



## 2015 ANNUAL REPORT







An aerial photograph of a coastal city, likely Bermuda, showing a harbor filled with numerous small boats and a few larger ships. The city is built on a hillside overlooking the water, with many buildings and greenery. The sky is blue with scattered white clouds.

## **+ BERMUDA MONETARY AUTHORITY**

The Bermuda Monetary Authority (Authority) is the regulator of the financial services sector in Bermuda. Established under the Bermuda Monetary Authority Act 1969, the Authority supervises, regulates and inspects financial institutions operating in or from within the jurisdiction. It also issues Bermuda's national currency, manages exchange control transactions, assists other authorities in Bermuda with the detection and prevention of financial crime, and advises the Government and public bodies on banking and other financial and monetary matters.

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

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## **+ 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

“As long as Bermuda thrives as a healthy jurisdiction in which to conduct business, so will members of the community.”



In early 2015, the Authority set out its strategic priorities for the year in a public document. We undertook to accomplish certain objectives over the ensuing 12 months, and report back on the outcome.

Delivering on our promise to perform is essential, because it underscores two crucial elements:

- As is appropriate for the regulator, the Authority is committed to operating transparently and is fully accountable for its activities.
- What the Authority undertakes has an impact on Bermuda as a whole, because it affects the number one pillar of our island economy, financial services.

It is an honour to be in a position to have an impact on your country; it is also a weighty responsibility.

That responsibility had never felt more important, more far-reaching, more intimidating than at the start of 2015.

We began the year optimistically, following the news in December 2014 that Bermuda had been declared a qualified jurisdiction by the National Association of Insurance Commissioners (NAIC), the US standard-setting and regulatory support organisation created and governed by the country's chief insurance regulators from the 50 US states, District of Columbia and five US territories.

This decision was one that would benefit some 240 Bermuda-based companies, including the largest insurers and reinsurers located here.

In January, believing we were on the final leg of the long and winding journey towards achieving Solvency II Equivalence



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for Bermuda, we seemed to hit a wall. Just when we thought we had cleared every hurdle in our path, checked every box and met every requirement, the goalposts moved. In spite of the massive investment in framework revisions – which not only work for Bermuda but were designed to secure support for Bermuda – success did not seem assured.

It was a setback – but not for long. The team at the Authority found a higher gear and got to work – more legislation, more robust regulation and never enough time. In a flurry of activity and long days and nights, the Authority team members proved how hard-core they were in terms of professionalism and determination.

And as we know now, the journey concluded in victory. The European Union ruled that Bermuda's regulatory regime for commercial insurance and reinsurance undertakings is equivalent to Europe's Solvency II system and it entered into force on January 1, 2016. Bermuda has become the first non-European jurisdiction to be designated equivalent.

This recognition is a game changer. In simplest terms it means that Bermuda's commercial insurers and reinsurers are able to conduct cross-border business within the EU free of competitive disadvantage. It also effectively secures Bermuda's position as one of the leading insurance markets in the world.

If Bermuda had not pursued equivalence with such vigour, the year would have looked very different for the Authority – in spite of the many other successes achieved. Without doubt, we would not have been able to welcome XL Catlin as a Bermuda-domiciled insurance group. Or Qatar Re, whose decision to locate itself

in Bermuda was influenced in large part by our equivalence status.

In fact, the work undertaken by the BMA, ABIR, the Government and other players in pursuit of equivalence effectively has helped to legitimise Bermuda as an international financial services centre. It led to a new wave of relationship building and an enhanced respectability for Bermuda. This could ultimately benefit not only our risk industry but also the fund area, where it will help to smooth the process of passporting into Europe under the so-called AIFMD provisions. The Authority exists to protect and enhance Bermuda's position as a leading financial centre; last year I can unequivocally say that we hit the target with this major initiative.

Having said that, Solvency II equivalence represented only part of our role as Bermuda's regulator.

As a reminder: The Authority supervises banks, trust companies, investment funds and businesses, fund administrators, money service businesses, corporate service providers. We issue Bermuda's national currency, manage exchange control transactions and assist authorities – here and abroad – with the detection and prevention of financial crime. We advise Government on banking and other financial and monetary matters, and we regulate the Bermuda Stock Exchange.

In 2015, efforts to enable Bermuda to retain its position as a leading financial services sector were diverse and numerous. The details of the activities are outlined throughout the pages of this Annual Report.

In summary, in the banking and asset management space we committed to implementing Basel III standards,

continuing the development of an AIFMD opt-in regime for Bermuda, updating the regulatory framework for investment businesses, and enacting Special Resolution Regime legislation.

For insurance we pledged to expand the Economic Balance Sheet framework, enhance reporting for Insurance Classes 1, 2, 3, A and B and further develop the Authority's supervisory toolkit.

In addition, we said we would expand the framework for money service businesses, implement the Corporate Service Providers regime, continue our international engagement efforts, ensure we were ready for transition to a post-equivalent environment, prepare for assessment of Bermuda's AML/ATF regime and initiate the second AML/ATF National Risk Assessment.

We accomplished what we set out to do – and more. This list does not include the contribution of the Authority to the development of a structure to ensure Bermuda's financial stability, or the strides we have made in our information technology, or the speeches, presentations, interviews and panel discussions – at home and abroad – that BMA people have participated in.

The standard of employee at the Authority has made all this possible. Without the talent we could not perform at this level, and I take this opportunity to thank each and every colleague for what they achieved in 2015.

Every year, the annual report is delivered to the Minister of Finance for tabling before Cabinet and the House of Assembly. It is also posted on the Authority's website. We know this transparency and accountability

## CEO'S Report continued

is essential to our external stakeholders – industry and the Government. But what does the work of the Authority mean for Bermuda as a whole? Why should the average person care? What is the relevance of the Authority? Let me explain.

One of the greatest concerns in Bermuda today is the economic climate. Without a healthy and robust economy, business does not succeed here; without business in operation Bermudians can't get jobs. All of this is a bit of a truism – even a statement of the obvious. But I believe it needs to be stated as a reminder of just how fragile our economy is, and how rigorous we all need to be in our guardianship of it.

The Authority has a key role to play by

- Analysing the local and global landscape to ensure wise decision-making at a macro level
- Setting up and maintaining the regulatory frameworks that provide opportunity for new business while ensuring that they continue to work for existing business
- Enabling Bermuda to break new ground for financial services.

It's what the Authority does. As long as Bermuda thrives as a healthy jurisdiction in which to conduct business, so will members of the community. In the past, the work of the regulator has probably been considered somewhat arcane – leading it to appear cloaked in mystique. But we are an integral part of the success of Bermuda – and, by the way, we are committed to continuing the success story.

The year under review on these pages, 2015, has had its ups and downs as always, but overall it has been testament to Bermuda's winning formula, one which works for the greater good of the country as a whole.



**Jeremy Cox**  
Chief Executive Officer

*30th April, 2016*

### 2015 BUSINESS PLAN MILESTONES COMPLETED

#### Banking and Asset Management

- ⊕ Implemented Basel III standards
- ⊕ Continued the development of an AIFMD opt-in regime for Bermuda
- ⊕ Updated the regulatory framework for investment businesses
- ⊕ Enacted Special Resolution Regime legislation

#### Insurance

- ⊕ Expanded the Economic Balance Sheet framework
- ⊕ Further developed the Authority's supervisory toolkit

#### Other

- ⊕ Continued international engagement efforts
- ⊕ Prepared for transition to post-equivalent environment
- ⊕ Prepared for international assessment of Bermuda's AML/ATF regime



## ⊕ EXECUTIVE TEAM



*Pictured from left:*

**Andrew Gibbs**  
*Director, Supervision  
(Insurance)*

**David Theaker**  
*Chief Actuary, Supervision  
(Actuarial Services)*

**George Pickering**  
*Senior Advisor, Financial  
Stability & AML*

**Craig Swan**  
*Managing Director,  
Supervision*

**Jeremy Cox**  
*Chief Executive Officer*

**Marcia Woolridge-Allwood**  
*Director, Supervision  
(Banking, Trust, Corporate  
Services & Investment)*

**Shauna MacKenzie**  
*Director, Policy, Legal,  
& Enforcement*

NOT SHOWN:

**Sheridan Smith**  
*Director, Operations  
(Management Services/  
Information Technology)*

**Shanna Lespere**  
*Chief Operating Officer*

**Shelby Weldon**  
*Director, Licensing &  
Authorisations*

# Our Responsibility

The Bermuda Monetary Authority had an extraordinary year in 2015 and the impact of its achievements will be felt by generations to come in Bermuda. That is not something I have the pleasure of saying every year!

Of course I am referring to the attainment of EU Solvency II equivalence for Bermuda's commercial insurance regime. As Chairman of the Board and on behalf of my fellow Directors I would like to congratulate all involved in this accomplishment from across the entire community including those in Government and industry. It has been a team effort by the jurisdiction.

Having said that the team at the Authority does deserve to be singled out. Led by CEO Jeremy Cox, the Authority team members have worked tirelessly for years to provide

European authorities with all they needed to accept Bermuda as an equivalent jurisdiction. I know first-hand about the exceptional effort that has been expended to progress Bermuda's regulatory regime to the point of acceptance.

Given the amount of work involved, the entire organisation deserves praise for this outcome. Those who were not directly involved were ensuring that the Authority functioned at the level required to be known as a competent and credible regulator.

Overall the past year has been one of significant activity and productivity. My fellow Board members and I have had the privilege of contributing to that effort with an emphasis on ensuring the Authority maintains the strategic focus and high standards that characterise the jurisdiction.

As a reminder, the role of the Board involves

- strategy – ensuring that the Authority discharges its functions in line with agreed strategy and objectives;
- fiscal responsibility – overseeing financial policies and processes and ensuring the Authority exercises financial prudence at all times; and
- leadership – enabling the Authority to function under a respected CEO and leadership team.

The Board receives full and detailed quarterly reports on the entire organisation – using a balanced scorecard approach. We know what is going on and how the Authority is doing. It is important for us to understand the line of sight between high-level strategic goals and those involved in the execution of those tasks that get us there. In fact, it is critical to the success of the organisation.

Given the vital role of the Board of Directors, the Authority was most fortunate to have

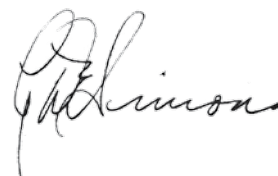
such an engaged and knowledgeable team in 2015. I would like to recognise Board members for their service and commitment to the BMA and the resulting contribution to Bermuda. As Chairman, I could not have asked for a more talented and supportive group of individuals. I thank them all.

I would particularly like to acknowledge three departing Board members who in total had served almost 30 years by the end of 2015. Barclay Simmons left the Authority in October to assume increased responsibilities at one of the Authority's licensed entities. Barclay, appointed in 2007, chaired the Board's Investment Committee and was also a member of the Corporate Governance and Ethics Committee. Lynda Milligan-Whyte, also appointed in 2007, chaired the Board's Legislative & Policy Committee as well as serving on the Investment Committee.

Anthony Joaquin, Deputy Chair of the Board for the past three years, served 11 years, 2005-2015. His contribution has been significant and we will miss his experience and wisdom. Most recently, Tony was Chair of the Audit & Risk Management Committee.

To all the retiring Board members, thank you. And I look forward to working with the five new Board members appointed by the Minister of Finance.

The role of the Board of Directors continues to be vital to the commitment of the Authority to Bermuda.



**The Hon. Gerald Simons, OBE**  
Chairman

*30th April, 2016*





*Pictured from left:*

**Tracy Tepper**

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

**Karel Van Hulle**

*Chairman, Insurance and  
Reinsurance Stakeholder  
Group (EIOPA)*

**Sharon Beesley**

*CEO, BeesMont  
Law Limited*

**Robin Masters**

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

**Michael Leverock**

*President, Leverock  
Advisors & Associates*

**Peter Hardy**

*Group Corporate Secretary,  
Colonial Group  
(Retired)*

**Walter A. Bell**

*Chairman, Swiss Re  
America Holdings Corporation  
(retired)*

**The Hon. Gerald Simons, OBE**

*Chairman*

**Allan Marshall**

*Deputy Chairman*

**Fiona Luck**

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

**Jeremy Cox**

*Chief Executive Officer,  
Bermuda Monetary Authority*

**Anne Kast**

*Director, Capital G  
Investments Ltd.  
(Retired)*



# BOARD COMMITTEES 2016

## 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

Under section 4C of the Bermuda Monetary Authority Act 1969 (BMA Act) the non-executive directors are responsible for:

- Keeping under review the question whether the Authority is discharging its functions in accordance with the policy objectives and strategy determined by the Board;
- Keeping under review the question whether the Authority's internal financial controls secure the proper conduct of its financial affairs; and
- Determining the remuneration and other terms of service of the executive members of the Board.

## INVESTMENT

**Allan Marshall (Chair)**

Anne Kast

Robin Masters

Jeremy Cox

The Committee is 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 its recommendations, as well as additional information and materials the Committee deems necessary to make the Board aware of significant financial matters that require the Board's attention

## 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 generally.

## CORPORATE GOVERNANCE & ETHICS

**Michael Leverock (Chair)**

Peter Hardy

Gerald Simons

Jeremy Cox

The Committee has responsibility for developing, implementing and monitoring effective corporate governance principles, policies and procedures.

It also oversees the policies and programmes of the Authority to ensure 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

The Committee approves the overall compensation framework for the Authority as well as the individual remuneration levels for Directors and above. The Committee is also responsible for:

- Making recommendations to the Non-Executive Directors Committee on the terms and conditions of employment of the Chief Executive Officer and Executive Directors
- Overseeing succession planning
- Overseeing the development and execution of human capital policies and programmes.

# Regulatory Developments & Framework Enhancement

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

In 2015, the Authority continued to balance the need to meet international standards with maintaining a regulatory environment that remained suitable for the jurisdiction.

The Authority continued to strengthen its AML/ATF framework in 2015 in line with the international standards established by the Financial Action Task Force (FATF). It was also an active member of the National Anti-Money Laundering Committee (NAMLC), the intra-governmental committee created to promote the detection and prevention of money laundering and terrorist financing in Bermuda and coordinate the development of legislation and policy to support this effort.

The Authority worked with NAMLC to update Bermuda's legislation and undertook an initiative to update the Authority's AML/ATF General Guidance Notes to ensure technical compliance with the revised FATF 40 Recommendations. The legislative amendments became effective in early 2016, with publication of the AML/ATF General Guidance notes to follow.

The Authority played a leading role under the auspices of NAMLC in completing the final stages of a national risk assessment aimed at identifying potential threats and vulnerabilities in Bermuda arising from money laundering. The output of the national risk assessment covering the financial sector led the Authority to undertake a number of initiatives to improve the integrity of its AML/ATF risk assessment processes. This work will continue into 2016 and beyond and will significantly inform the development of future policy and the Authority's risk-based supervision strategy.

The Authority is working closely with NAMLC and other member agencies in preparation for the 4th Round Mutual Evaluation of Bermuda to be undertaken by the Caribbean Financial Action Task Force in early 2018. In preparation for the evaluation, the Authority developed a three-year strategic plan in 2015 to enhance its AML/ATF supervisory framework.

# Banking, Trust, Corporate Services & Investment Developments

## BANKING

### Basel III

Under the Basel III framework, during 2015 the Authority instituted parallel reporting for revised capital and liquidity coverage ratio requirements. In December 2015, a paper articulating the Authority's incorporation of Basel III changes covering the standardised approach to credit risk to the Capital Assessment and Risk Profile (CARP) guidance was issued for industry comment. In late December, the Basel Committee on Banking Supervision extended the consultation period for comment on these changes to mid-March 2016. The Authority expects the changes to be incorporated in the publication of new CARP guidance in 2017.

### Guidelines for enhanced stress testing in the CARP

In April 2015, the Authority provided industry with an update to the stress-testing guidance.

This is the first annual update to the established supervisory review process and is designed to increase the relevance of additional stress testing as a standalone requirement for assessing post-stress capital adequacy. This enhancement results in a more robust capital analysis and a corresponding Pillar II requirement that is more reflective of the bank's risk profile. The results of stress testing will continue to play a role in the Authority's assessment of each bank's capital requirements to determine if a capital add-on will be required under Pillar II of the Basel Accord.

### Troubled debt restructuring (TDR) supervisory expectations issued

In October 2015, the Authority issued a paper providing guidelines for the general standardisation of processing and managing TDR. This paper establishes a base expectation for all Bermuda banking and deposit-taking institutions, although it is not intended to replace the generally accepted accounting

standards that govern TDR or to override the more conservative processes tailored to mitigate inherent risks in a portfolio of TDR.

## TRUST AND CORPORATE SERVICE PROVIDERS (TCSP)

### TCSP standards paper

In 2015, the Authority completed a gap analysis of Bermuda's current TCSP regime against the standard which the Group of International Finance Centre Supervisors (GIFCS) issued in October 2014.

The Authority worked closely with the GIFCS working group during the development of this new minimum benchmark for businesses administering international trusts and companies and will continue to coordinate with it on practical implementation of the standard.

### Corporate Service Providers (CSPs)

In Q2-2015, the Authority issued for consultation a corporate governance policy for CSPs in line with the policy that currently exists for the trust sector. This policy was finalised by Q3-2015 and published in Q1-2016. The Authority continues to engage with external stakeholders in anticipation of the launch of the CSP regime in 2016.

## INVESTMENT

### Alternative Investment Fund Managers Directive (AIFMD)

Throughout 2015, the Authority continued work on the development of an opt-in Alternative Investment Fund Managers (AIFM) regime for Bermuda. In this context, the Investment Business Amendment Act 2015 was adopted by Bermuda's Parliament on 17th August. Achievement of this milestone resulted in the AIFM regime being incorporated within the existing Investment Business Act 2003 (IBA) and gave the Authority

power to issue proposed AIFM Rules. A draft version of such Rules outlining the specific requirements of the new regime was circulated for consultation at the end of 2015. This work continues into 2016.

Parallel to the development of the AIFM opt-in framework, Bermuda came under assessment by the European Securities Markets Authority (ESMA). ESMA is conducting its assessment in order to determine whether it should recommend that the third country (non-EU) passport be extended to Bermuda-licensed fund managers, thereby enabling them to manage and market funds in the EU. Bermuda, Australia, Canada, Cayman Islands, Isle of Man and Japan were selected for consideration in a second wave of assessments, the results of which are expected from ESMA at the end of June 2016.

### Legislative framework review

To ensure that Bermuda's investment legislation aligned with new developments, the Authority continued its review of both the IBA and the Investment Funds Act 2006 in 2015. Mindful of international regulatory developments relating to investment management and investment business, the Authority continued to assess the broader Bermuda regime to maintain adherence to international principles and standards in these areas.

## MONEY SERVICE BUSINESS (MSB)

The Authority issued an MSB consultation paper and draft legislation in Q4-2015. The proposed new regime will remove the regulation of MSBs from the BMA Act and create a standalone licensing Act for this sector modelled on the regime that was approved by the legislature for the CSP sector.



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## Insurance

### Solvency II Equivalence

The culmination of efforts towards adjusting our regulatory environment to be compatible with the European Union's Solvency II Directive was recognised in Q4-2015 by the publication of the European Commission's Delegated Act. The Delegated Act confirmed that Bermuda's prudential framework for (re)insurance and group supervision was in line with the requirements of the Solvency II Directive. The Delegated Act was subject to review by the European Parliament and Council for a three-month period. On 4th March 2016, the Act was published in the Official Journal of the European Union and entered into force on 24th March 2016 with effect from 1st January 2016.

It was an Authority-wide initiative – both to develop legislation and consult with industry – and as a result, Bermuda's international reputation as a premier jurisdiction from which to conduct (re)insurance business has been strengthened.

### Enhanced regime for commercial insurers

The Authority's adjustments to its regime in 2015 created a notable impact on the filing requirements for commercial insurers (classes 3A, 3B, 4, C, D and E

and insurance groups). The Authority amended the statutory financial reporting regime to be aligned with GAAP/IFRS principles, which will now form the basis to prepare the statutory financial statements and Economic Balance Sheet (ABS). The Authority also enhanced the public disclosures regime and mandated that commercial insurers establish their head office in Bermuda. Developing the new requirements was a considerable undertaking that spanned multiple phases and built on work undertaken in 2014. Early in the year, the Authority conducted a trial run exercise of many aspects of the proposed new regime, including an Economic Balance Sheet (EBS) and enhancements to the Bermuda Solvency Capital Requirement (BSCR). From the analysis of this data, the Authority engaged in informal discussions with industry regarding the impact of the regulatory changes and was able to finalise legislative changes to bring them into effect by the end of 2015.

The new requirements were incorporated into the BSCR models alongside the current requirements and published in time for industry to use for their 2015 year-end filings. This enabled the Authority to instruct industry to conduct a mandatory trial run of the new regime alongside their regular filings. This will assist the Authority and industry in an

orderly transition from the current regime into the new enhanced regime.

### Enhanced statutory financial returns (E-SFR) for captive insurers

The Authority committed to making refinements to the filing requirements of its captive insurers, leveraging technology to improve filing and analysis processes while enhancing the Authority's prudential supervision of this sector.

A trial run data collection exercise for captives had been completed prior to the start of 2015 and legislative changes were submitted to effect the new requirements.

By the second half of 2015, the Authority invested resources in the specification and validation of a new E-SFR web application for captive filings. The E-SFR system enables captives to file electronically and enhances the Authority's ability to analyse captive returns at both company and market levels.

Industry user training seminars were conducted and an industry testing programme concluded in December 2015. Early E-SFR registrants were able to familiarise themselves with the system while providing the Authority with a field test from which to refine functionality and consider enhancements.

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## Financial Stability

The Authority continued to expand and strengthen its financial stability framework in 2015. This involved developing a more structured process for identifying and analysing risks that pose a threat to Bermuda's financial system and, more generally, to Bermuda's economy. It also involved developing a legal framework and policy tools to address the resolution of a failing bank in an orderly manner, mitigating the risk

of a systemic financial crisis that could threaten Bermuda's economic stability.

The Financial Stability Committee (FSC), comprising senior officials from the Authority and Ministry of Finance, met quarterly to discuss and monitor system-wide vulnerabilities and threats identified through macroprudential surveillance and microprudential supervision.

Current trends affecting global and domestic economic and financial

markets – and the potential impact of these developments on the key risks to financial stability – were also addressed at these meetings. In conjunction with the FSC meetings, thematic papers were produced to provide in-depth analysis of potential risks and policy recommendations to mitigate these risks.

The Authority implemented several key initiatives last year to develop the resolution framework in Bermuda.

The most important involved revisions to the Banking Act to provide a legal framework for an effective and credible resolution regime for banks whose failure under conventional insolvency regimes could cause disruption to Bermuda's financial system. This development aligns Bermuda's financial stability framework more closely with international standards developed in the wake of the global

financial crisis of 2008-2009.

Other steps were taken to underpin financial stability in 2015. The Authority signed a Memorandum of Understanding with the Ministry of Finance with the primary objective of promoting the stability of Bermuda's financial system.

As part of this initiative, the Authority and the Minister of Finance formed the Financial Policy Council (Council). The

role of the Council is to ensure the overall coherence of financial policy in Bermuda and to provide a channel through which financial policy issues affecting Bermuda can be discussed and assessed.

The Council's work is supported by the output of the FSC which provides analysis and research on issues related to financial stability together with policy options.

## International Participation

The Authority remained active on the international front in 2015 by maintaining positions on key committees within international regulatory organisations

such as the International Association of Insurance Supervisors (IAIS), of which Bermuda was a founding member and the Financial Stability Board. Despite

resource constraints, Bermuda needs to continue to have a seat at the table during discussions about global regulatory standards.

### HIGHLIGHTS OF INTERNATIONAL PARTICIPATION FOR 2015

#### INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS (IAIS)

- Technical Committee (TC) and Financial Stability Committee (FSC) in Basel, Switzerland
- Macprudential Policy & Surveillance Working Group in Los Angeles, Washington DC and Basel
- Annual Conference in Marrakesh, Morocco
- IAIS & Association of Latin American Insurance Supervisors (ASSAL), Seminario Regional sobre Capacitación de Supervisores de Seguros de Latinoamérica in San Jose, Costa Rica
- IAIS Self-assessment and Peer Review Expert Group for ICP 13 and 24 in Washington DC
- IAIS Index-based Insurance Working Group, Washington DC
- IAIS MoU Working Group meeting in Basel
- IAIS working group on Financial Crime in Slovenia and Washington DC
- Attended via teleconference various subgroups of the Capital Development Working Group and Field Testing Working Group

#### NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS (NAIC)

- Spring National Meeting in Phoenix
- Summer National Meeting in Chicago
- Fall National Meeting in Washington DC
- NAIC International Insurance Forum in Washington DC

#### FINANCIAL STABILITY BOARD

- Regional Consultative Group (FSB RCG) for the Americas, Shadow Banking Working Group Workshop in Cayman
- FSB RCG for the Americas meetings in Cancun, Mexico and Bridgetown, Barbados
- FSB Correspondent Banking Roundtable in Barbados

#### OTHER

- EU-US Insurance Project in Chicago and Washington DC
- Financial Stability Institute's Reinsurance Regulation Seminar in Bogota, Colombia

## PRESENTATION, SEMINARS AND DELIVERY OF TECHNICAL TRAINING

- American Conference Institute's Insurance Regulation Panel in New York City
- American Conference Institute's National Forum on Run-off Companies Regulation in New York City
- American Conference Institute's Captive Insurance Regulation in New York City
- IAIS & ASSAL, Seminario Regional sobre Capacitación de Supervisores de Seguros de Latinoamérica in Santiago de Chile, Chile

## BANKING

- Licensee review/regulatory meetings, London, England and Cayman
- Supervisory Colleges: attended one in London
- GIFCS meetings in London and Macao, China

## INVESTMENT

- International Organisation of Securities Commissions (IOSCO) Annual Conference in London
- IOSCO Seminar on implementing the IOSCO principles for stock exchanges, self-regulated organisations and national regulators in Zurich, Switzerland
- US SEC Annual International Institute for Market Growth and Development workshop in Washington DC
- CARTAC- Caribbean Group of Securities Regulators (CGSR) Conference in Jamaica
- Licensee review meetings in London
- Securities and Fraud Working Group in Washington DC

## TRUST AND COMPANY SERVICE PROVIDERS (TCSP)

- The Group of International Finance Centre Supervisors (GIFCS) Standard on the Regulation of Trust and Company Service Providers (TCSPs). The Authority participated on the working group, in the drafting of supporting documents to the Standard Paper

## FINANCIAL ACTION TASK FORCE (FATF)

- Attended FATF meetings in Paris
- Attended Caribbean FATF meetings in Honduras



# Legislative Developments

## Change Overview

The Authority focused on legislative amendments to position Bermuda to meet market requirements.

Three amendments were made to the Insurance Act 1978 during 2015 to meet changing requirements in the marketplace, while other legislation incorporated solvency requirements

for insurers and insurance groups and creation of the proposed Alternative Investment Fund Managers (AIFM) regime in Bermuda.

## HIGHLIGHTS OF LEGISLATIVE INITIATIVES DURING 2015

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### Insurance Amendment Act 2015

- The Act was amended to revise statutory capital and surplus requirements for Classes 3A, 3B, 4, C, D and E insurers and insurance groups.
- The amendments also stipulated that from 31st December 2016, qualifying insurers would be required to report to the Authority on a statutory economic capital and surplus basis.
- Other amendments related to statutory Economic Balance Sheet, total statutory economic capital and surplus, the Loss Reserve Specialist Opinion and the Approved Actuary Opinion. Consequential amendments were also made to the Insurance Returns and Solvency Regulations 1980.

### Insurance Amendment (No. 2) Act 2015

- As of 2016, these amendments require Class 3A, 3B, 4, C, D and E insurers and insurance groups to establish a head office in Bermuda and increase public disclosures. Consequential changes related to the implementation of the proposed Economic Balance Sheet regime were included.

### Insurance Amendment (No. 3) Act 2015

- Among other measures, Class 3A, 3B, 4, C, D and E insurers will now be required to appoint an Authority-approved, Bermuda-based auditor.
- Accounting and solvency requirements applicable to Class 3A, 3B, 4, C, D and E insurers formerly set out under the Insurance Accounts Regulations 1980 and the Insurance Returns and Solvency Regulations 1980 shall now be set out in an Insurance Accounts Rule, which the Authority will make under the amended Act.
- Other amendments redefined obligations in relation to captive classes only. All changes became effective on 1st January 2016.

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**Economic Balance Sheet (EBS) Framework**

- Continuing the task of embedding the EBS Framework as part of the Capital and Solvency Return (CSR) to form the basis for an insurer's Enhanced Capital Requirement (ECR), in 2015 the Authority made amendments to the prudential standards governing solvency requirements for insurers and insurance groups. The CSR included a new EBS Schedule containing a balance sheet with components valued under EBS principles. Many of the existing Schedules in the CSR were adjusted to refer to the EBS Schedule.
- Further changes were also made to the Insurance Prudential Standard Rules and Eligible Capital Rules to ensure alignment under the Insurance Act 1978.

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**Insurance (Group Supervision) Rules 2015**

- Amendments included: provisions for a new definition of "Statutory Economic Balance Sheet" and "insurance technical provisions"; the Schedule of Eligible Capital to be completed on a statutory economic capital and surplus basis; and a requirement for the group actuary opinion to be submitted under the Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules 2011.

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**Insurance (Eligible Capital) Amendment Rules 2015**

- Key changes made to the Rules were references to "Statutory Balance Sheet" and "valuation of policyholder obligations" and moving from a Statutory Balance Sheet to a new Economic Balance Sheet method. Such amendments became effective for submissions made following the end of the financial year commencing on or after 1st January 2016.
- Proposals covering Class 3A insurers will become effective for submissions made following the end of the financial year starting on or after 1st January 2017.

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**Amendment to Investment Business Act**

- The amendment provided the legal basis for an opt-in licensing regime to enable Bermuda-based investment managers to passport into the EU.

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**Special Resolution Regime**

- Bill introduced to establish a legal framework for an effective and credible resolution regime for banks whose failure under conventional insolvency regimes could cause systemic disruption to Bermuda's financial system.

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**Bermuda Monetary Authority Amendment Act 2015 (Fees)**

- The Authority proposed fee increases in two phases – to raise fees for insurer Classes 3B and 4 and for insurance groups in 2016, and then to increase fees for all other insurance classes in 2017.
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# Supervision & Licensing

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

## Banking Supervision

### ENHANCED REPORTING AND MONITORING

Enhanced monitoring of exposure management in the banking sector continued throughout 2015. All licensees provided regular monthly reports on their respective portfolios which were reviewed by the Authority. Follow-up meetings were also held to discuss any developments in the quality or risk structure of the entity's balance sheet.

Overall, Bermuda banks continued to maintain high levels of capital relative to international minimum standards. These prudent levels are expected to reduce the impact of further stresses from the slow economic environment. The Authority also continued to challenge the sector on their stress-testing and capital provisioning methodologies.

### OVERVIEW OF FINANCIAL POSITION

Despite continued challenging economic conditions, banking sector credit portfolios showed marginal signs of recovery. The most notable improvement came from reduced exposure to non-performing loans. Banks also continued to maintain a risk-averse strategy towards credit expansion; loan growth over the year was marginal. As the banks sought to secure income from safer products, there was an increase in other balance

sheet exposures, including investments in sovereign-related debt instruments. Despite balance sheet reallocations during the year, capital levels remained high and above international regulatory requirements.

### Assets and liabilities

During the year consolidated assets increased by 4.3%, from \$23.1 billion at the end of 2014 to \$24.1 billion at the end of 2015. The net increase was a reflection of the following asset class movements: investments increased by 20.6%; loans and advances increased by 9.4%; and deposits with other financial institutions decreased by 27.8%. Although other assets decreased by 13.8%, given the relative size of the class it had a negligible impact on total assets. The main driver behind the overall increase in the sectoral balance sheet was a 5.0% increase in deposit liabilities, from \$20.3 billion to \$21.4 billion, driven by increases in demand deposits of 10.7% and savings deposits of 7.5%, which were only partially offset by a decrease in time deposits of 15.0%.

### Balance sheet structure

Total assets continued to be relatively stable, with some growth in 2015, but the composition of the industry's balance sheet saw some significant changes. Investments grew faster than loans while cash and deposits with other financial institutions declined as part of the banks'



search for income from low-risk products. The share of loans increased from 35.9% to 37.7%, while the share of investments increased substantially from 37.4% to 43.3%. During the same period the share of cash and deposits fell from 22.9% to 15.8%.

### Earnings and profitability

Net income for the banking sector increased \$25.7 million or 16.9% in 2015. This reflects a 7.0% decrease of non-operating and operating expenses by \$43.3 million, coupled with a smaller decrease in total income of \$17.0 million or 2.3%. Banking income contributed 83.3% of total income with net interest income as the most significant component constituting 77.1%. During 2015, net interest income was relatively unchanged with a slight increase of only 0.5%. As a portion of total income, net interest income increased from 62.5% in 2014 to 64.3% in 2015. The interest margin for the sector was stable at 91.7% of interest income. Operating costs were relatively unchanged with a slight decrease by -0.5%, while non-operating expenses saw a significant

decline of 44.4%, driven primarily by a 37.8% decrease in provisioning.

### Capital adequacy

Capital adequacy in the Bermuda banking sector, as measured by the risk asset ratio (RAR), remained strong throughout 2015. Levels were again above regulatory minimum capital requirements and in excess of international benchmarks, including Basel III. RAR for the sector was 21.3% at the end of the year compared with 22.8% at the end of 2014. This reduction reflected a 6.0% decline in Tier 1 Capital, while Total Risk Weighted assets increased by 1.0%.

## CREDIT UNION SUPERVISION

The Authority continued its supervision of the sole credit union, the Bermuda Industrial Union Credit Union, throughout 2015 in accordance with the provision of the Credit Union Act 2010.

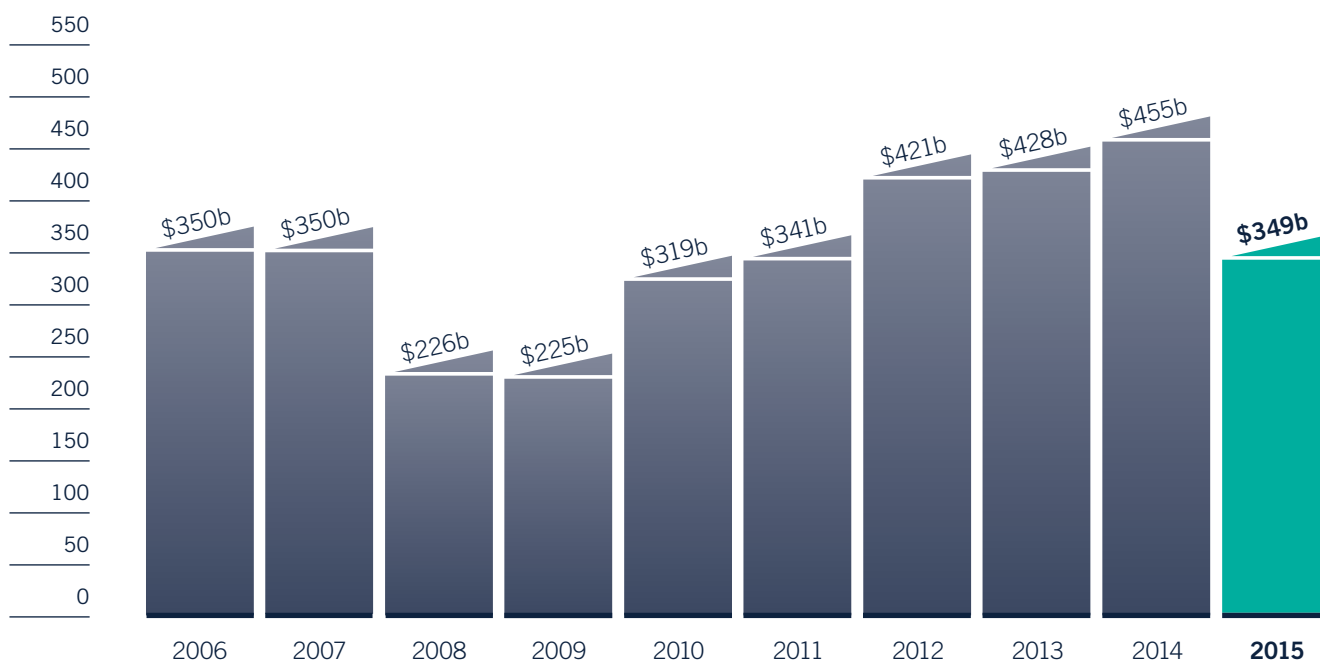
## BERMUDA STOCK EXCHANGE (BSX)

The total market capitalisation of the Bermuda Stock Exchange (BSX or Exchange) as at 31st December, 2015 (excluding collective investment vehicle listings) stood at over \$349.0 billion, of which approximately \$1.85 billion represented the domestic market. Total trading volume for the period was 6.3 million shares with a corresponding value of \$22.9 million compared with 12.5 million shares with a corresponding value of \$37.4 million for 2014.

The RG/BSX Index closed the year at 1304.06 for a decline of 3.9% over the year.

A total of 218 new securities were listed on the Exchange during 2015, including 58 Insurance Linked Securities (ILS) with a capitalisation value of \$6.1 billion. New listings continued across most sectors including international equities, debt and collective investment vehicle listings. There was a large decline in derivative listings primarily due to the repositioning of a large issuer.

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



# Insurance Supervision

## OVERVIEW – MARKET RESULTS

With the anticipation of Solvency II equivalence, the Authority experienced an uptick in Bermuda insurance group applications over the year. Two group applications were approved and 12 applications were being reviewed as the year came to a close.

New companies also continued to select Bermuda as the jurisdiction of choice. The year saw 65 new (re)insurers with Special Purpose Insurers (SPIs) comprising around one-third of the additions (20 companies). General business captives accounted for another third of the new (re)insurers (22 companies) with Class 1 adding eight companies and Class 2 and Class 3 both adding seven companies each.

General business commercials continued additions with nine from Class 3A and four from Class 4; Class 3B had no additions. No Long-Term captive (re)insurers were added but Long-Term commercials added 10 companies; seven from Class C, one from Class D, and two from Class E.

Overall, the year ended on an optimistic note regarding growth of (re)insurance registrations.

In the United States, the National Association of Insurance Commissioners (NAIC) granted Qualified Jurisdiction (QJ) status to Bermuda from 1st January 2015. In Europe, the Delegated Act entered into force on 24th March 2016 stating that our prudential framework was in line with the Solvency II Directive.

## GROUP SUPERVISION

A range of supervisory activity in relation to insurance groups took place during the year.

The Authority conducted five group on-site reviews and 12 supervisory colleges covering groups for which the Authority is Group Supervisor. In addition, the Authority was host supervisor for a further eight 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 (MOU) with relevant jurisdictions in relation to group supervisory colleges.

## INSURANCE-LINKED SECURITIES

Bermuda remained the leading jurisdiction for the issuance of catastrophe (cat) bonds; Insurance-Linked Securities (ILS) issued from Bermuda represented 69.0% (\$18.1 billion of \$26.3 billion) of total outstanding ILS capacity.

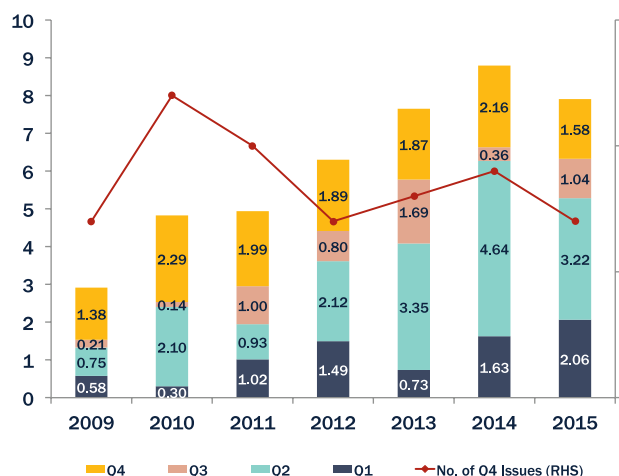
Since 2010, Bermuda-based Special Purpose Insurers (SPIs) have issued 119 ILS bonds while 157 SPIs have been registered. Bermuda is also host to foreign ILS listings which augment the depth of the secondary market. At the end of 2015, there were 82 ILS deals (103 tranches) listed on the Bermuda Stock Exchange with an aggregate nominal value of \$18.2 billion.

Annual ILS issuance contracted for the first time in seven years during 2015. Global ILS issuance fell 10.0% to \$7.9 billion (\$8.8 billion in 2014) for the year despite an increase in the number of deals completed. There were 48 transactions during the year (compared with 43 in 2014) with an average deal size of \$165.0 million (compared with \$204.0 million in 2014). The decline in average size per deal was attributed to the increased use of 'cat bond light' platforms which issue smaller deals, often privately placed.

Indemnity triggers accounted for more than half the outstanding volume of ILS deals. ILS with an indemnity trigger represented 58.0% (\$15.4 billion of \$26.3 billion) of the total outstanding volume of the ILS market. This was followed by the industry loss index trigger type which accounted for 23.0% of the outstanding volume. In 2015, 57.0% of the issued deal volume (\$4.5 billion of \$7.9 billion) used indemnity triggers, while 18.0% used an industry loss index trigger type.

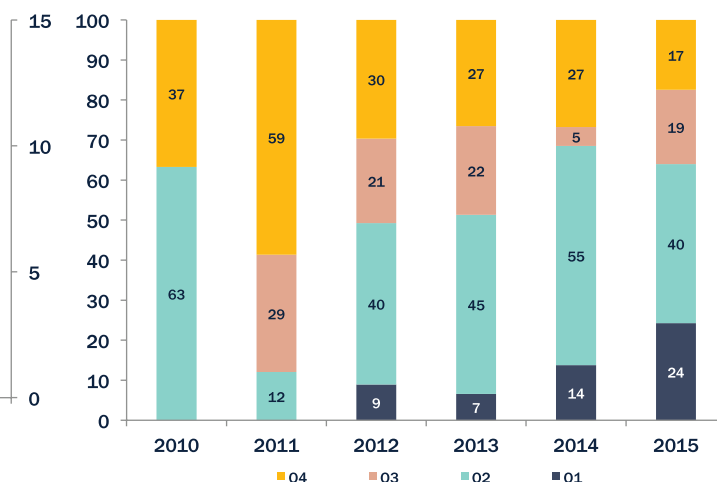
Domestic ILS issuance was down 27.0% to \$5.6 billion (\$7.7 billion in 2014) from 36 ILS deals completed during the year (36 in 2014). The average deal size during 2015 was \$156.0 million (compared to \$214.0 million in 2014).

## 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) 2010-2015 (IN %)



Source: Artemis and BMA staff calculations.

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

The Authority operates a risk-based approach to AML/ATF supervision carrying out its responsibilities primarily through on-site supervisory visits and desk-based reviews.

During 2015, the Authority conducted 10 AML/ATF on-site examinations and eight remediation reviews in the banking, trust, investment business, Long-Term (life) direct insurance, fund administration and money service sectors.

Desk-based reviews of AML/ATF policies and procedures were completed for 11 licensing applicants and 46 non-licensed registrants. Based on non-compliance identified in prior reviews, the Authority also reviewed the policies

and procedures of eight Long-Term direct insurers, incorporating the results into its AML/ATF supervisory plan.

In 2015, serious systemic deficiencies were found at four regulated entities within the banking, trust and insurance sectors. After enforcement investigations were carried out by the Authority, one entity was fined and three other cases are pending. Common themes included a failure to conduct comprehensive ongoing and/or transaction monitoring, weak AML/ATF policies and procedures and a failure to implement a comprehensive AML/ATF risk-based approach.

The Authority conducted training and outreach sessions to inform external

stakeholders about their AML/ATF obligations. Financial industry outreach sessions on the results of the national risk assessment (NRA) were held for the investment and trust sectors. Two industry sessions focusing on AML/ATF requirements were held for Corporate Service Providers in preparation for the introduction of a licensing regime for these entities in 2016.

The Authority also provided information to AML/ATF regulated entities regarding the vulnerabilities in their sectors that had been identified in the National Risk Assessment undertaken in 2013.

## Enforcement Activity

Over the course of 2015, the Authority took a number of enforcement actions, including:

- Fining a licensed institution \$250,000 under the Trusts (Regulation of Trust Business) Act

- Fining a licensed institution \$75,000 under the Investment Business Act.
- Another matter has been appealed to the Appeals Tribunal.

In addition, the Authority continued to use its regulatory oversight to ensure less significant failures in good governance and proper practice were rectified throughout the regulated sector.

## SUMMARY OF SUPERVISORY ACTIVITY ACROSS SECTORS FOR 2015

SECTOR	FOCUS OF SUPERVISORY ACTIVITY	SUPERVISORY ACTIVITY
<b>Banking</b>	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"> <li>• Two on-site reviews</li> <li>• 11 prudential meetings</li> <li>• Three strategy meetings</li> <li>• 15 quarterly risk compliance and internal audit meetings</li> <li>• One supervisory college attended</li> </ul>
<b>Trust</b>	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	<ul style="list-style-type: none"> <li>• Four on-site reviews</li> </ul>
<b>Investment business</b>	<ul style="list-style-type: none"> <li>• 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</li> <li>• Assessment of ongoing financial viability of the firms</li> </ul>	<ul style="list-style-type: none"> <li>• 14 on-site reviews</li> <li>• Seven prudential meetings</li> <li>• One post-licensing follow up meeting</li> <li>• Five strategy meetings</li> <li>• Two desk-based reviews</li> </ul>
<b>Fund administration</b>	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	<ul style="list-style-type: none"> <li>• Nine on-site reviews</li> <li>• Five prudential meetings</li> </ul>
<b>Credit Union</b>	On-site reviews/prudential meetings assessing compliance with the requirements of the legislation	<ul style="list-style-type: none"> <li>• Follow-up meeting post 2014 on-site</li> </ul>
<b>Money service business</b>	On-site reviews/prudential meetings assessing compliance with the requirements of the legislation	<ul style="list-style-type: none"> <li>• Follow-up meetings post 2014 on-sites</li> </ul>
<b>Stock exchanges</b>	Stock exchanges are subject to supervision, regulation and inspection	<ul style="list-style-type: none"> <li>• One on-site review</li> <li>• Two strategy meetings</li> </ul>
<b>Insurance</b>	<ul style="list-style-type: none"> <li>• Commercial: on-site inspection focused on risk management, corporate governance and capital adequacy</li> <li>• Captive: supervision continued</li> </ul>	<ul style="list-style-type: none"> <li>• Five group on-sites</li> <li>• 16 solo on-sites</li> <li>• 15 supervisory colleges as group supervisor</li> <li>• Nine colleges as host supervisor</li> </ul>
<b>Anti-Money Laundering/Anti-Terrorist Financing</b>	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.	<ul style="list-style-type: none"> <li>• 10 on-sites and eight remediation reviews covering the banking, trust, investment business, Long-Term direct insurance, fund administration and money service sectors.</li> <li>• Desk-based reviews of the AML/ATF policies and procedures of 11 applications for licensing and 46 non-licensed registrants</li> </ul>



## FORMAL USE OF POWERS

### BANKING AND DEPOSIT COMPANIES ACT 1999

Section	Provision	Use in 2015
35	To vet licensed institutions who give written notice to the Authority when a person becomes a director or senior executive	20 notifications received; Authority conducted the appropriate vetting

### TRUSTS (REGULATION OF TRUST BUSINESS) ACT 2001

Section	Provision	Use in 2015
24	Notification of new or increased control	Four notifications received; no objections provided
34	Notification of change of controller or officer	18 notifications received; Authority conducted the appropriate vetting

### INVESTMENT BUSINESS ACT 2003

Section	Provision	Use in 2015
28	Notification of new or increased control	Two notifications received; no objections provided
43	Notification of change of controller or officer	23 notifications received; Authority conducted the appropriate vetting

### INVESTMENT FUNDS ACT, 2006

Section	Provision	Use in 2015
45A	Notification of new or increased control	Two notifications received; no objections provided
46	Notification of change of director, senior executive and controller	16 notifications received; Authority conducted the appropriate vetting

### THE BERMUDA STOCK EXCHANGE (BSX)

Section	Provision	Use in 2015
BSX bye-law, Section 3(ii)	Approval of change of shareholder(s)	One notification received; Authority conducted the appropriate vetting

# Licensing

## ASSESSMENT AND LICENSING COMMITTEE ACTIVITY

The Assessment and Licensing Committee (ALC) reviewed 92 applications in 2015; 89 were insurance-related and three were investment-related.

### Insurance applications

Of the 89 insurance-related applications, 88 were approved and one was declined. Of the successful applications: 39 were for general business insurers ranging from Class 1 to Class 4; 14 were for Long-Term insurers ranging from Class A to Class E; and 18 were for Special Purpose Insurers (SPIs). The remaining 17 insurance-related approvals were for insurance intermediaries, inclusive of managers, brokers and agents.

### Banking, trust and investment applications

Three investment business applications were received; two were approved and one was withdrawn.

## SUMMARY OF ALC-APPROVED APPLICATIONS

<b>Class 1</b>	7
<b>Class 2</b>	9
<b>Class 3</b>	11
<b>Class 3A</b>	8
<b>Class 3B</b>	0
<b>Class 4</b>	4
<b>Class A</b>	0
<b>Class B</b>	1
<b>Class C</b>	10
<b>Class D</b>	1
<b>Class E</b>	2
<b>Special Purpose Insurer</b>	18
<b>Insurance manager</b>	7
<b>Insurance broker</b>	7
<b>Insurance agent</b>	3
<b>Investment business</b>	2
<b>Fund administrator</b>	0
<b>TOTAL</b>	<b>90</b>

## SUMMARY OF BTCSI-RELATED LICENSEE STATUS AS AT YEAR-END 2015

SECTOR	LICENSING ACTIVITY
<b>Banking</b>	Licensees at year-end: four (no change)
<b>Trust</b>	Licensees at year-end: 29 (no change) Licences surrendered: zero (one in 2014) New private trust companies: 21 (15 in 2014)
<b>Investment business</b>	Licensees at year-end: 57 (59 in 2014) Licences surrendered: four (two in 2014) New licences issued: two (one in 2014)
<b>Investment funds</b>	New authorised funds: 22 (16 in 2014) New exempt A funds: 23 (12 in 2014) New exempt B funds: 9 (10 in 2014) Total number of funds: 624 (647 in 2014)
<b>Fund administration</b>	Licensees at year-end: 31 (33 in 2014) Licences surrendered: two (no change) New licences issued: zero (no change)
<b>Credit union</b>	Licensees at year-end: one (no change)
<b>Money service business</b>	Licensees at year-end: two (no change)
<b>Stock exchange</b>	Licensees at year-end: one (no change)

## BMA PERFORMANCE AGAINST 2015 SERVICE STANDARDS

TRANSACTION	SERVICE STANDARDS	2015 PERFORMANCE
<b>Corporate registrations</b> <ul style="list-style-type: none"> <li>• Company incorporations</li> <li>• Listed (stock exchange) company incorporations</li> <li>• Permit companies</li> <li>• Partnerships</li> <li>• Issues and transfer of shares</li> </ul>	90% of applications within <ul style="list-style-type: none"> <li>- 24 hours</li> <li>- one hour</li> <li>- two days (vetting of owners)</li> <li>- two days</li> <li>- two days</li> </ul>	met
<b>Investment fund applications</b>	Process and approve 80% of applications for new funds or material changes within eight business days	97%
<b>Insurance supervision<sup>1</sup></b> <ul style="list-style-type: none"> <li>- 2014 Class 4 and Class E company statutory financial returns</li> <li>- 2014 Class 3B, 3A, D and domestic<sup>2</sup> insurance company statutory financial returns</li> <li>- 2014 Class C company statutory financial returns</li> <li>- 2014 Class 1, 2, 3, A and B companies statutory financial returns</li> </ul>	100% to be completed by 1st June 2015  100% to be completed by 1st July 2015  100% to be completed by 1st August 2015  100% to be completed by 31st December 2015	met
<b>Certificates of Compliance</b>	90% to be completed in two business days	met

<sup>1</sup> These service standards are set for year-end 2014 filings of statutory financial returns (SFRs). Companies submit SFRs on a staggered basis throughout the year following the financial year-end. The initial submission deadline for 2014 SFRs was April 2015. In keeping with the Authority's risk-based approach, SFRs for Class 4 companies were reviewed first. An SFR review involves receiving the return and conducting a financial analysis of its contents, as well as an assessment of the accuracy, completeness and fairness of each submission. Based on this review firms are subsequently contacted to confirm either that the Authority is satisfied with the SFR or that more information or action in relation to a submission is required, which could include meetings with company management.

<sup>2</sup> Separate service standards are set for each class of insurance company in keeping with their risk profile.

## COMPANIES, PARTNERSHIPS AND PERMITS STATISTICS – APPLICATIONS APPROVED

	Q4-2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014	Q3-2014
<b>Exempted Companies</b> (Bermuda companies exempted from the 60% Bermudian ownership requirement)	329	198	212	222	283	270
<b>Exempted Partnerships</b> (partnerships established in Bermuda to carry on business in or from within Bermuda)	38	17	36	18	31	7
<b>Overseas Partnerships</b> (overseas partnerships applying for permits to carry on business in or from within Bermuda)	8	5	2	2	0	0
<b>Overseas Permit Companies</b> (overseas companies applying for permits to carry on business in or from within Bermuda)	3	13	11	6	12	17
<b>Total applications approved</b>	<b>378</b>	<b>233</b>	<b>261</b>	<b>248</b>	<b>326</b>	<b>294</b>



# Supporting Effective Regulation

Key functions in support of the regulation and supervision carried out by the Authority include communications, information technology and human resources.

## Communications

The Authority began the year by presenting its 2015 Business Plan to business leaders at its first Executive Briefing. The event took place at the Hamilton Princess Hotel on 26th February. In his keynote address, CEO Jeremy Cox highlighted the need for the three sectors – government, industry and the Authority – to work together to present a coordinated strategy for Bermuda in the current competitive jurisdictional landscape. A full and frank moderated panel discussion ensued with wide-ranging debate on topical issues affecting the financial services sector and Bermuda's economy. Panelists included the Ministers of Finance and Economic Development, the Chairman of ABIC and the CEO of the Bermuda Business Development Agency.

The Authority participated in numerous conferences and information sessions focusing on the insurance and asset management sectors and hosted industry presentations on Electronic Statutory Financial Returns for limited purpose insurers and Economic Balance Sheet.

In media relations, highlights of the year included: CEO Jeremy Cox featured in a wide-ranging interview with The Royal Gazette focusing on the Authority's 2015 Business Plan; joint interviews with the Ministry of Finance and Premier at the annual RIMS conference in April; and publication of the European Commission's Delegated Act in November recognising Bermuda's prudential framework for (re)insurance and group supervision as equivalent to regulatory standards required by the Solvency II Directive.

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## Information Technology

The Authority worked towards developing and implementing systems to support improvements to the Bermuda Capital Solvency Requirements, Prudential Information Return and Captive Risk Return.

In addition, two new business applications were developed to support the supervisory lifecycle: the new Corporate Services Provider Regime and

an Electronic Statutory Filing Return for registered captives and special purpose insurers.

The five-year IT strategy – Vision 2020 – was launched and included initiatives to boost core services such as network and communications infrastructure, market-facing technologies, data quality and business solutions supporting the core financial supervision processes.

Information security risks are a priority for the Authority and a comprehensive Information Security Strategy has been developed, integrating frameworks such as the ISO 27000 series, NIST SP800-53 and COBIT 5. Furthermore, the Authority introduced a Security Education, Training and Awareness Programme for employees on the protection of IT systems and confidential information.

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## Talent Management and Staff Development

The Authority continued its recruitment of highly-skilled individuals across the organisation while maintaining reasonable supervisory costs.

Further development of in-house talent was prioritised, particularly in risk assessment, macroprudential surveillance and in areas under the Public Access to Information legislation which took effect on 1st April 2015.

Staff development at the Authority continued with leadership and performance management programmes. A pilot programme launched to address technical needs began with international experts facilitating Bermuda-based training sessions focused on emerging

market and industry topics. Led by members of the Society of Actuaries and targeting issues within reinsurance, the pilot session was deemed a success.

### GRADUATE TRAINING PROGRAMME (GTP)

The GTP enables graduates to gain professional qualifications while working in financial regulation. Trainees are assigned a mentor from the Authority's Executive Team to guide them through their individual work plan objectives.

Thirty Bermudians applied to the Graduate Training Programme (GTP) in 2015 and the new trainees selected were Cordelia Philip and Sean Trott.

Taijaun Talbot completed the GTP in 2015 after three years of training, including rotations through supervisory departments, participation at workshops and conferences and work experience on local and overseas secondments. He is now a Senior Analyst in the Insurance (Supervision) Department.

GTP participants made a presentation to the Authority's Board of Directors on the Alternative Investment Funds Managers Directive's impact on industry.

## **BMA MANAGEMENT TEAM** (AS AT 1ST JANUARY 2016)

Jeremy Cox	Chief Executive Officer
<b>Supervision</b>	
Craig Swan	Managing Director, Supervision
Andrew Gibbs	Director, Insurance
David Theaker	Chief Actuary, Actuarial Services
Marcia Woolridge-Allwood	Director, Banking, Trust, Corporate Services & Investment (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
Ricardo Garcia	Assistant Director, Actuarial Services, Property & Casualty
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
Edmund Robinson	Analytics Specialist
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
<b>Licensing &amp; Authorisations</b>	
Shelby Weldon	Director
Melissa Morton	Assistant Director, Authorisations
Leslie Robinson	Assistant Director, Corporate Authorisations
Akilah Wilson	Assistant Director, Licensing
<b>Policy, Legal &amp; Enforcement</b>	
Shauna MacKenzie	Director
Thomas Galloway	Deputy Director, Enforcement
Marcelo Ramella	Deputy Director, Policy & Research
Ifor Hughes	Assistant Director, Policy
Leo Mucheriwa	Assistant Director, Research
Yvette Pierre	Assistant Director, Policy
Dina Wilson	Assistant Director, Legal Services
<b>Financial Stability &amp; AML/ATF</b>	
George Pickering	Senior Advisor
Kevin Dolan	Assistant Director, AML
<b>Operations</b>	
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
Michael Bean	HR Manager
Julie Dill	Assistant Director, Human Resources
Adrian Mendoza	Financial Controller
Tiffany Sousa	Assistant Director, Human Resources
<b>Organisational Development</b>	
Verna Hollis-Smith	Assistant Director

# Statistics

Collection and analysis of market data is an important role for the Authority and one which the team is constantly working to improve upon.

## Financial Highlights 2015

The Authority's net income amounted to \$0.83 million in 2015, up from \$0.34 million in previous year. Total revenue increased by 5.0% year-on-year to \$44.06 million, up from \$41.93 million mainly due to the implementation of the new supervisory and licensing fee structure approved in 2015. The Authority's net investment income increased by 13.0% due to a \$0.5 million realised gain on US quoted securities. The Authority's held-to-maturity portfolio of investments remained high quality with all securities maintaining a rating of AA+ or better.

Total expenses increased by 4.0% against the prior year mainly as a result

of increased legal and consultancy fees for certain projects that required the use of external consultants.

As at 31st December 2015, the Authority's headcount remained flat year over year. There were marginal increases due to hires for key professional and supervisory positions. These hires were necessary to support resourcing needs arising from the Authority's continued implementation of its enhanced regulatory and supervisory regimes. These increases were offset by normal staff attrition. It is projected that our 2016 recruitment activity will see marginal increases to support ongoing staffing needs.



## CURRENCY NOTES ISSUED & REDEEMED (BERMUDA DOLLAR)

Month	Notes Issued			Notes Redeemed	Notes Issued & O/S at End of Month	Net Change During Month	
	New	Re-issued	Total			Change	% Change
January	1,002,674	1,900,000	2,902,674	14,760,000	99,962,467	(11,857,326)	-10.60%
February	600,014	12,230,000	12,830,014	9,781,000	103,011,481	3,049,014	3.05%
March	100,028	5,200,000	5,300,028	6,118,000	102,193,509	(817,972)	-0.79%
April	180,274	10,450,000	10,630,274	7,526,000	105,297,783	3,104,274	3.04%
May	1,470,487	5,740,000	7,210,487	7,998,000	104,510,270	(787,513)	-0.75%
June	705	7,230,000	7,230,705	5,661,000	106,079,975	1,569,705	1.50%
July	2,330,892	19,185,000	21,515,892	7,400,000	120,195,867	14,115,892	13.31%
August	24,389	2,680,000	2,704,389	15,490,000	107,410,256	(12,785,611)	-10.64%
September	605	7,300,000	7,300,605	6,553,000	108,157,861	747,605	0.70%
October	90,204	7,600,000	7,690,204	8,349,000	107,499,065	(658,796)	-0.61%
November	240,379	5,975,000	6,215,379	5,656,010	108,058,434	559,369	0.52%
December	450,459	13,770,000	14,220,459	5,491,000	116,787,893	8,729,459	8.08%
<i>Year</i>							
<b>2015</b>	<b>6,491,110</b>	<b>99,260,000</b>	<b>105,751,110</b>	<b>100,783,010</b>	<b>116,787,893</b>	<b>4,968,100</b>	<b>4.44%</b>
2014	13,621,271	88,560,000	102,181,271	120,212,068	111,819,793	(18,030,797)	-13.89%

## CURRENCY COINS ISSUED & REDEEMED (BERMUDA DOLLAR)

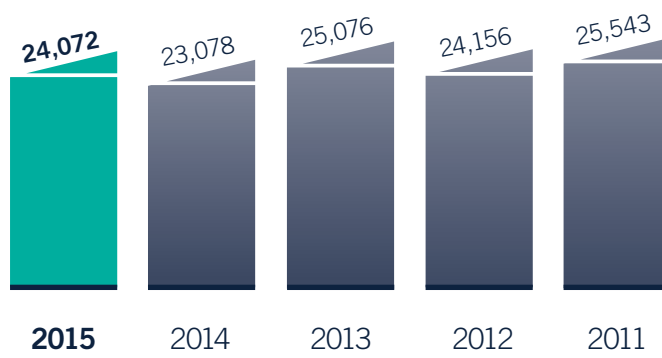
Month	Coins Issued	Coins Issued & O/S at End of Month	Net Issues During Month	
			Change	% Change
January	4	15,626,232	4	0.00%
February	16	15,626,248	16	0.00%
March	60,004	15,686,252	60,004	0.38%
April	20	15,686,272	20	0.00%
May	30,021	15,716,293	30,021	0.19%
June	15	15,716,308	15	0.00%
July	71,023	15,787,331	71,023	0.45%
August	60,016	15,847,347	60,016	0.38%
September	17	15,847,364	17	0.00%
October	14	15,847,378	14	0.00%
November	3	15,847,381	3	0.00%
December	120,001	15,967,382	120,001	0.76%
<i>Year</i>				
<b>2015</b>	<b>341,154</b>	<b>15,967,382</b>	<b>341,154</b>	<b>2.18%</b>
2014	183,769	15,626,228	183,769	1.19%

## BERMUDA MONEY SUPPLY

(BD\$ mln)	Q4-2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014	Q3-2014
Notes & Coins in Circulation*	133	124	122	118	127	112
Deposit Liabilities	3,359	3,333	3,340	3,329	3,259	3,294
Total	3,492	3,457	3,462	3,447	3,386	3,406
Less: Cash at Banks & Deposit Companies	45	38	36	33	44	32
BD\$ Money Supply	3,447	3,419	3,426	3,414	3,342	3,374
% Change on Previous Period	0.84%	-0.22%	0.36%	2.14%	-0.93%	0.46%
% Change Year-on-Year	3.14%	1.33%	2.02%	-1.91%	-2.34%	-3.22%

\* 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.

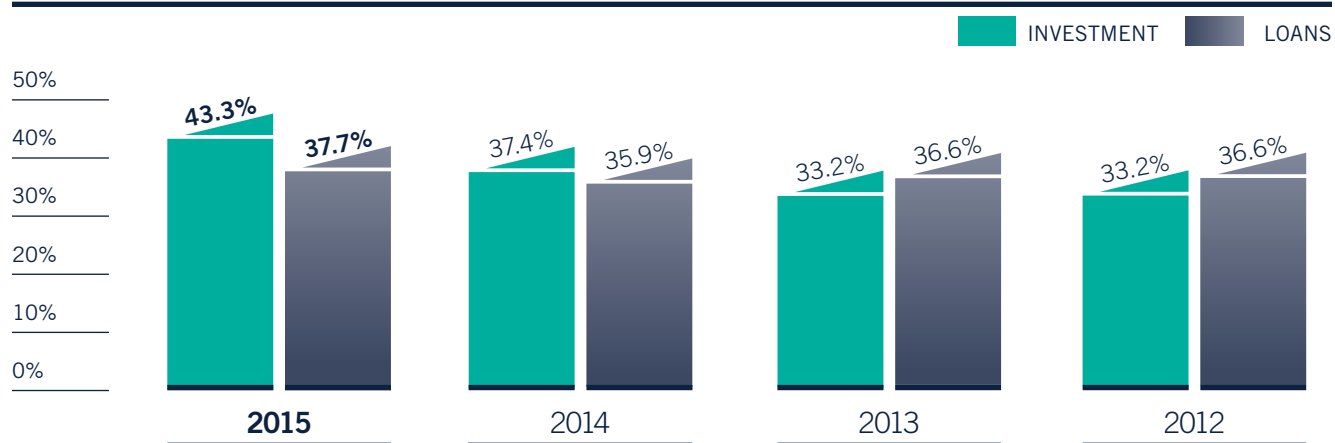
## BERMUDA BANK AND DEPOSIT COMPANIES (CONSOLIDATED) TOTAL ASSETS (BD\$ BLN)



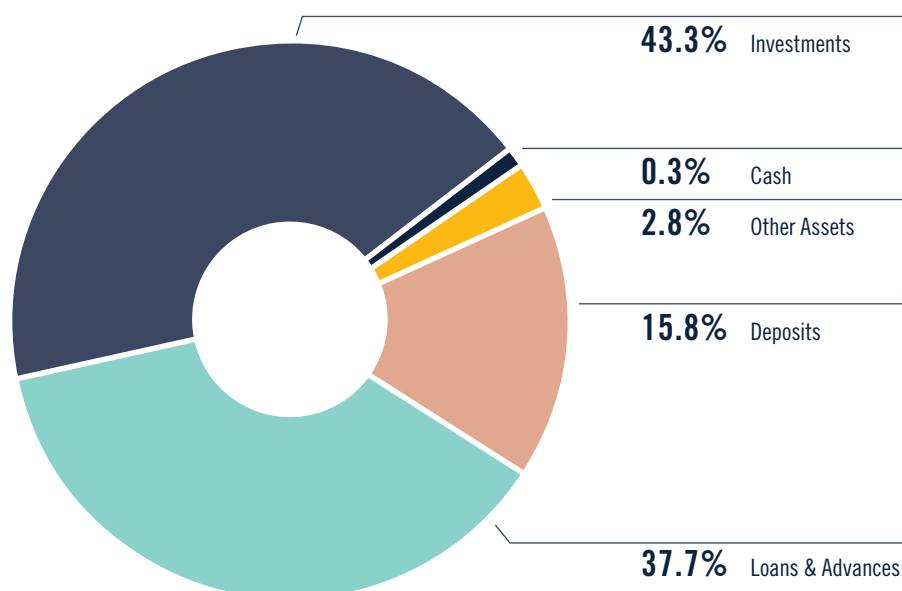
## BANKING SECTOR ASSETS & DEPOSITS

(BD\$ mln)	Q4-2015	Q3-2015	Q2-2014	Q1-2015	Q4-2014	Q3-2014
Total Assets	24,072	23,416	24,631	24,097	23,078	22,110
Quarterly Change (%)	2.8%	-4.9%	2.2%	4.4%	4.4%	-8.9%
Total Deposits	21,365	20,662	22,052	21,378	20,347	18,833
Quarterly Change (%)	3.4%	-6.3%	3.2%	5.1%	8.0%	-12.4%

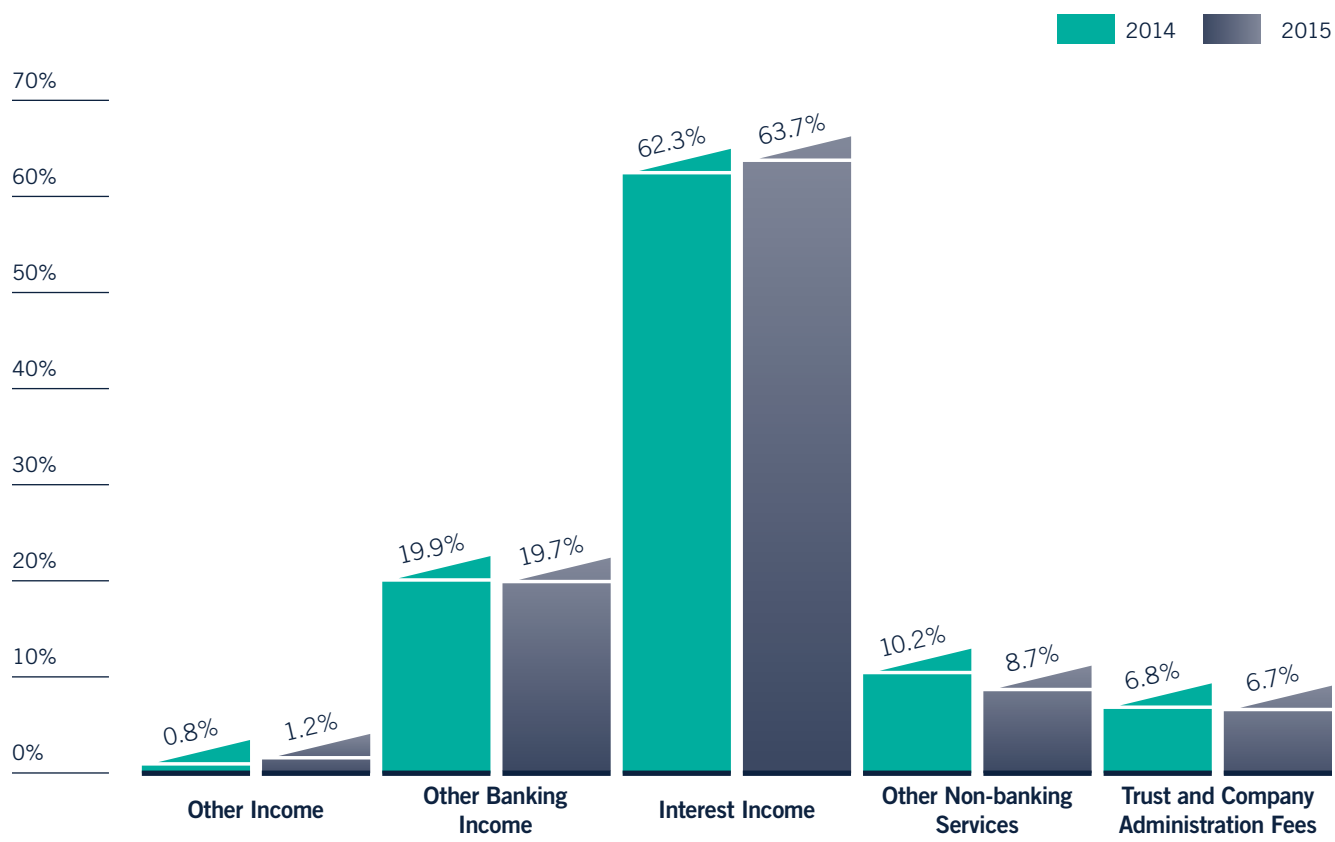
## LOANS AND INVESTMENTS AS A PROPORTION OF TOTAL ASSETS



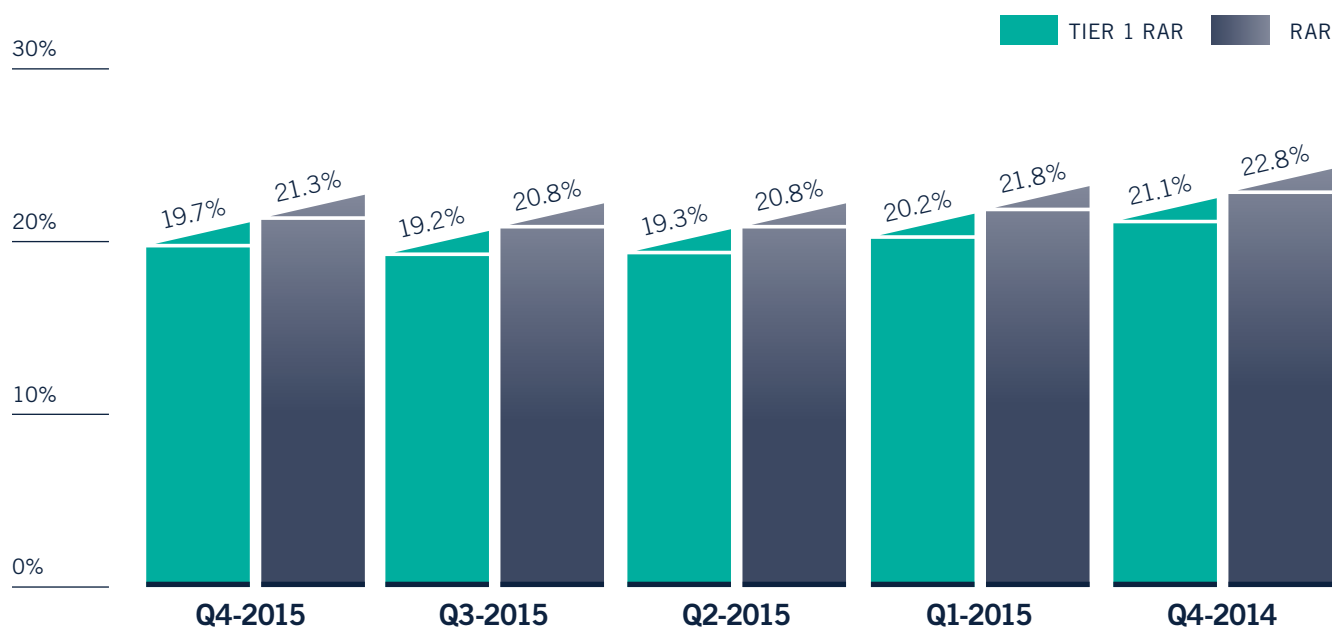
## COMPOSITION OF BANKS' ASSETS AS AT 31ST DECEMBER 2015



## BERMUDA BANK AND DEPOSIT COMPANIES (CONSOLIDATED)



## BANKING SECTOR CONSOLIDATED RISK ASSET RATIO





## COMBINED BANKS AND DEPOSIT COMPANIES FOREIGN CURRENCY POSITION

(BD\$ mln)	Q4-2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014	Q3-2014
Total Foreign Currency Assets	19,715	19,009	20,091	19,459	18,349	17,073
Less: Other Assets	183	201	212	218	239	410
Less: Foreign Currency Loans to Residents	999	944	825	873	804	716
Net Foreign Currency Assets	18,533	17,864	19,054	18,368	17,306	15,947
Foreign Currency Liabilities	18,313	17,644	18,804	18,166	17,256	16,215
Add: BD\$ Deposits of Non-Residents	116	193	174	172	172	161
Net Foreign Currency Liabilities	18,429	17,837	18,978	18,338	17,428	16,376
<b>Net Foreign Currency Position (consolidated)</b>	<b>104</b>	<b>27</b>	<b>76</b>	<b>30</b>	<b>(121)</b>	<b>(429)</b>

Totals may not add due to rounding.

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

(BD\$ mln)	Q4-2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014	Q3-2014
Deposit Liabilities	3,359	3,333	3,340	3,329	3,259	3,294
Less:						
Loans, Advances and Mortgages	(3,971)	(3,975)	(4,125)	(4,188)	(4,255)	(4,337)
Surplus/(deficit) deposits	(611)	(643)	(785)	(859)	(996)	(1,043)
<b>Percentage of Deposit Liabilities Loaned</b>	<b>118.2%</b>	<b>119.3%</b>	<b>123.5%</b>	<b>125.8%</b>	<b>130.6%</b>	<b>131.7%</b>

Totals may not add due to rounding.

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

(BD\$ mln)	Q4-2015			Q3-2015			Q2-2015		
	Total	BD\$	Other*	Total	BD\$	Other	Total	BD\$	Other
Assets									
Cash	81	45	36	82	38	44	76	36	40
Deposits	3,813	25	3,788	4,919	21	4,898	5,891	40	5,851
Investments	10,425	39	10,386	9,185	40	9,145	9,277	58	9,219
Loans & Advances	9,073	3,862	5,211	8,520	3,919	4,600	8,665	4,017	4,648
Premises & Equipment	406	294	112	425	304	121	431	309	121
Other Assets	274	92	183	285	84	201	291	79	212
<b>Total Assets</b>	<b>24,072</b>	<b>4,357</b>	<b>19,715</b>	<b>23,416</b>	<b>4,406</b>	<b>19,009</b>	<b>24,631</b>	<b>4,540</b>	<b>20,091</b>
Liabilities									
Demand Deposits	11,668	1,049	10,619	11,101	1,021	10,080	12,151	1,021	11,130
Savings	6,493	1,489	5,004	6,035	1,487	4,548	6,199	1,495	4,704
Time Deposits	3,204	799	2,405	3,526	802	2,723	3,702	803	2,899
<b>Sub Total - Deposits</b>	<b>21,365</b>	<b>3,337</b>	<b>18,028</b>	<b>20,662</b>	<b>3,311</b>	<b>17,351</b>	<b>22,052</b>	<b>3,320</b>	<b>18,733</b>
Other Liabilities	567	281	286	585	291	293	400	329	71
<b>Sub Total - Liabilities</b>	<b>21,931</b>	<b>3,618</b>	<b>18,313</b>	<b>21,247</b>	<b>3,602</b>	<b>17,644</b>	<b>22,453</b>	<b>3,649</b>	<b>18,804</b>
Equity & Subordinated Debt	2,141	1,797	344	2,169	1,793	376	2,178	1,829	349
<b>Total Liabilities and Capital</b>	<b>24,072</b>	<b>5,415</b>	<b>18,657</b>	<b>23,416</b>	<b>5,395</b>	<b>18,021</b>	<b>24,631</b>	<b>5,478</b>	<b>19,153</b>

(BD\$ mln)	Q1-2015			Q4-2014			Q3-2014		
	Total	BD\$	Other	Total	BD\$	Other	Total	BD\$	Other
Assets									
Cash	70	33	36	76	44	32	68	32	36
Deposits	5,332	48	5,284	5,281	27	5,254	3,978	39	3,939
Investments	9,431	51	9,380	8,641	52	8,590	9,210	229	8,981
Loans & Advances	8,496	4,081	4,415	8,291	4,146	4,145	7,840	4,225	3,615
Premises & Equipment	444	318	126	453	365	89	472	380	92
Other Assets	325	107	218	335	96	239	543	133	410
<b>Total Assets</b>	<b>24,097</b>	<b>4,638</b>	<b>19,459</b>	<b>23,078</b>	<b>4,729</b>	<b>18,349</b>	<b>22,110</b>	<b>5,037</b>	<b>17,073</b>
Liabilities									
Demand Deposits	11,393	1,002	10,391	10,540	879	9,662	9,038	888	8,150
Savings	6,395	1,503	4,892	6,038	1,486	4,552	5,475	1,506	3,969
Time Deposits	3,589	813	2,776	3,768	838	2,930	4,321	846	3,475
<b>Sub Total - Deposits</b>	<b>21,378</b>	<b>3,319</b>	<b>18,059</b>	<b>20,347</b>	<b>3,203</b>	<b>17,144</b>	<b>18,833</b>	<b>3,239</b>	<b>15,594</b>
Other Liabilities	392	285	107	430	318	112	956	335	621
<b>Sub Total - Liabilities</b>	<b>21,770</b>	<b>3,604</b>	<b>18,166</b>	<b>20,777</b>	<b>3,521</b>	<b>17,256</b>	<b>19,789</b>	<b>3,575</b>	<b>16,215</b>
Equity & Subordinated Debt	2,327	1,935	392	2,301	1,928	373	2,321	1,975	345
<b>Total Liabilities and Capital</b>	<b>24,097</b>	<b>5,539</b>	<b>18,558</b>	<b>23,078</b>	<b>5,449</b>	<b>17,629</b>	<b>22,110</b>	<b>5,550</b>	<b>16,560</b>

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

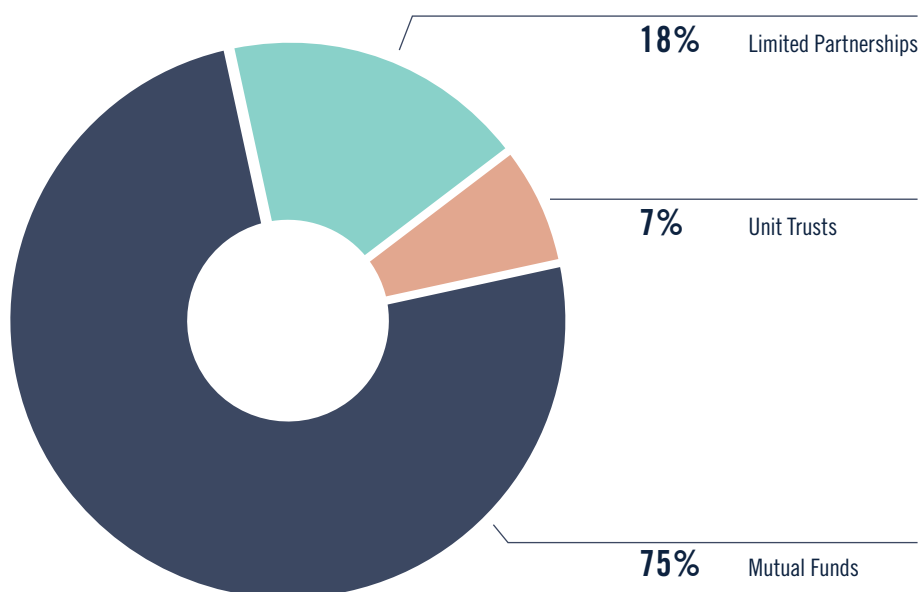
\* Other includes US\$ and other currencies.

## + INVESTMENT FUNDS

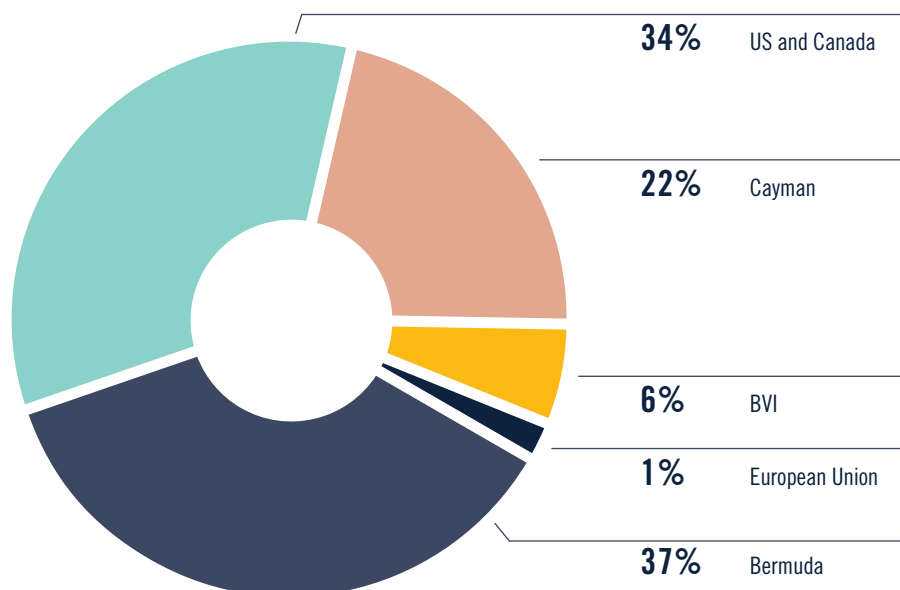
### INVESTMENT FUND STATISTICS

(BD\$ bln)	Q4-2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014	Q3-2014
Mutual Funds	429	434	434	433	438	457
Umbrella Funds	38	39	39	38	38	40
Segregated Account Companies	69	70	69	69	70	65
Unit Trusts	52	50	49	50	54	52
Umbrella Trusts	36	37	37	37	47	47
Total Number of Funds	624	630	628	627	647	661
Net Asset Value	\$144.22	\$145.06	\$152.57	\$166.65	\$164.82	\$175.02

### INVESTMENT FUNDS APPLICATIONS APPROVED 2015



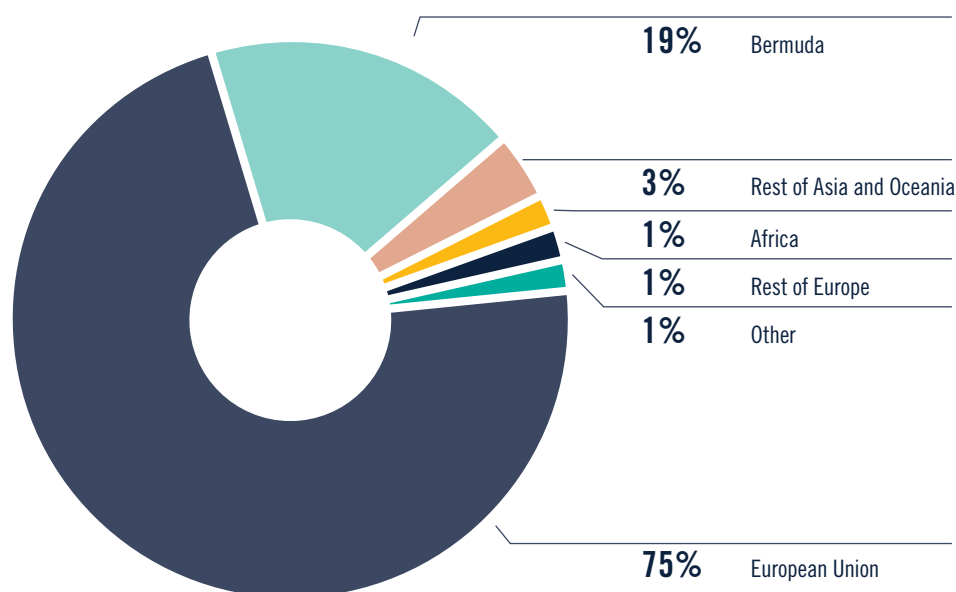
## TOTAL FUNDS BY JURISDICTION



An aggregate total of US\$156.2 billion in Assets under Administration was reported by Bermuda Fund Administrator licensees as at 31st December 2015.

Total number of funds administered stands at 1,307 of which 489 are Bermuda funds with Bermuda-licensed fund administrators. The full geographic split indicates that over 70.0% is made up of Bermuda, US and Canadian fund clients.

## TOTAL AUM BY JURISDICTION



Reported licensee aggregate Assets under Management as at 31st December 2015 was US\$167.6 billion, with an additional aggregate US\$38.5 billion in Assets under Administration\*.

Of these assets, 75.0% related to clients in the European Union with Bermuda based clients a distant second at 19.0%.

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

### ANALYSIS OF ALL INSURERS REGISTERED\*

Class of Insurer by License**	2015	%	2014	%
Class 1	243	19.3%	248	19.3%
Class 2	294	23.3%	306	23.9%
Class 3	255	20.2%	261	20.4%
Class 3A	129	10.2%	129	10.1%
Class 3B	22	1.7%	22	1.7%
Class 4	40	3.2%	38	3.0%
Class A	7	0.6%	7	0.5%
Class B	8	0.6%	8	0.6%
Class C	113	9.0%	120	9.4%
Class D	8	0.6%	6	0.5%
Class E	27	2.1%	26	2.0%
Special Purpose Insurer	115	9.1%	111	8.7%
Totals:	1,261	100%	1,282	100%

\* The Authority did not report Dual Licensed entities as a separate Class of Insurer and these licences have been included among the other Classes. As a result, 2014 is restated.

\*\* 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 2015 ADDITIONS TO THE REGISTER\*

Class of Insurer by License**	2015 Registrations	%	2014	%
Class 1	8	12.3%	6	9.2%
Class 2	7	10.8%	7	10.8%
Class 3	7	10.8%	3	4.6%
Class 3A	9	13.8%	8	12.3%
Class 3B	0	0.0%	2	3.1%
Class 4	4	6.2%	1	1.5%
Class A	0	0.0%	1	1.5%
Class B	0	0.0%	0	0.0%
Class C	7	10.8%	5	7.7%
Class D	1	1.5%	0	0.0%
Class E	2	3.1%	4	6.2%
Special Purpose Insurer	20	30.8%	28	43.1%
Totals:	65	100%	65	100%

\* The Authority did not report Dual Licensed entities as a separate Class of Insurer and these licences have been included among the other Classes. As a result, 2014 is restated.

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

## MARKET STATISTICS BY CLASS OF INSURER AS AT 31ST DECEMBER 2014\*

Class of Insurer	No. of Licences**	Gross Premiums	Net Premiums	Total Assets	Capital & Surplus
Class 1	223	3,674,434,858	2,951,664,316	17,819,197,866	12,201,930,419
Class 2	272	8,779,629,275	7,206,419,174	55,124,075,230	27,662,485,055
Class 3	233	42,706,172,940	29,226,346,184	121,926,936,368	39,003,223,368
Class 3A	117	26,561,957,059	14,975,775,453	55,371,564,868	22,243,022,422
Class 3B	21	12,492,010,969	9,767,170,989	29,519,867,029	10,916,062,700
Class 4	35	30,691,830,214	25,195,497,487	134,138,189,190	63,910,379,544
Long-Term Class A	6	6,534,000	6,534,000	1,209,306,283	359,118,303
Long-Term Class B	8	141,645,675	141,645,675	237,620,302	102,337,203
Long-Term Class C	107	10,784,480,623	10,784,480,623	87,184,622,488	15,007,842,929
Long-Term Class D	6	143,402,055	143,402,055	2,956,097,267	436,317,426
Long-Term Class E	16	13,822,660,606	13,822,660,606	59,495,813,017	20,194,581,687
Special Purpose Insurer	86	2,044,594,154	2,011,787,143	18,343,293,601	2,469,786,737
<b>Totals: (in \$US)</b>	<b>1,130</b>	<b>151,849,352,428</b>	<b>116,233,383,705</b>	<b>583,326,583,509</b>	<b>214,507,087,793</b>

\* Underwriting statistics quoted are from insurance company Statutory Financial Returns (SFR) and modified filings for 2014. Companies submit filings on a phased basis throughout the year following the financial year end. The initial submission deadline for 2014 SFRs was April 2015. Due to this schedule the most recent complete year-end figures for this overview are from 2014.

\*\* 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 20.0% of its net premiums from unrelated risks.
- **Class 3:** Captive insurers underwriting more than 20.0% and less than 50.0% unrelated business.
- **Class 3A:** Small commercial insurers whose percentage of unrelated business represents 50.0% 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 50.0% 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:**
  - 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 20.0% 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).



**MARKET STATISTICS BY REGION OF BENEFICIAL OWNER** AS AT 31ST DECEMBER 2014

Domicile of Owners	No. of Licences	Gross Premiums	Net Premiums	Total Assets	Capital & Surplus
CAPTIVES					
Africa/Middle East	12	80,984,370	36,453,242	320,526,193	252,815,942
Asia	26	1,490,498,931	1,339,354,723	1,314,732,285	925,149,364
Australia/New Zealand	10	60,129,332	21,372,623	382,402,071	302,476,363
Bermuda	68	3,526,817,531	1,665,838,432	21,166,935,182	6,421,726,481
Caribbean/Latin America	34	495,328,705	415,543,781	1,084,075,387	560,164,621
Europe	109	16,109,970,566	15,464,038,506	50,784,039,062	16,114,641,677
North America	483	33,544,687,308	20,590,008,037	121,264,425,842	54,752,119,899
Sub-Totals:	742	55,308,416,743	39,532,609,344	196,317,136,022	79,329,094,347
PROFESSIONAL INSURERS/REINSURERS					
Africa/Middle East	2	194,090,564	144,997,352	2,186,498,715	641,528,058
Asia	11	931,088,474	911,822,000	4,264,370,824	2,216,443,609
Australia/New Zealand	2	2,927,425,758	2,685,575,766	7,228,150,107	1,815,240,400
Bermuda	123	18,111,983,943	15,801,188,562	107,630,990,491	51,274,952,545
Caribbean/Latin America	17	2,937,379,000	2,667,378,489	12,521,400,373	5,035,953,700
Europe	65	20,478,028,393	16,739,806,981	67,692,512,476	20,230,581,428
North America	168	50,960,939,553	37,750,005,211	185,485,524,501	53,963,293,706
Sub-Totals:	388	96,540,935,685	76,700,774,361	387,009,447,487	135,177,993,446
<b>Totals: (in \$US)</b>	<b>1,130</b>	<b>151,849,352,428</b>	<b>116,233,383,705</b>	<b>583,326,583,509</b>	<b>214,507,087,793</b>

## MARKET STATISTICS BY COMPANY TYPE AS AT 31ST DECEMBER 2014

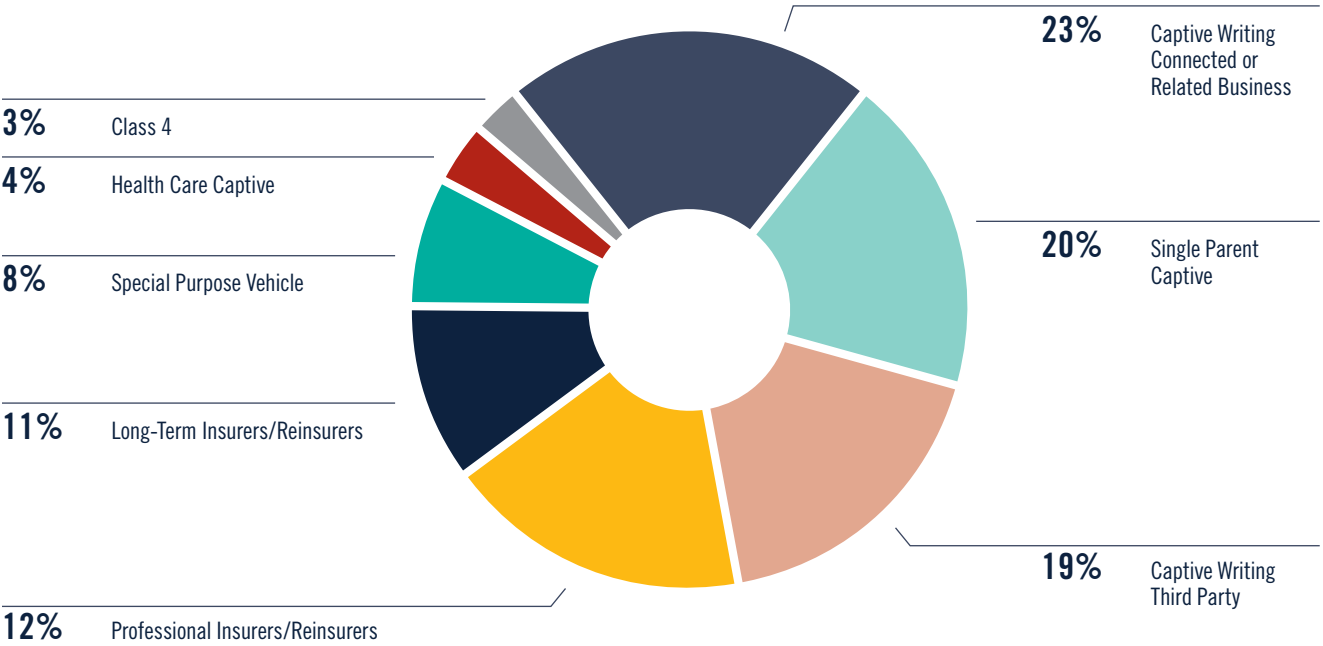
Company Type	No. Of Licences	Gross Premiums	Net Premiums	Total Assets	Capital and Surplus	% of Insurers
<b>CAPTIVES</b>						
Captive writing Third Party	212	32,454,126,571	21,536,417,157	87,943,190,503	23,841,187,719	19%
Captive writing Connected or Related Business	255	8,323,898,231	6,810,034,590	53,676,010,710	26,820,025,697	23%
Health Care Captive	46	10,849,423,083	8,227,959,281	35,985,643,096	16,111,192,665	4%
Single Parent Captives	229	3,680,968,858	2,958,198,316	18,712,291,713	12,556,688,266	20%
Subtotals	742	55,308,416,743	39,532,609,344	196,317,136,022	79,329,094,347	66%
<b>PROFESSIONAL INSURERS/REINSURERS</b>						
Professional Insurers/Reinsurers	138	39,053,968,028	24,742,946,442	84,891,431,925	33,159,085,122	12%
Class 4	35	30,691,830,219	25,195,497,492	134,138,189,189	63,910,379,545	3%
Long-Term Ins./Reinsurers	129	24,750,543,284	24,750,543,284	149,636,532,772	35,638,742,042	11%
Special Purpose Vehicle	86	2,044,594,154	2,011,787,143	18,343,293,601	2,469,786,737	8%
Sub-Totals:	388	96,540,935,685	76,700,774,361	387,009,447,487	135,177,993,446	34%
<b>Totals: (in \$US)</b>	<b>1,130</b>	<b>151,849,352,428</b>	<b>116,233,383,705</b>	<b>583,326,583,509</b>	<b>214,507,087,793</b>	<b>100%</b>

*Note: Market Statistics for Group 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 49.0% 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.
- Health Care Captive (Re)insurer owned by a hospital or health maintenance organisation and writing the risks 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**





# Financials



30th April 2016

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

BMA House  
43 Victoria Street  
Hamilton HM 12 Bermuda  
P.O. Box 2447  
Hamilton HM JX Bermuda  
tel: (441) 295 5278  
fax: (441) 292 7471  
email: [enquiries@bma.bm](mailto:enquiries@bma.bm)  
website: [www.bma.bm](http://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 2015 together with the annual statement of accounts and the opinion of the Auditor General.

This document also contains the reports for the year 2015 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 2016

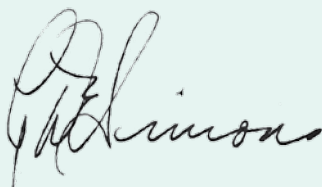
BMA House  
43 Victoria Street  
Hamilton HM 12 Bermuda  
P.O. Box 2447  
Hamilton HM JX Bermuda  
tel: (441) 295 5278  
fax: (441) 292 7471  
email: [enquiries@bma.bm](mailto:enquiries@bma.bm)  
website: [www.bma.bm](http://www.bma.bm)

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.

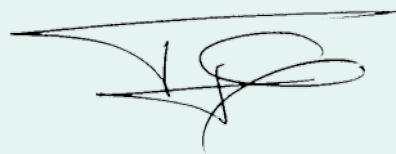
In support of its responsibility, management maintains financial and management control systems and practices to provide reasonable assurance that the financial information is reliable, that the assets are safeguarded, and that the operations are carried out effectively.

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

Fax: (441) 295-3849

Email: [oag@oagbermuda.bm](mailto:oag@oagbermuda.bm)

Website: [www.oagbermuda.gov.bm](http://www.oagbermuda.gov.bm)

### 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, 2015, 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, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Hamilton, Bermuda  
April 25, 2016

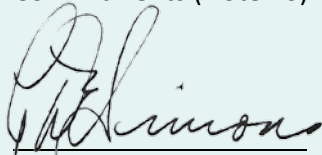
  
Heather A. Jacobs Matthews, JP, FCPA, FCA, CFE  
Auditor General

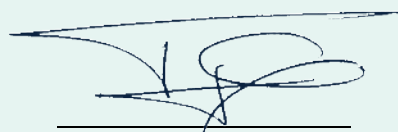
# BERMUDA MONETARY AUTHORITY

## Statement of Financial Position As at December 31, 2015

(In thousands of Bermuda dollars)	Note	2015	2014
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	3, 5	35,438	36,766
Accounts and other receivables	3, 6	1,495	896
Prepayments		317	654
Stock of numismatic items	7	736	824
Stock of notes and coins for circulation	8	6,015	6,356
		44,001	45,496
<b>Non-current assets</b>			
Investments, held-to-maturity	3	108,990	99,490
Property and equipment	9	23,972	24,749
Intangible assets	10	1,564	1,660
		134,526	125,899
<b>Total Assets</b>		<b>178,527</b>	<b>171,395</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts and other payables	3, 11	5,965	4,804
Notes and coins in circulation	3, 12	132,755	127,446
Due to the Consolidated Fund of the Government of Bermuda	3, 13	416	170
		139,136	132,420
<b>Equity</b>			
Capital subscribed	14	20,000	20,000
General reserve	14	19,391	18,975
		39,391	38,975
<b>Total Liabilities and Equity</b>		<b>178,527</b>	<b>171,395</b>

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, 2015

(In thousands of Bermuda dollars)	Note	2015	2014
<b>Revenues</b>			
Supervisory and licensing fees	15	38,469	37,015
Incorporation fees, vault commission and other income		1,625	1,394
Net sale of special coins		37	56
Operating revenue		40,131	38,465
Investment income	16	3,930	3,469
<b>Total revenues</b>		<b>44,061</b>	<b>41,934</b>
<b>Expenses</b>			
Salaries and employee benefits	17	31,892	31,527
General expenses	18	5,665	5,549
Professional fees		3,110	1,586
Depreciation of property and equipment	9	1,142	1,142
Amortisation of intangible assets	10	1,016	1,341
Circulation note and coin expenses	8	404	449
<b>Total expenses</b>		<b>43,229</b>	<b>41,594</b>
<b>Total comprehensive income for the year</b>		<b>832</b>	<b>340</b>

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, 2015

(In thousands of Bermuda dollars)	Note	2015	2014
<b>Capital</b>		20,000	20,000
<b>General Reserve</b>			
Balance, beginning of year		18,975	18,805
Total comprehensive income for the year		832	340
Distribution payable to the Consolidated Fund of the Government of Bermuda	13	(416)	(170)
Balance, end of year		19,391	18,975
<b>Equity</b>		39,391	38,975

The accompanying notes are an integral part of these financial statements

# BERMUDA MONETARY AUTHORITY

## Statement of Cash Flows

For the year ended December 31, 2015

(In thousands of Bermuda dollars)	Note	2015	2014
<b>Cash flows provided by / (used in) operating activities</b>			
Total comprehensive income for the year		832	340
Adjustment for:			
Non-cash items included in total comprehensive income for the year	19	2,125	3,385
Change in operating assets	19	(79)	(383)
Change in operating liabilities	19	1,161	(1,779)
<b>Net cash provided by operating activities</b>		<b>4,039</b>	<b>1,563</b>
<b>Cash flows (used in) / provided by investing activities</b>			
Additions of intangible assets	10	(920)	(160)
Additions of property and equipment	9	(367)	(593)
Proceeds from sale of capital assets		2	1
Purchase of investments		(30,368)	(7,180)
Proceeds from maturity of investments		21,147	12,283
<b>Net cash (used in) / provided by investing activities</b>		<b>(10,506)</b>	<b>4,351</b>
<b>Cash flows provided by / (used in) financing activities</b>			
Net increase/(decrease) in notes and coins in circulation		5,309	(17,847)
Distribution to the Consolidated Fund of the Government of Bermuda		(170)	-
<b>Net cash provided by / (used in) financing activities</b>		<b>5,139</b>	<b>(17,847)</b>
Net decrease in cash and cash equivalents		(1,328)	(11,933)
Cash and cash equivalents at beginning of year		36,766	48,699
<b>Cash and cash equivalents at end of year</b>	<b>5</b>	<b>35,438</b>	<b>36,766</b>
<b>Operational cash flows from interest</b>			
Interest received	16	3,615	3,651

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, 2015**  
(In thousands of Bermuda dollars)

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**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 25 2016.

**BERMUDA MONETARY AUTHORITY**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2015**  
(In thousands of Bermuda dollars)

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**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 capitalized, 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, 2015**  
(In thousands of Bermuda dollars)

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**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 assets' 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:

**BERMUDA MONETARY AUTHORITY**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2015**  
(In thousands of Bermuda dollars)

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**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, 2015**  
(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. 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, 2015**  
(In thousands of Bermuda dollars)

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**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.

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**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 Accounts and other receivables**

Accounts and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset’s carrying value and the estimated future cash-flows deriving from the continued use of that asset, and discounted if the effect is material. The carrying value at the statement of financial position date represents fair value considering its short-term nature, and thus, discounting is deemed immaterial.

**2.9 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.

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**2.10 Accounts and other payables**

Accounts and other payables are non-interest bearing and usually settled on a 30-day term. These are recognised at invoice amount, which is the fair value, and subsequently measured at amortised cost using the effective interest method. The carrying value of the accounts and other payables approximates fair value due to their short-term to maturity.

**2.11 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.

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.

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**2.12 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 2015 nor 2014.

**2.13 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.

**2.14 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.

**2.15 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

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**2.15 Events after the year-end reporting period (continued)**

reporting period that are not adjusting events are disclosed in the notes to financial statements, when material.

**2.16 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 application 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 application of IFRS 16.

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**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:

	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>FINANCIAL ASSETS</b>				
Cash and cash equivalents	35,438	35,438	36,766	36,766
Accounts and other receivables	1,495	1,495	896	896
Investments, held-to-maturity	108,990	110,525	99,490	102,860
<b>Total financial assets</b>	<b>145,923</b>	<b>147,458</b>	<b>137,152</b>	<b>140,522</b>
<b>FINANCIAL LIABILITIES</b>				
Notes and coins in circulation	132,755	132,755	127,446	127,446
Accounts and other payables	5,965	5,965	4,804	4,804
Due to the Consolidated Fund of the Government of Bermuda	416	416	170	170
<b>Total financial liabilities</b>	<b>139,136</b>	<b>139,136</b>	<b>132,420</b>	<b>132,420</b>

(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 used 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

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**3. Financial risk management (continued)**

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.

	Level 1	Level 2	Level 3	Total
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
Financial instruments at fair value as at December 31, 2014				
Investments, held-to-maturity	102,860	-	-	102,860
Total financial instruments	102,860	-	-	102,860

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 81% (2014 – 75%) 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, 2015 and 2014. 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:

	2015	2014
<b>Investments, held-to-maturity</b>		
AAA **	20,345	25,457
AA+ **	88,645	74,033
<b>** Moody's equivalent grade is Aaa.</b>	<b>108,990</b>	<b>99,490</b>
<b>Cash and cash equivalents</b>		
Cash at bank and in-hand		
AAA	176	75
AA+	332	349
A	-	282
A-	578	-
BBB+	-	147
BBB	635	-
Not rated	17	13
	<b>1,738</b>	<b>866</b>
Overnight repurchase agreements		
AA+	33,700	35,900
	<b>35,438</b>	<b>36,766</b>

**Investments, held-to-maturity**

This account consists of:

	2015	2014
US Government and US Government Agencies	88,645	74,033
Supranational Bank	20,345	25,457
	<b>108,990</b>	<b>99,490</b>

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.

	2015		2014	
	+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	354	(36)	290	(13)
US dollar quoted securities	1,086	(1,086)	1,069	(1,069)
<b>Total</b>	<b>1,440</b>	<b>(1,122)</b>	<b>1,359</b>	<b>(1,082)</b>

An increase in interest rates of 1% would result in additional income of \$1,440 (2014 - \$1,359). A decrease in interest rates of 1% would result in decrease in income of \$1,122 (2014 - \$1,082). 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, 2015 and 2014, 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, 2015**

	Total	No fixed maturity	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
<b>FINANCIAL ASSETS</b>						
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>
<b>FINANCIAL LIABILITIES</b>						
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>

**As at December 31, 2014**

	Total	No fixed maturity	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
<b>FINANCIAL ASSETS</b>						
Cash and cash equivalents	36,766	36,766	-	-	-	-
Investments (fair value)	102,860	-	-	5,170	36,559	61,131
Accounts and other receivables	896	896	-	-	-	-
	<u>140,522</u>	<u>37,662</u>	<u>-</u>	<u>5,170</u>	<u>36,559</u>	<u>61,131</u>
<b>FINANCIAL LIABILITIES</b>						
Notes and coins in circulation	127,446	127,446	-	-	-	-
Accounts and other payables	4,804	-	4,804	-	-	-
Due to the Consolidated Fund of the Government of Bermuda	170	-	-	170	-	-
	<u>132,420</u>	<u>127,446</u>	<u>4,804</u>	<u>170</u>	<u>-</u>	<u>-</u>
Net maturity difference	<u>8,102</u>	<u>(89,784)</u>	<u>(4,804)</u>	<u>5,000</u>	<u>36,559</u>	<u>61,131</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:

	2015	2014
Cash at bank and in hand	1,738	866
Overnight repurchase agreement with the US Federal Reserve	33,700	35,900
<b>Total</b>	<b>35,438</b>	<b>36,766</b>

Cash at bank earns interest at an effective rate of 0.10% (2014 – 0.03%).

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:

	2015	2014
Accounts receivable	2,266	1,472
Less: provision for impairment of receivables	(1,579)	(1,412)
Accounts receivable – net	687	60
Accrued interest	808	836
<b>Current portion</b>	<b>1,495</b>	<b>896</b>

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**6. Accounts and other receivables (continued)**

The ageing analysis of these receivable is as follows:

	2015	2014
Up to 3 months	687	44
3 to 6 months	-	16
<b>Total</b>	<b>687</b>	<b>60</b>

As at December 31, 2015, accounts receivable of \$1,579 (2014 - \$1,412) 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:

	2015	2014
Up to 3 months	73	93
3 to 6 months	34	36
Over 6 months	1,472	1,283
<b>Total</b>	<b>1,579</b>	<b>1,412</b>

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

	2015	2014
Balance as at January 1	1,412	726
Provision for impairment of receivables	167	686
<b>Balance as at December 31</b>	<b>1,579</b>	<b>1,412</b>

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:

	2015	2014
Commemorative notes and coins	705	695
Circulation notes and coins	21	23
Bullion for inventory production	128	161
Provisions	(118)	(55)
	<u>736</u>	<u>824</u>

**8. Stock of notes and coins for circulation**

This account consists of:

	2015	2014
Notes	5,368	5,616
Coins	647	740
	<u>6,015</u>	<u>6,356</u>

The cost of stocks recognised as expenses and included in “circulation note and coin expenses” amounted to \$404 (2014 - \$449).

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**9. Property and equipment**

This account consists of:

	Land, building and improvements	Computer equipment	Furniture and fixtures	Museum items	Total
<b>At January 1, 2015</b>					
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
<b>Year ended December 31, 2015</b>					
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
<b>At December 31, 2015</b>					
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

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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
<b>At January 1, 2014</b>					
Cost	30,979	2,562	3,118	67	36,726
Reclassification from intangible assets	-	63	-	-	63
Cost after reclassification	30,979	2,625	3,118	67	36,789
Accumulated depreciation	(6,500)	(2,237)	(2,754)	-	(11,491)
Net book amount	24,479	388	364	67	25,298
<b>Year ended December 31, 2014</b>					
Additions	132	170	289	2	593
Disposals - cost	-	(67)	(306)	-	(373)
Disposals - accumulated depreciation	-	67	306	-	373
Depreciation charge	(764)	(215)	(163)	-	(1,142)
Closing net book amount	23,847	343	490	69	24,749
<b>At December 31, 2014</b>					
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

Depreciation of \$1,142 (2014 - \$1,142) has been charged in the statement of comprehensive income.

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

	2015	2014
Furniture and fixtures	2,470	2,414
Computer equipment	2,105	2,043

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**10. Intangible assets**

This account consists of:

	Computer Software					
	Internally developed	2015 Externally acquired	Total	Internally developed	2014 Externally acquired	Total
<b>At January 1</b>						
Cost	5,758	1,585	<b>7,343</b>	5,823	1,423	<b>7,246</b>
Reclassification (to)/from computer equipment and externally acquired	-	-	-	(108)	45	<b>(63)</b>
Cost after reclassification	5,758	1,585	<b>7,343</b>	5,715	1,468	<b>7,183</b>
Accumulated amortisation	(4,498)	(1,185)	<b>(5,683)</b>	(3,334)	(1,008)	<b>(4,342)</b>
Amortisation reclassification	18	(18)	-	-	-	-
Net book amount	1,278	382	<b>1,660</b>	2,381	460	<b>2,841</b>
<b>Year ended December 31</b>						
Additions	-	920	<b>920</b>	43	117	<b>160</b>
Amortisation charge	(784)	(232)	<b>(1,016)</b>	(1,164)	(177)	<b>(1,341)</b>
Closing net book amount	494	1,070	<b>1,564</b>	1,260	400	<b>1,660</b>
<b>At December 31</b>						
Cost	5,758	2,505	<b>8,263</b>	5,758	1,585	<b>7,343</b>
Accumulated amortisation	(5,264)	(1,435)	<b>(6,699)</b>	(4,498)	(1,185)	<b>(5,683)</b>
Net book amount	494	1,070	<b>1,564</b>	1,260	400	<b>1,660</b>

Amortisation of \$1,016 (2014 - \$1,341) is included in the statement of comprehensive income.

The cost of software fully amortised and still in use in 2015 is \$4,520 (2014 - \$299).

There were no research and development costs charged to the statement of comprehensive income in 2015 and 2014.

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**11. Accounts and other payables**

This account consists of:

	2015	2014
Accrued expenses	4,475	3,561
Accounts payable	2	23
Amounts due to related parties (Note 21)	1,197	1,096
Customer deposits and annual business fees payable	254	87
Deferred income	37	37
	5,965	4,804

**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 coin 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, 2015, the Authority was required to hold a reserve of external assets of at least \$66,378 (2014 - \$63,723) and the actual external assets held totalled \$108,990 (2014 - \$99,490).

As indicated in Note 3(d), at December 31, 2015, the fair value of the Authority's total financial assets exceeded its financial liabilities by \$8,322 (2014 - \$8,102).

**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 \$416 (2014 - \$170) will be payable to the Consolidated Fund of the Government of Bermuda. This amount is non-interest bearing and payable by May 31, 2016.

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**14. Equity**

Equity

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

*(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, 2015 capital of \$20,000 (2014 - \$20,000) has been subscribed.

The Authority is not in violation of any externally imposed capital requirements at the statement of financial position date.

*(b) General Reserve*

A general reserve of \$19,391 (2014 - \$18,975) has been established and maintained in accordance with Section 8 of the Act.

The Minister of Finance granted approval for \$416 (2014 - \$170) of net earnings to be transferred to the general reserve account.

**15. Supervisory and licensing fees**

This account consists of:

	2015	2014
Insurance fees	30,774	28,309
Bank and deposit company fees	4,545	4,413
Investment funds	1,109	1,166
Investment business licence fees	671	648
Trust company fees	652	594
Anti-money laundering fees ("AML fees")	375	385
Trust company fines	250	-
Investment business act fines ("IBA fines")	75	-
Insurance fines	15	-
Credit Union licence fees	3	-
Anti-money laundering fines ("AML fines")	-	1,500
	<b>38,469</b>	<b>37,015</b>

In accordance with Section 24 (5) of the Proceeds of Crime Regulations (Supervision and Enforcement) Act 2008, AML fees in the amount of \$375 (2014 - \$385) and AML fines in the amount of \$nil (2014 - \$1,500) were recognised as revenue and expenses in the amount of \$889 (2014 - \$659) were incurred.

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**15. Supervisory and licensing fees (continued)**

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).

**16. Investment income**

This account consists of:

	2015	2014
Interest on investments held-to-maturity	3,615	3,651
Gain on call of US quoted securities	495	-
Interest earned on overnight repurchase agreement with the US Federal Reserve	36	13
Net amortisation/accretion of premiums/discounts on investments held-to-maturity	(216)	(195)
	<b>3,930</b>	<b>3,469</b>

**17. Salaries and employee benefits**

This account consists of:

	2015	2014
Salaries and bonuses	26,377	26,272
Payroll tax	2,386	2,305
Pension costs	1,122	1,178
Health insurance	1,072	1,038
Directors' fees	293	301
Life insurance	292	90
Social insurance costs	285	286
Other benefits	65	57
	<b>31,892</b>	<b>31,527</b>

The Authority has 175 employees at December 31, 2015 (2014 – 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



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**17. Salaries and employee benefits (continued)**

plan under which the Authority pays fixed contributions. The Authority has no legal or constructive obligations to pay further contributions.

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, 2015 amounted to \$519 (2014 - \$Nil). The Authority's contributions to the Plan during the year were \$1,003 (2014 - \$1,059).

(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% (2014 - 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 \$119 (2014 - \$119).

(b) Other employee benefits

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

Maternity 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 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 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, 2015 is \$460 (2014 - \$436) and is included in accounts and other payables.

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**17. Salaries and 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, \$2 (2014 - \$6) of special retirement benefits were paid. The liability as at December 31, 2015 is \$299 (2014 - \$280) and is included in accounts and other payables.

**18. General expenses**

This account consists of:

	2015	2014
Premises and office	3,422	3,042
Conferences, seminars, education and training	724	712
Communication	434	448
Recruitment and repatriation	322	209
Other	249	236
Provision for impairment of receivables (Note 6)	167	686
Annual business fees written off	92	-
Provision for impairment on numismatic items	79	22
Advertising	65	68
Public relations	61	66
Net foreign exchange loss	50	60
	<b>5,665</b>	<b>5,549</b>

**19. Cash generated from operations**

	2015	2014
Non-cash items included in total comprehensive income for the year		
Depreciation of property and equipment (Note 9)	1,142	1,142
Amortisation of intangible assets (Note 10)	1,016	1,341
Amortisation/accretion of premiums/discounts on investments, held-to-maturity (Note 16)	216	195
Gain on call of US quoted securities (Note 16)	(495)	-
Provision for impairment of receivables (Note 6)	167	686
Gain on retirement of property and equipment	-	(1)
Provision for impairment on numismatic items (Note 18)	79	22
	<b>2,125</b>	<b>3,385</b>

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**19. Cash generated from operations (continued)**

	2015	2014
Change in operating assets		
Stock of notes and coins for circulation	341	416
Stock of numismatic items	9	(50)
Accounts and other receivables	(766)	(595)
Prepayments	337	(154)
	(79)	(383)
Change in operating liabilities		
Accounts and other payables	1,161	(1,779)
	1,161	(1,779)

**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:

	2015	2014
2015	-	473
2016	905	266
2017	430	270
2018	431	272
2019	338	-
Thereafter	338	151
	2,442	1,432

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:

	2015	2014
Property and equipment	38	49
Intangible assets	102	30
	140	79

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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 consist of the following:

	2015	2014
Staff expenses:		
Payroll tax	2,386	2,305
Social insurance	285	286
Pension costs - PSSF	119	119
Due to Consolidated Fund of the Government of Bermuda	416	170
Premises expense - land tax	209	197
Professional fees – audit	100	110
Other general expenses - immigration fees	60	117
Office expense - postage	10	16

*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 (2014 - \$20), Board sub-committee Chairmen are paid an annual fee of \$25 (2014 - \$25) and the Board Chairman receives an annual fee of \$75 (2014 - \$75). Travel expenses of \$39 (2014 - \$45) were paid to an overseas board member.

The Chief Executive Officer is paid a salary of \$500 (2014- \$500) and is eligible for a performance-based bonus of up to 45% (2014 – 30%) 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. Salaries of the other eight members of the executive team range from \$230 to \$350 (2014 - \$230 to \$350), with a performance-based bonus of up to 30% (2014 – 25%) of salary.

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**21. Related-party transactions (continued)**

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

	2015	2014
Directors' fees	293	301
Executive management salaries, bonuses and other short-term employee benefits	3,184	2,758
Retention bonus	50	-
Post-employment benefits	159	150



### **BERMUDA MONETARY AUTHORITY**

BMA HOUSE  
43 Victoria Street  
Hamilton HM 12 Bermuda  
P.O. Box HM 2447  
Hamilton HM JX Bermuda

tel: (441) 295 5278  
fax: (441) 292 7471

email: [enquiries@bma.bm](mailto:enquiries@bma.bm)  
website: [www.bma.bm](http://www.bma.bm)

### **INFORMATION NETWORK**

**INCORPORATION OF COMPANIES, ESTABLISHMENT OF PARTNERSHIPS OR THE ISSUE OF PERMITS TO OVERSEAS COMPANIES AND OVERSEAS PARTNERSHIPS, TRANSFER OF OWNERSHIP AND CONFIDENTIAL ENQUIRIES, CONTACT:**

**Leslie Robinson**, *Assistant Director, Corporate Authorisations,  
Licensing & Authorisations*  
EMAIL: [lrobinson@bma.bm](mailto:lrobinson@bma.bm)

**BANKS AND DEPOSIT COMPANIES, CONTACT:**

**Marcia Woolridge Allwood**, *Director, BTCSI*  
E-MAIL: [mwa@bma.bm](mailto:mwa@bma.bm)

**TRUST COMPANIES & CORPORATE SERVICE PROVIDERS, CONTACT:**

**Tamara Anfossi**, *Assistant Director, BTCSI*  
EMAIL: [tanfossi@bma.bm](mailto:tanfossi@bma.bm)

**INVESTMENT BUSINESS & FUND ADMINISTRATORS, CONTACT:**

**Leanne Alami-Merrouni**, *Assistant Director, BTCSI*  
EMAIL: [lalami-merrouni@bma.bm](mailto:lalami-merrouni@bma.bm)

**INVESTMENT GROUPS, CONTACT:**

**Christopher Tribley**, *Assistant Director, BTCSI*  
EMAIL: [ctribley@bma.bm](mailto:ctribley@bma.bm)

**LICENSING & AUTHORISATIONS, CONTACT:**

**Shelby Weldon**, *Director, Licensing & Authorisations*  
EMAIL: [sweldon@bma.bm](mailto:sweldon@bma.bm)

**INSURANCE BUSINESS, CONTACT:**

**Andrew Gibbs**, *Director, Insurance*  
EMAIL: [agibbs@bma.bm](mailto:agibbs@bma.bm)

**MEDIA REQUESTS, GENERAL INFORMATION, COPIES OF BMA REPORTS AND OTHER DOCUMENTS, CONTACT:**

**Stuart Roberts**, *Communications Manager*  
EMAIL: [sroberts@bma.bm](mailto:sroberts@bma.bm)

**INFORMATION ON BERMUDA NOTES AND COINS, CONTACT:**

**Terry Pitcher**, *Deputy Director, Head of Finance & Currency Operations*  
EMAIL: [tpitcher@bma.bm](mailto:tpitcher@bma.bm)







## **BMA HOUSE**

43 Victoria Street | Hamilton HM 12 | Bermuda  
P.O. Box HM 2447 | Hamilton HM JX | Bermuda

tel: (441) 295 5278 | fax: (441) 292 7471  
email: [enquiries@bma.bm](mailto:enquiries@bma.bm)

**[WWW.BMA.BM](http://WWW.BMA.BM)**