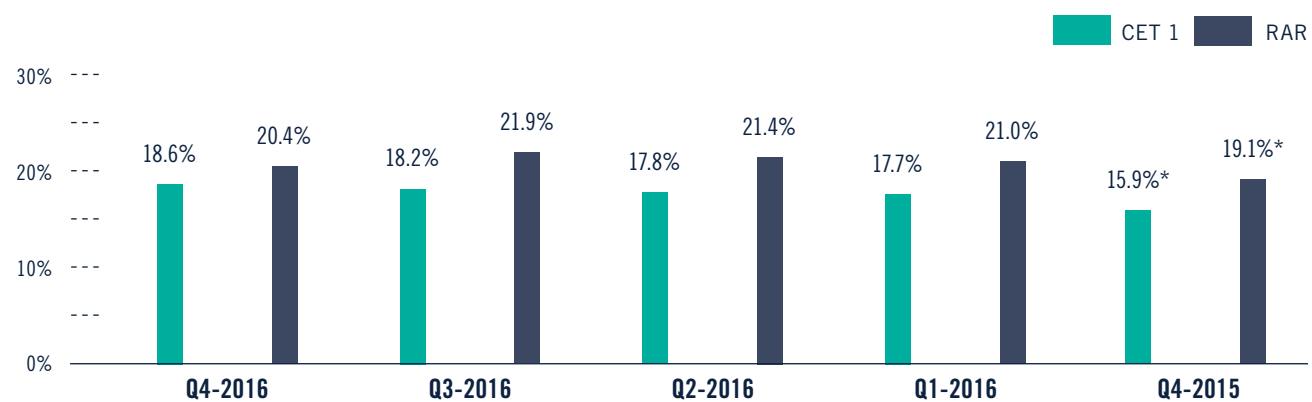


BANKING

BERMUDA BANK AND DEPOSIT COMPANIES (CONSOLIDATED)



BANKING SECTOR CONSOLIDATED RISK ASSET RATIO



* Restated

COMBINED BANKS AND DEPOSIT COMPANIES FOREIGN CURRENCY POSITION

(BD\$ mln)	Q4-2016	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015
Total Foreign Currency Assets	18,582	18,242	19,597	19,904	19,715	19,009
Less: Other Assets	300	314	255	162	183	201
Less: Foreign Currency Loans to Residents	887	1,115	1,073	1,089	999	944
Net Foreign Currency Assets	17,395	16,814	18,269	18,653	18,533	17,864
Foreign Currency Liabilities	17,017	16,490	17,860	18,239	18,313	17,644
Add: BD\$ Deposits of Non-Residents	162	182	154	155	116	193
Net Foreign Currency Liabilities	17,179	16,671	18,013	18,394	18,429	17,837
Net Foreign Currency Position (consolidated)	215	142	256	259	104	27

Totals may not add due to rounding.

BD\$ DEPOSIT AND LOAN PROFILE - COMBINED BANKS AND DEPOSIT COMPANIES (UNCONSOLIDATED)

(BD\$ mln)	Q4-2016	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015
Deposit Liabilities	3,448	3,450	3,458	3,416	3,359	3,333
Less:						
Loans, Advances and Mortgages	(3,772)	(3,812)	(3,876)	(3,915)	(3,971)	(3,975)
Surplus/(deficit) deposits	(324)	(362)	(418)	(499)	(611)	(643)
Percentage of Deposit Liabilities Loaned	109.4%	110.5%	112.1%	114.6%	118.2%	119.3%

Totals may not add due to rounding.

BANKING

COMBINED BALANCE SHEET OF BERMUDA BANKS AND DEPOSIT COMPANIES (CONSOLIDATED)

(BD\$ mln)	Q4-2016			Q3-2016			Q2-2016		
	Total	BD\$	Other*	Total	BD\$	Other*	Total	BD\$	Other*
Assets									
Cash	104	46	58	87	38	49	81	39	42
Deposits	3,564	16	3,547	3,428	24	3,404	5,072	31	5,040
Investments	9,600	41	9,559	8,988	41	8,947	8,290	38	8,253
Loans & Advances	8,773	3,656	5,117	9,222	3,694	5,528	9,660	3,762	5,897
Premises & Equipment	418	248	170	439	260	179	337	227	110
Other Assets	254	124	130	250	115	135	461	207	255
Total Assets	22,713	4,132	18,582	22,414	4,172	18,242	23,901	4,304	19,597
Liabilities									
Demand Deposits	10,607	1,081	9,525	10,320	1,096	9,224	11,453	1,085	10,368
Savings	6,613	1,567	5,046	6,329	1,539	4,790	6,465	1,524	4,941
Time Deposits	2,996	785	2,211	2,852	793	2,058	3,133	821	2,312
Sub Total - Deposits	20,216	3,433	16,783	19,501	3,428	16,073	21,051	3,430	17,620
Other Liabilities	563	328	235	701	284	417	590	351	239
Sub Total - Liabilities	20,779	3,761	17,017	20,201	3,711	16,490	21,641	3,781	17,860
Equity & Subordinated Debt	1,935	1,825	110	2,213	1,831	382	2,260	1,869	390
Total Liabilities and Capital	22,713	5,586	17,127	22,414	5,542	16,872	23,901	5,650	18,250
(BD\$ mln)	Q1-2016			Q4-2015			Q3-2015		
	Total	BD\$	Other*	Total	BD\$	Other*	Total	BD\$	Other*
Assets									
Cash	78	38	40	81	45	36	82	38	44
Deposits	3,750	30	3,720	3,813	25	3,788	4,919	21	4,898
Investments	10,338	35	10,303	10,425	39	10,386	9,185	40	9,145
Loans & Advances	9,340	3,802	5,538	9,073	3,862	5,211	8,520	3,919	4,600
Premises & Equipment	348	236	112	406	294	112	425	304	121
Other Assets	353	161	192	274	92	183	285	84	201
Total Assets	24,206	4,302	19,904	24,072	4,357	19,715	23,416	4,406	19,009
Liabilities									
Demand Deposits	11,372	1,130	10,242	11,668	1,049	10,619	11,101	1,021	10,080
Savings	7,060	1,536	5,524	6,493	1,489	5,004	6,035	1,487	4,548
Time Deposits	2,843	741	2,102	3,204	799	2,405	3,526	802	2,723
Sub Total - Deposits	21,275	3,407	17,868	21,365	3,337	18,028	20,662	3,311	17,351
Other Liabilities	731	360	371	567	281	286	585	291	293
Sub Total - Liabilities	22,006	3,767	18,239	21,931	3,618	18,313	21,247	3,602	17,644
Equity & Subordinated Debt	2,199	1,839	361	2,141	1,797	344	2,169	1,793	376
Total Liabilities and Capital	24,206	5,606	18,600	24,072	5,415	18,657	23,416	5,395	18,021

* Other includes USD and other currencies

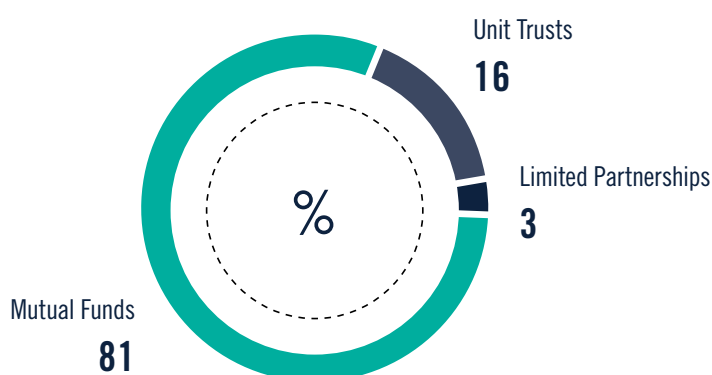
Premises and Equipment, and Other Assets have been restated to reclassify equipment and other fixed assets that were previously recorded under Other Assets

INVESTMENT FUNDS

INVESTMENT FUND STATISTICS

(BD\$ bln)	Q4-2016	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015
Mutual Funds	392	405	415	419	429	434
Umbrella Funds	68	35	36	37	38	39
Segregated Account Companies	35	73	69	68	69	70
Unit Trusts	28	43	44	43	52	50
Umbrella Trusts	44	28	28	29	36	37
Total Number of Funds	567	584	592	596	624	630
Net Asset Value	\$137.15	\$139.34	\$151.81	\$150.19	\$144.22	\$145.06

INVESTMENT FUNDS APPLICATIONS APPROVED 2016



TOTAL FUNDS BY JURISDICTION

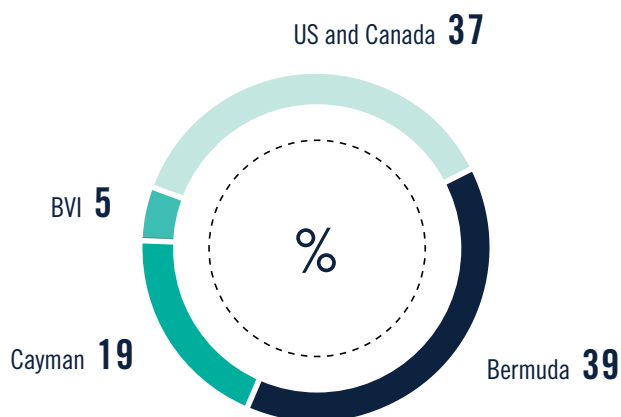
Fund Administrator Licensee Aggregate 2016 Data:

An aggregate total of US\$109.9 billion in Assets under Administration was reported by Bermuda Fund Administrator

licensees as at 31st December 2016, down 34% from 2015.

Total number of funds administered saw a slight increase to 1,333 (1,307) of which 520 are local incorporated

funds with Bermuda-licensed fund administrators. The below geographic breakdown shows that 76% are comprised of Bermuda, US and Canadian fund clients.



INVESTMENT FUNDS

TOTAL AUM BY JURISDICTION

Investment Business Licensee Aggregate 2016 Data:

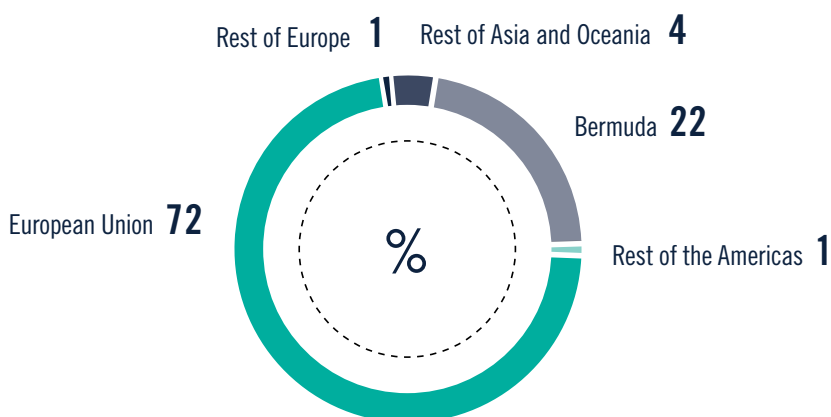
Reported licensee aggregate Assets under Management as at 31 December 2016 was US\$160.3 billion compared to the \$167.6 billion reported for 2015.

The highest proportion of these assets (72%) is represented by clients in the European Union and 22% by Bermuda based clients.

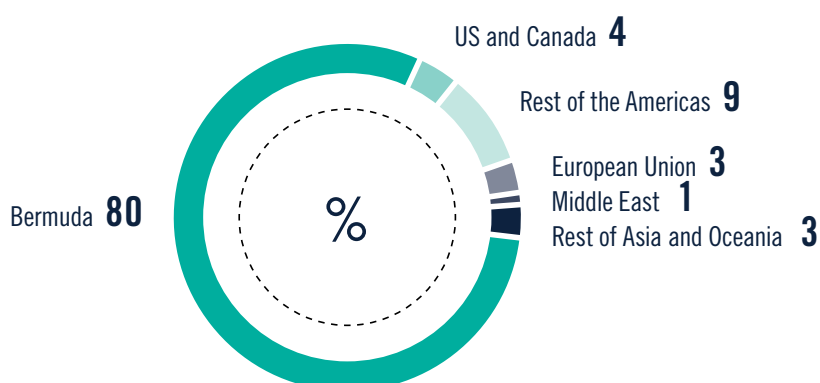
Reported licensee aggregate Assets under Administration for the same period was US\$56.0 billion, up 46% from 2015*.

A significant portion of these assets (80%) pertains to Bermudian clients with clients in the Rest of the Americas a distant second at 9%.

** For Investment Business Licensees, Assets under Administration are classified as assets managed on behalf of investors on a non-discretionary basis.*



TOTAL AUA BY JURISDICTION



INSURANCE

ANALYSIS OF ALL INSURERS REGISTERED*

Class of Insurer by License**	2016	%	2015	%
Class 1	225	18.4%	243	19.3%
Class 2	280	22.9%	294	23.3%
Class 3	254	20.8%	255	20.2%
Class 3A	127	10.4%	129	10.2%
Class 3B	22	1.8%	22	1.7%
Class 4	41	3.3%	40	3.2%
Class A	8	0.7%	7	0.6%
Class B	8	0.7%	8	0.6%
Class C	107	8.7%	113	9.0%
Class D	8	0.7%	8	0.6%
Class E	29	2.4%	27	2.1%
Special Purpose Insurer	115	9.4%	115	9.1%
Totals:	1,224	100%	1,261	100%

* For consistency with the Market Statistics, the Authority no longer reports Dual Licence entities as a separate group – these licences have been included among the other Classes.

** The statistics for all insurers registered are now presented based on the number of licences held, to more accurately reflect year-end results.

ANALYSIS OF 2016 ADDITIONS TO THE REGISTER*

Class of Insurer by License**	2016 Registrations	%	2015	%
Class 1	4	9.5%	8	12.3%
Class 2	4	9.5%	7	10.8%
Class 3	4	9.5%	7	10.8%
Class 3A	7	16.7%	9	13.8%
Class 3B	0	0.0%	0	0.0%
Class 4	2	4.8%	4	6.2%
Class A	1	2.4%	0	0.0%
Class B	0	0.0%	0	0.0%
Class C	1	2.4%	7	10.8%
Class D	1	2.4%	1	1.5%
Class E	1	2.4%	2	3.1%
Special Purpose Insurer	17	40.5%	20	30.8%
Totals:	42	100%	65	100%

* For consistency with the Market Statistics, the Authority no longer reports Dual Licence entities as a separate group – these licences have been included among the other Classes.

** The statistics for all insurers registered are now presented based on the number of licences held, to more accurately reflect year-end results.

INSURANCE

MARKET STATISTICS BY CLASS OF INSURER AS AT 31ST DECEMBER 2015*

Class of Insurer	No. of Licences**	Gross Premiums	Net Premiums	Total Assets	Capital & Surplus
Class 1	238	3,484,522,010	2,847,125,699	17,580,257,267	12,496,175,665
Class 2	284	7,983,489,608	6,212,752,675	49,856,250,706	24,733,486,498
Class 3	242	42,894,360,274	36,018,826,730	125,686,296,030	37,709,880,497
Class 3A	126	12,241,927,937	9,291,169,904	25,937,952,565	13,552,407,467
Class 3B	22	12,704,185,822	8,922,025,699	31,386,435,105	11,915,830,955
Class 4	39	36,625,854,812	30,497,483,581	149,492,396,413	63,363,548,640
Long-Term Class A	7	189,580,745	189,580,745	1,631,579,666	472,119,556
Long-Term Class B	8	126,908,401	126,908,401	223,447,276	81,098,708
Long-Term Class C	115	2,880,044,096	2,880,044,096	78,009,401,739	12,970,372,305
Long-Term Class D	7	194,602,811	194,602,811	4,567,555,524	635,821,064
Long-Term Class E	28	8,853,755,247	8,853,755,247	112,962,104,712	18,372,512,932
Special Purpose Insurer	115	2,656,670,041	2,444,069,479	34,375,334,881	4,541,137,993
Totals: (in \$US)	1,231	130,835,901,803	108,478,345,066	631,709,011,884	200,844,392,280

* Underwriting statistics quoted are from insurance company Statutory Financial Returns (SFR) and modified filings for 2015. Companies submit filings on a phased basis throughout the year following the financial year-end. The initial submission deadline for 2015SFRs was April 2016. Due to this schedule the most recent complete year-end figures for this overview are from 2015.

** The statistics for market underwriting performance are now presented based on the number of licences held by reporting entities to more accurately reflect year-end results.

Note: This information is based on annual filings and as such movements or transactions can occur which may significantly impact individual reporting periods.

- **Class 1:** Single-parent captive insuring the risks of its owners or affiliates of the owners.
- **Class 2:** (a) A multi-owner captive insuring the risks of its owners or affiliates of the owners; or (b) A single parent or multi-owner captive: (i) insuring the risks arising out of the business or operations of the owners or affiliates, and/or (ii) deriving up to 20% of its net premiums from unrelated risks.
- **Class 3:** Captive insurers underwriting more than 20% and less than 50% unrelated business.
- **Class 3A:** Small commercial insurers whose percentage of unrelated business represents 50% or more of net premiums written or loss and loss expense provisions and where the unrelated business net premiums are less than \$50.0 million.
- **Class 3B:** Large commercial insurers whose percentage of unrelated business represents 50% or more of net premiums written or loss and loss expense provisions and where the unrelated business net premiums are more than \$50.0 million.
- **Class 4:** Insurers and reinsurers capitalised at a minimum of \$100.0 million underwriting direct excess liability and/or property catastrophe reinsurance risk.
- **Long-Term (life insurance)::**
 - Class A:** A single-parent Long-Term captive insurance company underwriting only the Long-Term business risks of the owners of the insurance company and affiliates of the owners.
 - Class B:** Multi-owner Long-Term captives owned by unrelated entities, underwriting only the Long-Term business risks of the owners and affiliates of the owners and/or risks related to or arising out of the business or operations of their owners and affiliates. A single-parent and multi-owner Long-Term captives writing no more than 20% of net premiums from unrelated risks.
 - Class C:** Long-Term insurers and reinsurers with total assets of less than \$250.0 million; and not registrable as a Class A or Class B insurer.
 - Class D:** Long-Term insurers and reinsurers with total assets of \$250.0 million or more, but less than \$500.0 million; and not registrable as a Class A or Class B insurer.
 - Class E:** Long-Term insurers and reinsurers with total assets of more than \$500.0 million; and not registrable as a Class A or Class B insurer.
- **Special Purpose Insurers (SPI):** A SPI assumes insurance or (re)insurance risks and fully funds its exposure to such risks, typically through a debt issuance or some other financing (as approved by the Authority).

INSURANCE

MARKET STATISTICS BY REGION OF BENEFICIAL OWNER AS AT 31ST DECEMBER 2015

Domicile of Owners	No. of Licences	Gross Premiums	Net Premiums	Total Assets	Capital & Surplus
CAPTIVES					
Africa/Middle East	13	87,061,577	42,476,015	329,083,775	267,624,413
Asia	26	1,248,648,653	1,092,273,999	1,046,852,057	719,200,190
Australia/New Zealand	10	52,518,416	18,172,345	340,497,041	267,931,596
Bermuda	68	3,772,986,896	1,726,525,690	22,813,386,304	6,889,361,424
Caribbean/Latin America	38	209,225,746	128,409,137	1,012,180,377	638,696,978
Europe	120	15,275,229,725	14,248,994,735	52,196,242,082	15,727,946,300
North America	504	34,033,190,025	28,138,342,329	117,239,589,310	50,982,000,023
Sub-Totals:	779	54,678,861,038	45,395,194,250	194,977,830,946	75,492,760,924
PROFESSIONAL INSURERS/REINSURERS					
Africa/Middle East	6	1,313,715,733	453,955,851	2,451,108,622	748,745,573
Asia	20	1,157,551,710	1,119,970,469	5,960,638,332	2,235,681,962
Australia/New Zealand	3	2,624,720,814	1,631,230,892	6,715,098,132	1,815,972,136
Bermuda	136	18,300,061,508	15,714,096,676	101,601,733,809	43,650,223,222
Caribbean/Latin America	23	2,686,407,527	2,421,785,038	19,832,899,983	5,158,293,585
Europe	77	19,529,052,701	16,154,442,736	83,940,705,404	23,161,002,003
North America	187	30,545,530,773	25,587,669,155	216,228,996,656	48,581,712,875
Sub-Totals:	452	76,157,040,766	63,083,150,817	436,731,180,938	125,351,631,356
Totals: (in \$US)	1,231	130,835,901,803	108,478,345,066	631,709,011,884	200,844,392,280

INSURANCE

MARKET STATISTICS BY COMPANY TYPE AS AT 31ST DECEMBER 2015

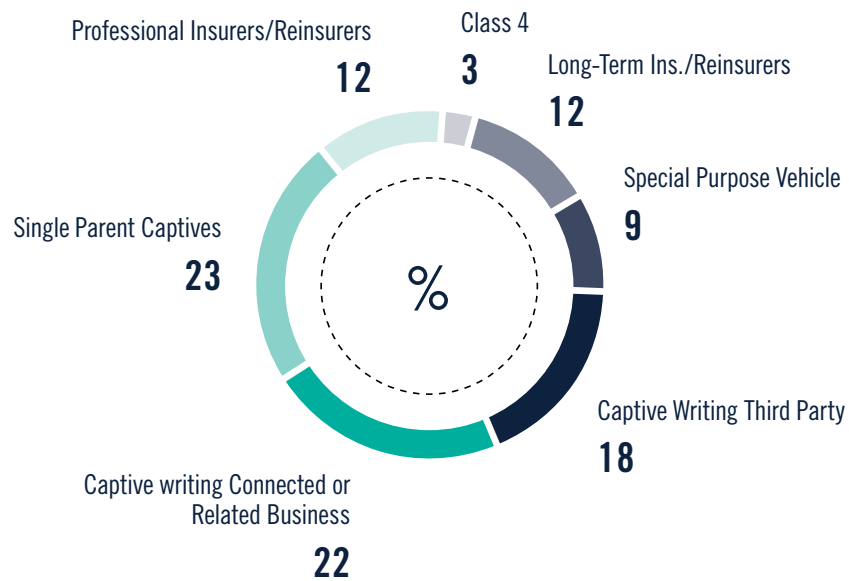
Company Type	No. Of Licences	Gross Premiums	Net Premiums	Total Assets	Capital and Surplus	% of Insurers
CAPTIVES						
Captive writing Third Party	224	32,346,133,256	28,036,305,448	92,019,120,106	24,105,582,229	18%
Captive writing Connected or Related Business	266	7,442,806,506	5,769,556,649	48,320,371,539	23,913,369,601	22%
Single Parent Captives	289	14,889,921,276	11,589,332,153	54,638,339,300	27,473,809,094	23%
Subtotals	779	54,678,861,038	45,395,194,250	194,977,830,945	75,492,760,924	63%
PROFESSIONAL INSURERS/REINSURERS						
Professional Insurers/Reinsurers	148	24,946,113,759	18,213,195,603	57,324,387,670	25,468,238,422	12%
Class 4	39	36,625,854,812	30,497,483,581	149,492,396,413	63,363,548,640	3%
Long-Term Ins./Reinsurers	150	11,928,402,154	11,928,402,154	195,539,061,975	31,978,706,301	12%
Special Purpose Vehicle	115	2,656,670,041	2,444,069,479	34,375,334,881	4,541,137,993	9%
Sub-Totals:	452	76,157,040,766	63,083,150,817	436,731,180,939	125,351,631,356	37%
Totals: (in \$US)	1,231	130,835,901,803	108,478,345,066	631,709,011,884	200,844,392,280	100%

Note: Market Statistics for Group Captives, Health Care Captives and Segregated Accounts Companies have been included among other Company Types.

Explanatory Notes:

- Captive writing Third Party (Re)insurer writing related party risks, but allowed to write up to 49% of its net premiums written arising from risks which are unrelated to the business of its owners and/or affiliates.
- Captive writing Connected or Related Business (Re)insurer writing the risks connected or related to or arising out of the business or operations of its owners and/or affiliates.
- Single-Parent Captive Single-parent captive writing only the risk of its owners and/or affiliates.
- Professional Insurers/Reinsurers Insurance company writing unrelated risks as a direct writer and/or reinsurer.

ACTIVELY WRITING INSURERS BY COMPANY TYPE





An aerial photograph of a tropical coastline. In the foreground, a large white sailboat with three sails is moving across the deep blue water, leaving a white wake. To the left, a rocky peninsula with lush greenery and a white building with a red roof is visible. The background shows a dense residential area with many colorful houses and palm trees along the coast. The sky is clear and blue.

Financials



30th April 2017

The Hon. E.T. Richards, JP MP
Minister of Finance
Ministry of Finance
Hamilton

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Hamilton HM JX Bermuda
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email: enquiries@bma.bm
website: www.bma.bm

Dear Minister:

In accordance with section 28(1) of the Bermuda Monetary Authority Act 1969, I have the honour to submit to you a report of the operations of the Authority for the year 2016 together with the annual statement of accounts and the opinion of the Auditor General.

This document also contains the reports for the year 2016 which the Authority is required to make to you pursuant to:

- section 8(3) of the Banks and Deposit Companies Act 1999;
- section 8(3) of the Investment Business Act 2003; and
- section 5 of the Trusts (Regulation of Trust Business) Act 2001.

Yours sincerely,

Jeremy Cox
Chief Executive Officer



30th April 2017

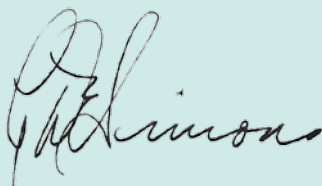
BMA House
43 Victoria Street
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The accompanying financial statements of the Bermuda Monetary Authority have been prepared by management in accordance with International Financial Reporting Standards. Management is responsible for ensuring the integrity and objectivity of the data contained in these financial statements and that all information in the annual report is consistent with the financial statements.

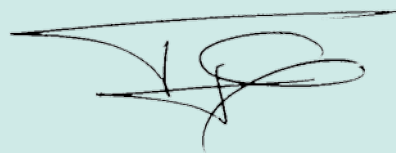
In support of its responsibility, management maintains financial and management control systems and practices to provide reasonable assurance that the financial information is reliable, that the assets are safeguarded, and that the operations are carried out effectively.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board approves the Authority's financial statements. The Audit and Risk Management Committee of the Board reviews the annual financial statements and recommends their approval to the Board of Directors. In conducting its review, the Audit and Risk Management Committee meets with management and the Authority's external auditor, the Auditor General.

The Auditor General has audited these financial statements and her report is presented herein.



The Hon. Gerald Simons
Chairman



Jeremy Cox
Chief Executive Officer



Office of the Auditor General

Reid Hall, Penthouse
3 Reid Street
Hamilton HM 11, Bermuda

Tel: (441) 296-3148
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

I have audited the accompanying financial statements of the Bermuda Monetary Authority, which comprise the statement of financial position as at December 31, 2016, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Bermuda Monetary Authority as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Hamilton, Bermuda
April 24, 2017

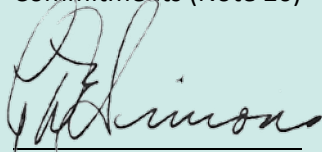
Heather Thomas, CPA, CFE, CGMA
Auditor General

BERMUDA MONETARY AUTHORITY

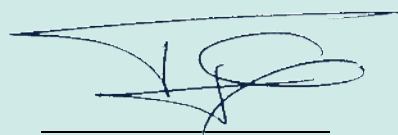
Statement of Financial Position As at December 31, 2016

(In thousands of Bermuda dollars)	Note	2016	2015
Assets			
Current assets			
Cash and cash equivalents	3, 5	43,756	35,438
Accounts and other receivables	3, 6	951	1,495
Prepayments		797	317
Stock of numismatic items	7	860	736
Stock of notes and coins for circulation	8	5,582	6,015
		51,946	44,001
Non-current assets			
Investments, held-to-maturity	3	109,651	108,990
Property and equipment	9	23,317	23,972
Intangible assets	10	2,246	1,564
		135,214	134,526
Total Assets		187,160	178,527
Liabilities			
Current liabilities			
Accounts and other payables	3, 11, 17	6,261	5,965
Notes and coins in circulation	3, 12	137,500	132,755
Due to the Consolidated Fund of the Government of Bermuda	3, 13	-	416
		143,761	139,136
Equity			
Capital subscribed	14	20,000	20,000
General reserve	14	23,399	19,391
		43,399	39,391
Total Liabilities and Equity		187,160	178,527

Commitments (Note 20)



Gerald Simons
Chairman



Jeremy Cox
Chief Executive Officer

The accompanying notes are an integral part of these financial statements

BERMUDA MONETARY AUTHORITY

Statement of Comprehensive Income For the year ended December 31, 2016

(In thousands of Bermuda dollars)	Note	2016	2015
Revenues			
Supervisory and licensing fees	15	43,778	38,469
Incorporation fees, vault commission and other income		991	1,625
Net sale of special coins		52	37
Operating revenue		44,821	40,131
Investment income	16	3,463	3,930
Total revenues		48,284	44,061
Expenses			
Salaries and employee benefits	17	33,090	31,892
General expenses	18	6,022	5,665
Professional fees		3,172	3,110
Depreciation of property and equipment	9	1,206	1,142
Amortisation of intangible assets	10	764	1,016
Circulation note and coin expenses	8	438	404
Total expenses		44,692	43,229
Total comprehensive income for the year		3,592	832

All amounts reported above relate to continuing operations. There are no other components of comprehensive income.

The accompanying notes are an integral part of these financial statements

BERMUDA MONETARY AUTHORITY

Statement of Changes in Equity For the year ended December 31, 2016

(In thousands of Bermuda dollars)	Note	2016	2015
Capital		20,000	20,000
General Reserve			
Balance, beginning of year		19,391	18,975
Adjustment to General Reserve	13	416	-
Total comprehensive income for the year		3,592	832
Distribution payable to the Consolidated Fund of the Government of Bermuda	13	-	(416)
Balance, end of year		23,399	19,391
Equity		43,399	39,391

The accompanying notes are an integral part of these financial statements

BERMUDA MONETARY AUTHORITY

Statement of Cash Flows

For the year ended December 31, 2016

(In thousands of Bermuda dollars)	Note	2016	2015
Cash flows provided by / (used in) operating activities			
Total comprehensive income for the year		3,592	832
Adjustment for:			
Non-cash items included in total comprehensive income for the year	19	2,049	2,125
Change in operating assets	19	560	(79)
Change in operating liabilities	19	296	1,161
Net cash provided by operating activities		6,497	4,039
Cash flows (used in) / provided by investing activities			
Additions of intangible assets	10	(1,446)	(920)
Additions of property and equipment	9	(551)	(367)
Proceeds from sale of property and equipment		1	2
Purchase of investments		(41,153)	(30,368)
Proceeds from maturity of investments		40,225	21,147
Net cash (used in) investing activities		(2,924)	(10,506)
Cash flows provided by / (used in) financing activities			
Net increase in notes and coins in circulation		4,745	5,309
Distribution to the Consolidated Fund of the Government of Bermuda		-	(170)
Net cash provided by financing activities		4,745	5,139
Net increase (decrease) in cash and cash equivalents		8,318	(1,328)
Cash and cash equivalents at beginning of year		35,438	36,766
Cash and cash equivalents at end of year	5	43,756	35,438
Operational cash flows from interest			
Interest received	16	3,596	3,615

The accompanying notes are an integral part of these financial statements

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2016
(In thousands of Bermuda dollars)

1. General information

The Bermuda Monetary Authority (the “Authority”) was established in Bermuda by an Act of the Legislature with initial capital provided by the Bermuda Government (the “Government”); its objects and powers being set out in the Bermuda Monetary Authority Act 1969 (the “Act”), as amended.

The primary responsibilities of the Authority are:

- acting as issuing authority for Bermuda dollar notes and coins;
- the supervision, regulation and inspection of all financial institutions operating in or from within Bermuda;
- the promotion of the financial stability and soundness of financial institutions;
- the supervision, regulation and approval of the issue of financial instruments by financial institutions or by residents;
- the fostering of close relations between financial institutions and between the financial institutions and the Government of Bermuda (the “Government”);
- assisting with the detection and prevention of financial crime;
- the management of exchange control and the regulation of transactions in foreign currency or gold on behalf of the Government;
- the provision of advice and assistance to the Government and public bodies on banking and other financial and monetary matters; and
- the performance of duties conferred on the Authority by Section 5 of the Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing Supervision and Enforcement) Act 2008.

The registered office of the Authority is BMA House, 43 Victoria Street, Hamilton HM 12, Bermuda.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”).

These financial statements were authorised for issue by the Board of Directors (the “Board”) on April 24, 2017.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2016
(In thousands of Bermuda dollars)

2.1 Basis of preparation (continued)

(b) Basis of measurement

These financial statements have been prepared under the historical cost convention.

(c) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The areas involving a higher degree of complexity, or areas where assumptions and estimates are significant to these financial statements are disclosed in Note 4.

2.2 Foreign currency translation

(a) Functional and presentation currency

These financial statements are presented in Bermuda dollars, which is the Authority's functional and presentation currency. All financial information is rounded to the nearest thousand dollars, except as otherwise indicated.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation dates where items are re-measured. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2.3 Property and equipment

(a) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses, except for land and museum items. Museum items have been capitalised, but not depreciated, at a nominal amount and are included in property and equipment. Nominal values have been placed on these items with no material commercial value.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2016
(In thousands of Bermuda dollars)

2.3 Property and equipment (continued)

a) Recognition and measurement (continued)

The Authority holds land and buildings as office space. Changes in the expected useful life are accounted for prospectively by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates. Cost includes expenditure that is directly attributable to the acquisition of the items.

(b) Subsequent costs

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 Authority and the cost of the item can be reliably measured. Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the statement of comprehensive income in the year the asset is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

(c) Depreciation and impairment

Land and museum items are not depreciated. Depreciation is calculated using the straight-line method to allocate the cost of each asset to their residual values over their estimated useful lives as follows:

• Building	40 years
• Building improvements	15 years
• Computer equipment	4 years
• Furniture and fixtures	4 years

The assets' useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.6).

2.4 Intangible assets

Intangible assets are identified non-monetary assets without physical substance. The Authority's intangible assets comprise internally developed or externally acquired computer software. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Authority are recognised as intangible assets when the following criteria are met:

2.4 Intangible assets (continued)

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods. Research costs are expensed as incurred. Costs associated with maintaining software programmes are recognised as an expense when incurred.

Computer software development costs are recognised as assets and are amortised over their estimated useful lives, which is estimated to be four years. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Gains or losses arising from derecognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indication of impairment arises during the reporting year (see Note 2.6).

The intangible assets' useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

2.5 Financial instruments

2.5.1 Classification

The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial assets were acquired.

(a) Financial assets

The Authority classifies its financial assets in the following categories: loans and receivables and held-to-maturity. The Authority determines the classification at initial recognition and re-evaluates this designation at every reporting date.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2016
(In thousands of Bermuda dollars)

2.5.1 Classification (continued)

(i) 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 arise when the Authority charges fees or provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are carried at amortised cost less any impairment losses in the statement of financial position. Amortisation is determined using the effective interest method. Loans and receivables are included in current assets if maturity is within twelve months of the statement of financial position date. Otherwise, these are classified as non-current assets.

Cash and cash equivalents, accounts and other receivables are classified as loans and receivables.

(ii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities wherein the Authority has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity assets are carried at amortised cost less any impairment losses in the statement of financial position. Amortisation is determined using the effective interest method.

Investments in US Government, US Government Agency and Supranational Bank debt securities are classified as held-to-maturity.

(b) Financial liabilities

The Authority classifies accounts and other payables, notes and coins in circulation and amounts due to the Consolidated Fund of the Government of Bermuda as other financial liabilities. These are subsequently measured at amortised cost using the effective interest method.

2.5.2 Recognition and initial measurement

All financial assets and liabilities are initially recognised on the trade-date, which is the date on which the Authority commits to purchase or sell the asset or liability. All financial instruments are measured initially at fair value plus transaction costs.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2016
(In thousands of Bermuda dollars)

2.5.3 Derecognition of financial assets and liabilities

(a) Financial assets

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired; and
- the Authority has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows and either:
 - (i) the Authority has transferred substantially all the risks and rewards of the asset; or
 - (ii) the Authority has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the statement of comprehensive income, if any.

2.5.4 Impairment of financial assets

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

The Authority first assesses whether objective evidence of impairment exists. The criteria that the Authority uses to determine that there is objective evidence of an impairment loss include:

- fee has not been received 90 days after the statutory due date;
- evidence of impairment on accounts receivable include that the regulated entity is experiencing significant financial difficulty, there is a probability that they will liquidate or deregister or there has been a long-term delinquency in payments;
- significant financial difficulty of the issuer or obligor;
- the disappearance of an active market for that financial asset;
- it becomes probable that the issuer or obligor will enter bankruptcy or other financial reorganisation; or

2.5.4 Impairment of financial assets (continued)

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including;
 - (i) adverse changes in the payment status of borrowers in the portfolio; and
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

For investments, held-to-maturity, the Authority measures impairment on the basis of an instrument's fair value using its quoted market price.

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

Impairment testing of accounts and other receivables is described in Note 6. The difference between the carrying amount and realised balance is taken to the statement of comprehensive income.

Financial assets, other than accounts and other receivables, are only derecognised when contractual rights to cash flow expire.

2.6 Impairment of property, equipment and intangible assets

Property, equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable at each statement of financial position date. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the Authority would, if deprived of the asset, replace its remaining future economic benefits or service potential.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written-down to the recoverable amount. The total impairment loss is recognised in the statement of comprehensive income.

The reversal of an impairment loss is recognised in the statement of comprehensive income to the extent that an impairment loss for that class of asset was previously recognised.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2016
(In thousands of Bermuda dollars)

2.7 Stock of notes, coins and numismatic items

2.7.1 Stock of notes and coins for/in circulation

The stock of notes and coins for circulation is stated at the lower of cost and net realisable value. Cost is determined using a “first in, first out” (FIFO) method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

When currency is issued, inventory is reduced and an expense is recorded within “Circulation note and coin expenses” in the statement of comprehensive income for currency issuance costs. The face value of the currency issued is also recognised as a liability within “Notes and coins in circulation” in the statement of financial position.

2.7.2 Stock of numismatic items

Numismatic items consist of commemorative coins, circulation notes and coins for resale. The stock of numismatic items is stated at the lower of cost determined on a FIFO basis, and net realisable value. The proceeds from sales of commemorative coins are included in “Net sale of special coins” in the statement of comprehensive income.

2.8 Cash and cash equivalents

Cash and cash equivalents includes cash and deposits, unrestricted overnight balances held with the US Federal Reserve and demand deposits with maturity of ninety days or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Authority in the management of its short-term commitments. Cash at banks earns interest at floating rates, based on daily bank deposits. Bank overdrafts that are repayable on demand are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

2.9 Employee benefits

(a) Short-term employee benefits

Employee benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to the statement of financial position date, annual leave earned but not yet taken at the statement of financial position date, and sick leave.

Sick leave costs do not accumulate or vest and therefore an expense and liability is only recognised when applied for and approved.

2.9 Employee benefits (continued)

A liability and an expense is recognised for bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

(b) Post-employment benefits

Payments to defined contribution retirement benefit plans are recognised as expenses when employees have rendered service entitling them to the contributions.

(c) Other long-term employee benefits

Employee benefits that are due to be settled beyond 12 months after the end of period in which the employee renders the related service, such as special retirement benefits, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlement information; and
- the present value of the estimated future cash flows.

Expected future payments are discounted using market yields on Bermuda government bonds at the statement of financial position date with terms to maturity that match, as closely as possible, the estimated future cash outflows for entitlements. The inflation factor is based on the expected long-term increase in remuneration for employees.

2.10 Provisions

Provisions are recognised when the Authority has a present legal or constructive obligation as a result of past events; it is probable that an outflow of economic benefits will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. The Authority has not recorded a provision in 2016 nor 2015.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2016
(In thousands of Bermuda dollars)

2.11 Revenue recognition

Supervisory and licencing fees are invoiced for a calendar year or part thereof. Revenue is recognised over the calendar year period to which it relates.

Supervisory fines are recognized as revenue once the Authority has determined a regulated entity is not in compliance with the relevant Act and imposes a fine.

Investment income is recognised using the effective interest method.

Realised gains on sale of quoted securities are recorded at the time of sale and are calculated as the excess of proceeds over amortised costs.

Incorporation fees are recorded as revenue when the related service is rendered, which is when the applications for incorporations are completed and approved.

Vault commission is recorded as revenue when earned.

Sales of special coins are recognised as revenue when ownership of the goods has passed to the buyer.

2.12 Going concern

Management has assessed that the Authority has the ability to continue as a going concern and has accordingly prepared these financial statements on a going concern basis.

2.13 Events after the year-end reporting period

Events after the reporting period that provide additional information about the Authority's financial position at the year-end (adjusting events) are reflected in these financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to financial statements, when material.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2016
(In thousands of Bermuda dollars)

2.14 New and amended standards not yet adopted

A number of new standards, amendments to standards and interpretations have been issued and are not yet effective. These standards have not been applied in preparing these financial statements. Those which may be relevant to the Authority are set out below. The Authority does not plan to adopt these standards early.

(i) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Authority expects no significant impact on its financial statements resulting from the application of IFRS 15.

(ii) IFRS 9 Financial Instruments

IFRS 9 published in July 2014 replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Authority expects no significant impact on its financial statements resulting from the adoption of IFRS 9.

(iii) IFRS 16 Leases

IFRS 16 establishes a new framework for lessee accounting which requires that all leased assets be recognized on the statement of financial position if the lease definition is met. It replaces existing lease accounting guidance contained in IAS 17 *Leases*. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 *Revenue from Contracts with Customers* is also early adopted.

The Authority is assessing the potential impact on its financial statements resulting from the adoption of IFRS 16.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2016
(In thousands of Bermuda dollars)

3. Financial risk management

(a) Fair value of financial instruments

(i) *Carrying amount and fair value of financial instruments*

The carrying amount and fair values of financial assets and liabilities are presented in the following table:

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS				
Cash and cash equivalents	43,756	43,756	35,438	35,438
Accounts and other receivables	951	951	1,495	1,495
Investments, held-to-maturity	109,651	108,589	108,990	110,525
Total financial assets	154,358	153,296	145,923	147,458
FINANCIAL LIABILITIES				
Notes and coins in circulation	137,500	137,500	132,755	132,755
Accounts and other payables	6,261	6,261	5,965	5,965
Due to the Consolidated Fund of the Government of Bermuda	-	-	416	416
Total financial liabilities	143,761	143,761	139,136	139,136

(ii) *Financial instruments at fair value*

The fair value of investments, held-to-maturity as per Note 3(a) (i) is classified using a fair-value hierarchy that reflects the significance of the inputs disclosed in making the measurements:

Level 1 – quoted prices in active markets

Level 2 – inputs are observable either directly or derived from quoted prices

Level 3 – no observable inputs

The fair-value hierarchy requires the use of observable market inputs wherever such inputs exist. A financial instrument is classified at the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

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3. Financial risk management (continued)

	Level 1	Level 2	Level 3	Total
Financial instruments at fair value as at December 31, 2016				
Investments, held-to-maturity	108,589	-	-	108,589
Total financial instruments	108,589	-	-	108,859

Financial instruments at fair value as at December 31, 2015				
Investments, held-to-maturity	110,525	-	-	110,525
Total financial instruments	110,525	-	-	110,525

The Authority is exposed to credit risk, market risk, and liquidity risk as a result of holding financial instruments. The following is a description of those risks and how the Authority manages its exposure to them.

(b) Credit risk

Credit risk is the risk of loss of principal or interest due to uncertainty in a counterparty's ability to meet its obligations. The Authority is exposed to credit risk arising from investments in US Government, US Government Agency and Supranational Banks' debt securities and accounts and other receivables. The Authority manages credit risk by adhering to the fund management policy guidelines set forth by the Board's Investment Committee. The Authority is exposed to a concentration of credit risk as 86% (2015 – 81%) of its income earning assets are in US Government and US Government Agency securities.

The Authority held no past due or impaired investment assets as at December 31, 2016 and 2015. Details on the impairment of accounts and other receivables are included in Note 6.

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3. Financial risk management (continued)

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to the external credit rating by Standard and Poor's (if available) or to historical information about counterparty default rates:

	2016	2015
Investments, held-to-maturity		
AAA **	15,297	20,345
AA+ **	94,354	88,645
** Moody's equivalent grade is Aaa.	109,651	108,990
Cash and cash equivalents		
Cash at bank and in-hand		
AAA	-	176
AA+	319	332
AA	91	-
A-	420	578
BBB	507	635
Not rated	19	17
	1,356	1,738
Overnight repurchase agreements		
AA+	42,400	33,700
	43,756	35,438

Investments, held-to-maturity

This account consists of:

	2016	2015
US Government and US Government Agencies	94,354	88,645
Supranational Bank	15,297	20,345
	109,651	108,990

Amortisation or accretion of the premiums/discounts on investments held-to-maturity is included in "Investment income" (Note 16) in the statement of comprehensive income.

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3. Financial risk management (continued)

(c) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk, and price risk.

(i) *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Authority's exposure to interest rate risk in the form of fluctuations in future cash flows of existing financial instruments is limited to cash and cash equivalents, since these instruments are subject to variable interest rates. The remainder of the Authority's financial assets and liabilities have either fixed interest rates or are non-interest-bearing.

The interest rate risk table below is based on the Authority's contracted portfolio as reported in the Authority's statement of financial position. All financial instruments are shown at their repricing period which is equivalent to the remaining term to maturity.

Sensitivity to interest rate risk

The figures below show the effect on the Authority's comprehensive income and equity of a movement of +/- 1 percentage point in interest rates, given the level, composition and duration of the Authority's foreign currency and Bermuda dollar financial instruments as at year end. The valuation effects shown are generally reflective of the Authority's exposure over the financial year.

	2016		2015	
	+1%	-1%	+1%	-1%
Change in comprehensive income/equity due to movement of percentage point across yield curves:				
US dollar overnight repurchase agreement with the US Federal Reserve	395	(134)	354	(36)
US dollar quoted securities	1,155	(1,155)	1,086	(1,086)
Total	1,550	(1,289)	1,440	(1,122)

An increase in interest rates of 1% would result in additional income of \$1,550 (2015 - \$1,440). A decrease in interest rates of 1% would result in decrease in income of \$1,289 (2015 - \$1,122). As current interest rates on US dollar Federal Reserve deposits are below 1%, the valuation effect of a negative 1% shift in interest rates would be to take interest income to \$nil for this class.

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3. Financial risk management (continued)

(ii) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

At December 31, 2016 and 2015, the Authority did not hold a significant amount of foreign currency other than US dollars, which are par with Bermuda dollars. Given the small size of the net foreign currency exposure relative to the total assets of the Authority, currency risk is not considered material.

(iii) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from changes in interest and exchange rates), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar instruments traded in the market.

As the Authority only invests in fixed income securities and term deposits which are held to maturity, the Authority has no significant exposure to price risk.

(d) Liquidity risk

Liquidity risk is the risk that the Authority will encounter difficulty in meeting obligations associated with its financial liabilities.

The Authority's largest liability is notes and coins in circulation. As a counterpart to this non-interest bearing liability with no fixed maturity, the Authority holds a portfolio of highly liquid cash and cash equivalents. In the event of an unexpected redemption of bank notes, the Authority has the ability to settle the obligation by selling its assets.

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

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3. Financial risk management (continued)

The fair value of investments presented in the table below are based on year-end quoted market prices.

As at December 31, 2016

	Total	No fixed maturity	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
FINANCIAL ASSETS						
Cash and cash equivalents	43,756	43,756	-	-	-	-
Investments (fair value)	108,589	-	8,060	5,162	28,731	66,636
Accounts and other receivables	951	951	-	-	-	-
	<u>153,296</u>	<u>44,707</u>	<u>8,060</u>	<u>5,162</u>	<u>28,731</u>	<u>66,636</u>
FINANCIAL LIABILITIES						
Notes and coins in circulation	137,500	137,500	-	-	-	-
Accounts and other payables	6,261	6,261	-	-	-	-
	<u>143,761</u>	<u>143,761</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net maturity difference	<u>9,535</u>	<u>(99,054)</u>	<u>8,060</u>	<u>5,162</u>	<u>28,731</u>	<u>66,636</u>

As at December 31, 2015

	Total	No fixed maturity	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
FINANCIAL ASSETS						
Cash and cash equivalents	35,438	35,438	-	-	-	-
Investments (fair value)	110,525	-	-	5,147	37,691	67,687
Accounts and other receivables	1,495	1,495	-	-	-	-
	<u>147,458</u>	<u>36,933</u>	<u>-</u>	<u>5,147</u>	<u>37,691</u>	<u>67,687</u>
FINANCIAL LIABILITIES						
Notes and coins in circulation	132,755	132,755	-	-	-	-
Accounts and other payables	5,965	5,965	-	-	-	-
Due to the Consolidated Fund of the Government of Bermuda	416	-	-	416	-	-
	<u>139,136</u>	<u>138,720</u>	<u>-</u>	<u>416</u>	<u>-</u>	<u>-</u>
Net maturity difference	<u>8,322</u>	<u>(101,787)</u>	<u>-</u>	<u>4,731</u>	<u>37,691</u>	<u>67,687</u>

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3. Financial risk management (continued)

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Authority's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all areas of the Authority's operations.

The Authority's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Authority's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall standards for the management of operational risk.

Compliance with the standards is supported by a programme of periodic reviews undertaken by internal audit. The results of the internal audit reviews are discussed with line management, with summaries submitted to the Board's Audit and Risk Management Committee and senior management.

4. Critical accounting estimates and judgements

4.1 Fair value estimation

Given the short-term nature of the Authority's financial assets and liabilities, the carrying value of cash and cash equivalents, accounts and other receivables/payables, and notes and coins in circulation are assumed to approximate their fair values. The fair value of investments is based on quoted prices in active markets (Note 3(a) (i)).

4.2 Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the Authority to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates in these financial statements include:

- provisions for impairment of accounts and other receivables;
- economic use and life of property and equipment and intangible assets;
- provisions for impairment on property and equipment and intangible assets;
- provisions for impairment of stock of numismatic items; and
- assumptions made in the determination of special retirement benefits.

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4.2 Use of estimates and judgements (continued)

Actual results could differ from these estimates.

The following are the critical judgements, apart from those involving estimation:

- assessment on the ability to continue as a going concern; and
- assessment on the Authority's positive intention and ability to hold investments to maturity.

5. Cash and cash equivalents

This account consists of:

	2016	2015
Cash at bank and in hand	1,356	1,738
Overnight repurchase agreement with the US Federal Reserve	42,400	33,700
Total	43,756	35,438

Cash at bank earns interest at an effective rate of 0.34% (2015 – 0.10%).

Overnight repurchase agreements for terms of one business day are acquired through buyback transactions with the US Federal Reserve to earn an overnight interest rate.

6. Accounts and other receivables

This account consists of:

	2016	2015
Accounts receivable	1,576	2,266
Less: provision for impairment of receivables	(1,390)	(1,579)
Accounts receivable – net	186	687
Accrued interest	765	808
Total	951	1,495

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6. Accounts and other receivables (continued)

The ageing analysis of these receivables are as follows:

	2016	2015
Up to 3 months	186	687
Total	186	687

As at December 31, 2016, accounts receivable of \$1,390 (2015 - \$1,579) were impaired and fully provided for. The individually impaired receivables mainly relate to fees charged to regulated entities. The ageing of these receivables is as follows:

	2016	2015
Up to 3 months	6	73
3 to 6 months	6	34
Over 6 months	1,378	1,472
Total	1,390	1,579

Movements on the provision for impairment of accounts receivable are as follows:

	2016	2015
Balance as at January 1	1,579	1,412
Provision for impairment of receivables	(189)	167
Balance as at December 31	1,390	1,579

The creation and release of the provision for impairment of receivables has been included in “general expenses” (Note 18) in the statement of comprehensive income. The Authority provides 100% for all trade balances that are greater than 90 days past due. Amounts charged to the provision for impairment of accounts receivable are generally written off when there is no expectation of recovery.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Authority does not hold any collateral as security.

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7. Stock of numismatic items

This account consists of:

	2016	2015
Commemorative notes and coins	794	705
Circulation notes and coins	21	21
Bullion for inventory production	165	128
Provisions	(120)	(118)
	<u>860</u>	<u>736</u>

8. Stock of notes and coins for circulation

This account consists of:

	2016	2015
Notes	5,038	5,368
Coins	544	647
	<u>5,582</u>	<u>6,015</u>

The cost of stocks recognised as expenses and included in “circulation note and coin expenses” amounted to \$438 (2015 - \$404).

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9. Property and equipment

This account consists of:

	Land, building and improvements	Computer equipment	Furniture and fixtures	Museum items	Total
At January 1, 2016					
Cost	31,111	2,907	3,135	71	37,224
Accumulated depreciation	(8,040)	(2,438)	(2,774)	-	(13,252)
Net book amount	23,071	469	361	71	23,972
Year ended December 31, 2016					
Additions	-	525	25	1	551
Disposals - cost	-	(259)	(54)	-	(313)
Disposals - accumulated depreciation	-	259	54	-	313
Depreciation charge	(776)	(270)	(160)	-	(1,206)
Closing net book amount	22,295	724	226	72	23,317
At December 31, 2016					
Cost	31,111	3,173	3,106	72	37,462
Accumulated depreciation	(8,816)	(2,449)	(2,880)	-	(14,145)
Net book amount	22,295	724	226	72	23,317

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9. Property and equipment (continued)

This account consists of:

	Land, building and improvements	Computer equipment	Furniture and fixtures	Museum items	Total
At January 1, 2015					
Cost	31,111	2,728	3,101	69	37,009
Accumulated depreciation	(7,264)	(2,385)	(2,611)	-	(12,260)
Net book amount	23,847	343	490	69	24,749
Year ended December 31, 2015					
Additions	-	330	35	2	367
Disposals - cost	-	(151)	(1)	-	(152)
Disposals - accumulated depreciation	-	149	1	-	150
Depreciation charge	(776)	(202)	(164)	-	(1,142)
Closing net book amount	23,071	469	361	71	23,972
At December 31, 2015					
Cost	31,111	2,907	3,135	71	37,224
Accumulated depreciation	(8,040)	(2,438)	(2,774)	-	(13,252)
Net book amount	23,071	469	361	71	23,972

Depreciation of \$1,206 (2015- \$1,142) has been charged in the statement of comprehensive income.

The cost of property and equipment fully depreciated and still in use are:

	2016	2015
Furniture and fixtures	2,467	2,470
Computer equipment	1,966	2,105

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10. Intangible assets

This account consists of:

	Computer Software					
	Internally developed	2016 Externally acquired	Total	Internally developed	2015 Externally acquired	Total
At January 1						
Cost	5,758	2,505	8,263	5,758	1,585	7,343
Accumulated amortisation	(5,264)	(1,435)	(6,699)	(4,498)	(1,185)	(5,683)
Amortisation reclassification	-	-	-	18	(18)	-
Net book amount	494	1,070	1,564	1,278	382	1,660
Year ended December 31						
Additions	-	1,446	1,446	-	920	920
Amortisation charge	(358)	(406)	(764)	(784)	(232)	(1,016)
Closing net book amount	136	2,110	2,246	494	1,070	1,564
At December 31						
Cost	5,758	3,951	9,709	5,758	2,505	8,263
Accumulated amortisation	(5,622)	(1,841)	(7,463)	(5,264)	(1,435)	(6,699)
Net book amount	136	2,110	2,246	494	1,070	1,564

Amortisation of \$764 (2015 - \$1,016) is included in the statement of comprehensive income.

The cost of software fully amortised and still in use in 2016 is \$5,940 (2015 - \$4,520).

There were no research and development costs charged to the statement of comprehensive income in 2016 and 2015.

11. Accounts and other payables

This account consists of:

	2016	2015
Accrued expenses	4,714	4,475
Accounts payable	40	2
Amounts due to related parties (Note 21)	1,262	1,197
Customer deposits and annual business fees payable	208	254
Deferred income	37	37
	6,261	5,965

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12. Notes and coins in circulation

In accordance with Part IV, Section 11 of the Act, the Authority has sole authority to issue notes and coins for circulation in Bermuda. Notes and coins issued are a claim on the Authority in favour of the holder. Notes and coins in circulation are recorded at face value as a liability on the statement of financial position. These are non-interest bearing and are due on demand.

Section 19 of the Act requires the Authority to hold a reserve of external assets of an amount in value sufficient to cover 50% of the value of the total amount of notes and coins in circulation as defined in that section. These assets held shall include, inter alia, (a) gold; (b) notes or coins or bank balances in Bermuda, (c) balances and money at call in overseas banks and treasury bills maturing within 184 days, issued by a foreign government whose currency is freely convertible, (d) specified securities or balances with Crown Agents.

At December 31, 2016, the Authority was required to hold a reserve of external assets of at least \$68,750 (2015 - \$66,378) and the actual external assets held totalled \$152,460 (2015 - \$108,990).

As indicated in Note 3(d), at December 31, 2016, the fair value of the Authority's total financial assets exceeded its financial liabilities by \$9,535 (2015 - \$8,322).

13. Due to the Consolidated Fund of the Government of Bermuda

In accordance with Section 8 (3) of the Act, earnings in the amount of \$nil (2015 - \$416) will be payable to the Consolidated Fund of the Government of Bermuda.

On April 28, 2016, the Minister of Finance granted approval for the Authority to retain the 2015 surplus of \$832 to offset the costs of upgrades to the beneficial ownership system.

On April 5, 2017, the Minister of Finance granted approval for the Authority to retain the 2016 surplus of \$3,592 to offset the costs of (a) work required to build a new electronic beneficial ownership system; (b) enhanced AML/ATF resources to prepare for the CFATF review of Bermuda in 2018; and (c) continuation of the formation of a Target Operating Model for the Authority.

14. Equity

Equity

The Authority manages its equity (capital and general reserve) in compliance with the requirements of the Act.

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14. Equity (continued)

(a) Capital

The Authority's authorised capital of \$30,000 can be subscribed at such times and in such amounts as the Board, with the approval of the Minister of Finance (the "Minister"), may require. As at December 31, 2016 capital of \$20,000 (2015 - \$20,000) has been subscribed.

The Authority is not in violation of any externally imposed capital requirements at the statement of financial position date. See Note 12 notes and coins in circulation.

(b) General Reserve

A general reserve of \$23,399 (2015 - \$19,391) has been established and maintained in accordance with Section 8 of the Act.

The Minister of Finance granted approval for \$3,592 (2015 - \$832) of net earnings to be transferred to the general reserve account.

15. Supervisory and licensing fees

This account consists of:

	2016	2015
Insurance fees	35,295	30,774
Bank and deposit company fees	4,545	4,545
Investment funds	1,078	1,109
Anti-money laundering fines ("AML fines")	1,000	-
Trust company fees	672	652
Investment business licence fees	645	671
Anti-money laundering fees ("AML fees")	361	375
Insurance fines	109	15
Investment business act fines ("IBA fines")	50	75
Corporate Service Provider fees ("CSP fees")	20	-
Credit Union licence fees	3	3
Trust company fines	-	250
	43,778	38,469

In accordance with Section 24 (5) of the Proceeds of Crime Regulations (Supervision and Enforcement) Act 2008, AML fees in the amount of \$361 (2015 - \$375) and AML fines in the amount of \$ 1,000 (2015 - nil) were recognised as revenue and expenses in the amount of \$1,492 (2015 - \$889) were incurred.

AML fines and fees are included in supervisory and licencing fees and AML expenses are included in salaries and employee benefits (Note 17) and general expenses (Note 18).

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16. Investment income

This account consists of:

	2016	2015
Interest on investments held-to-maturity	3,596	3,615
Gain on call of US quoted securities	60	495
Interest earned on overnight repurchase agreement with the US Federal Reserve	134	36
Net amortisation/accretion of premiums/discounts on investments held-to-maturity	(327)	(216)
	3,463	3,930

17. Salaries and employee benefits

This account consists of:

	2016	2015
Salaries and bonuses	27,043	26,377
Payroll tax	2,672	2,386
Pension costs	1,147	1,122
Health insurance	1,098	1,072
Life insurance	392	292
Directors' fees	368	293
Social insurance costs	298	285
Other benefits	72	65
	33,090	31,892

The Authority has 180 employees at December 31, 2016 (2015 – 175).

Employee benefits include the following:

(a) Pension plans

The Authority provides various pension schemes to its eligible employees:

(i) Defined contribution plan

The Authority has a defined contribution plan administered by BF&M Life (the "Plan") for the majority of its eligible employees. A defined contribution plan is a post-employment benefit plan under which the Authority pays fixed contributions. The Authority has no legal or constructive obligations to pay further contributions.

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17. Salaries and employee benefits (continued)

(i) Defined contribution plan (continued)

Employee contributions to the Plan are 5% of gross salary matched by the Authority. These contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The balance of prepaid contributions as at December 31, 2016 amounted to \$45 (2015 - \$519). The Authority's contributions to the Plan during the year were \$1,118 (2015 - \$1,003).

(ii) Defined benefit plan

The Authority contributes to the Public Service Superannuation Fund ("PSSF" or the "Fund"), which is a defined benefit plan, administered by the Government and covers the remainder of the Authority's eligible employees, all of whom were previous employees of the Government. Contributions of 8% (2015 - 8%) of gross salary are required from both the employee and the Authority, and have been included in salaries and employee benefits. As part of the agreement to transfer this employee group to the Authority, the Authority is not required to make contributions to the Fund with respect to the quantified actuarial deficiencies. As a result, the current year contributions to the Fund represent the total liability of the Authority. The Authority's contributions to the Fund during the year were \$123 (2015 - \$119).

(b) Other employee benefits

Other employee benefits include maternity leave, paternity leave, sick leave, vacation days and special retirement benefits. All these benefits are unfunded.

Maternity and paternity leave costs do not accumulate or vest and therefore an expense and liability is only recognised when applied for and approved. There were no maternity and paternity benefits applied for or approved during the current year and therefore, no liabilities have been accrued in the financial statements.

Sick leave does not accumulate or vest, and like maternity and paternity leave, a liability is only recognised when extended leave is applied for and approved. There was no extended sick leave applied for or approved during the current year and therefore, no liabilities have been accrued in the financial statements.

Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation liability as at December 31, 2016 was \$505 (2015 - \$460) and is included in accounts and other payables.

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17. Salaries and employee benefits (continued)

(b) Other employee benefits (continued)

Certain employees are entitled to special retirement benefits based upon their years of service at the time of retirement. The present value of the special retirement benefits obligation depends on a number of factors that are determined on an actuarial basis. Two key assumptions used in calculating this liability include the discount rate and salary inflation. Any changes in these assumptions will affect the carrying amount of the liability. During the year no special retirement benefits were paid (2015 - \$2). The liability as at December 31, 2016 was \$335 (2015 - \$299) and is included in accounts and other payables.

18. General expenses

This account consists of:

	2016	2015
Premises and office	3,798	3,422
Conferences, seminars, education and training	977	724
Communication	400	434
Recruitment and repatriation	399	322
Other	231	249
Annual business fees written off	172	92
Net foreign exchange loss	96	50
Public relations	71	61
Advertising	65	65
Provision for impairment on numismatic items	2	79
Provision for impairment of receivables (Note 6)	(189)	167
	6,022	5,665

19. Cash generated from operations

	2016	2015
Non-cash items included in total comprehensive income for the year		
Depreciation of property and equipment (Note 9)	1,206	1,142
Amortisation of intangible assets (Note 10)	764	1,016
Amortisation/accretion of premiums/discounts on investments, held-to-maturity (Note 16)	327	216
Gain on call of US quoted securities (Note 16)	(60)	(495)
Provision for impairment of receivables (Note 6)	(189)	167
Gain on sale of property and equipment	(1)	-
Provision for impairment on numismatic items (Note 18)	2	79
	2,049	2,125

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19. Cash generated from operations (continued)

	2016	2015
Change in operating assets		
Stock of notes and coins for circulation	433	341
Stock of numismatic items	(126)	9
Accounts and other receivables	733	(766)
Prepayments	(480)	337
	560	(79)
Change in operating liabilities		
Accounts and other payables	296	1,161
	296	1,161

20. Commitments

The Authority has some long-term contracts and agreements of various sizes and importance with outside service providers. Any financial obligations resulting from these are recorded as a liability when the terms of these contracts and agreements for the acquisition of goods and services or the provision of transfer payments are met.

Annual contractual commitments are as follows:

	2016	2015
2016	-	905
2017	1,666	430
2018	1,216	431
2019	442	338
2020	390	-
Thereafter	390	338
	4,104	2,442

Capital commitments (included in contractual commitments), represent expenditure contracted for at the statement of financial position date but not yet incurred and are as follows:

	2016	2015
Property and equipment	-	38
Intangible assets	1,262	102
	1,262	140

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21. Related-party transactions

The Authority is related to the Government in that the Act gives the Minister the ability to give the Authority, after consultation with the Authority, such general directions as appear to the Minister to be necessary in the public interest. Additionally, the Minister appoints all members of the Authority's Board of Directors and approves the Authority's annual expenditure budget.

The Authority maintains a position of financial and operational autonomy from the Government through its ability to fund its own operations without government assistance and through its management and corporate governance structures.

In the ordinary course of business, the Authority has transactions with the Government which are settled at the prevailing market prices and consist of the following:

	2016	2015
Staff expenses:		
Payroll tax	2,672	2,386
Social insurance	298	285
Pension costs - PSSF	123	119
Due to Consolidated Fund of the Government of Bermuda	-	416
Premises expense - land tax	221	209
Professional fees – audit	95	100
Other general expenses - immigration fees	116	60
Office expense - postage	3	10

On April 28, 2016, the Minister of Finance granted approval for the Authority to retain the 2015 surplus of \$832 to offset the costs of upgrades to the beneficial ownership system.

On April 5, 2017, the Minister of Finance granted approval for the Authority to retain the 2016 surplus of \$3,592 to offset the costs of (a) work required to build a new electronic beneficial ownership system; (b) enhanced AML/ATF resources to prepare for the CFATF review of Bermuda in 2018; and (c) continuation of the formation of a Target Operating Model for the Authority.

Board and key management compensation

The Directors of the Board of the Authority are appointed by the Minister to serve for fixed periods of time. The Board, through its Human Capital Committee, oversees the appointment, performance and compensation of the executive leadership team. Board members are paid an annual fee of \$20 (2015 - \$20), Board sub-committee Chairmen are paid an annual fee of \$25 (2015 - \$25) and the Board Chairman receives an annual fee of \$75 (2015 - \$75). Travel expenses of \$72 (2015 - \$39) were paid to overseas board members.

The Chief Executive Officer is paid a salary of \$500 (2015 - \$500) and is eligible for a performance-based bonus of up to 45% (2015 - 45%) of salary. With effect from 2015, the CEO is eligible for a retention bonus which accrues annually at rate of 10% of his annual base salary through December 31, 2019.

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21. Related-party transactions (continued)

Board and key management compensation (continued)

Salaries of the other six members of the executive team range from \$233 to \$355 (2015 - \$230 to \$350), with a performance-based bonus of up to 30% (2015 – 30%) of salary.

The compensation paid or payable to members of the Board and key management is shown below:

	2016	2015
Directors' fees	368	293
Executive management salaries, bonuses and other short-term employee benefits	3,430	3,184
Retention bonus	50	50
Post-employment benefits	173	159

Notes

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