



BERMUDA MONETARY AUTHORITY

2014 ANNUAL REPORT

ABOUT US

The Bermuda Monetary Authority (the Authority) was established by statute in 1969. Its role has evolved over the years to meet changing needs in the financial services sector. Today it supervises, regulates and inspects financial institutions operating in the jurisdiction. It also issues Bermuda's national currency, manages exchange control transactions, assists other authorities with the detection and prevention of financial crime, and advises the Government 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, corporate service providers and insurance companies. It also regulates the Bermuda Stock Exchange.

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.

CONTENTS

02 CEO's Report

05 Executive Team

06 Chairman's Report

07 Board of Directors

08 Board Committees 2014

09

[SECTION 01]

Regulatory Development & Framework Enhancement

09 Banking, Trust, Corporate
Services & Investment

10 Insurance Developments

12 Macroprudential Monitoring

12 International Participation

14

[SECTION 02]

Legislative Developments

14 Legislative Change Overview

16

[SECTION 03]

Supervision & Licensing

16 Banking Supervision

18 Insurance Supervision

19 Anti-Money Laundering/
Anti-Terrorist Financing

19 Enforcement Activity

22 Licensing

25

[SECTION 04]

Supporting Effective Regulation

25 Communications

26 Information Technology

26 Talent Management &
Staff Development

27 BMA Management Team

28

[SECTION 05]

Statistics

28 Financial Highlights

30 Banking

35 Investment Funds

36 Insurance

41

[SECTION 06]

Financials

42 Letter to Minister of Finance

43 Statement of Responsibility

44 Auditor's Report

45 Financial Statements

49 Notes to Financial Statements

80 **Contact Information**

CEO's REPORT

The past year has been characterised by both challenges and victories. In 2014

- our workload increased, the competition heightened and the stakes were raised for Bermuda globally, and
- the finish line came into view on a number of BMA-driven initiatives.

Overall, I believe we demonstrated that the Authority is more than equal to the challenge of performing on the world stage.

In spite of its diminutive size, Bermuda is no minnow in the business of insurance and reinsurance; quite the contrary. Much

More still needs to be done, but the end is in sight.

Our commitment to securing equivalence for Bermuda has remained unreserved, and we have been diligent and dedicated in our pursuit of this objective. Failure to achieve it will put Bermuda-based insurance and reinsurance companies at a competitive disadvantage when doing business in the EU.

I'm grateful to my colleagues at the BMA for the significant work they have performed in order for Bermuda to achieve full equivalence.

“Our commitment to securing equivalence for Bermuda has remained unreserved, and we have been diligent and dedicated in our pursuit of this objective.”

is expected of us and the Authority continues to perform to a high standard.

Nowhere is this more evident than on Bermuda's journey towards full equivalence under the EU's Solvency II rules. The Authority has made a massive investment in regulatory framework revisions which not only work for Bermuda but are designed to secure support from Europe.

Financial Stability for Bermuda

Collaboration began in early 2014 with the Financial Stability initiative. The Authority has been working with the Ministry of Finance to improve and strengthen Bermuda's arrangements for coping with systemic financial issues. It involves assessing the main vulnerabilities to the financial system – from government debt to failure of a specific financial institution.

The Financial Stability Committee started meeting in March 2014. They reviewed financial indicators and researched specific issues, and have focused on the creation of thematic papers on topics ranging from the change in demographics in the workforce

to underfunded pensions. The BMA is fulfilling its role of advising and assisting the Government through its work with the Ministry of Finance on macroprudential matters. It's an evolving role for us, but it's a shift that works; the Authority has the in-house expertise and we are equipped to bring value in this significant area.

This should benefit around 240 Bermuda companies, including most of the island's largest insurers and reinsurers.

National Risk Assessment

The Authority has taken a leading role in Bermuda's first National Risk Assessment, which was completed in 2014. The BMA team conducted the research and selected



Jeremy Cox
Chief Executive Officer

NAIC

In December, Bermuda achieved qualified jurisdiction status from 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.

Given that the US remains Bermuda's largest trading partner, being approved as a qualified jurisdiction potentially facilitates efficiencies in the cross-border operations of Bermuda reinsurers with the US insurance market.

the World Bank tool to carry out the assessment, and once the data had been gathered, provided the feedback to financial services sector organisations. Successful execution of this initiative strikes a blow for Anti-Money Laundering and Anti-Terrorism Funding, without which Bermuda cannot be considered a credible jurisdiction.

A visit by the International Monetary Fund in the not-too-distant future will determine whether Bermuda makes the grade in its AML/ATF compliance. Failure of the IMF review is not an option for the jurisdiction.

BMA Seminar

The inaugural BMA Seminar was a highlight of the year. The gold-standard keynote speakers were Chairman of Lloyd's of London John Nelson and CEO of the Prudential Regulatory Authority Andrew Bailey. Panellists were among the rock stars of the insurance industry – Brian Duperreault, Mike McGavick, Dennis Mahoney, and Frank Majors – most ably moderated by BMA Board member, Fiona Luck.

In his opening remarks, Minister Grant Gibbons pointed out that the fact individuals of this calibre agreed to take part attested to the high regard in which Bermuda is held. It was simply world class, as many of the 300 or so industry representatives who attended told me afterwards.

This is the kind of thought leadership event we'd like to continue to offer, because it affirms Bermuda's place on the world stage. It is in perfect alignment with the BMA's mission to "enhance and protect Bermuda's reputation and position as a leading international financial centre".

As a bonus, the fact that the Seminar took place the day after Bermuda was named as the venue for the 2017 America's Cup event introduced a sense of celebration!

Talent and technology

A renewed focus on internal issues, such as talent and technology, has been crucial for us throughout 2014. Suited to the current scale of activity, I believe we now have the team we require to meet the Authority's mandate. To improve our product, we are engaged in a programme to embed the more advanced technical competencies necessary to continue to ensure we are a first-rate regulatory body.

In addition, the technology to carry out our work is essential. I'm happy to say we now have a new Director of Management Services, Sheridan Smith, and his mission is to create an IT platform of excellence for the Authority.

Bermuda has experienced tough times over the past few years; we all know that. But the island and its financial services industry have proved to be less fragile than the doomsayers have occasionally predicted. The economic landscape keeps changing of course. The ILS business is thriving, and consolidating after the previous two years of extensive growth. Mergers and acquisitions have occurred, and pundits predict more. Initially, that can appear harmful to our island economy – fewer companies, equals fewer employees, and equals less domestic spending. But there is an argument that what is happening needed to happen; that without M&A, the industry would be less robust; that with M&A there's an opportunity for Bermuda to be hosting more of the significantly large players in the global insurance market.

We live on a small island in the middle of the ocean, subject to the vagaries of weather, access and outside influences. Bermuda's resilience has traditionally been demonstrated by how it has responded to external factors; we must be prepared.

If the Authority does its job well, Bermuda will have the gatekeeper it needs to continue to succeed. Warren Buffett said: "Someone is sitting in the shade today because someone planted a tree a long time ago".

I've been in this business for more than 20 years. The BMA has been around for over 45 years. We're planting trees for the benefit of Bermuda's future, and we will continue to do so in 2015.



Jeremy Cox
Chief Executive Officer

30th April, 2015

2014 Business Plan Milestones Completed

Banking, Trust, Corporate Services & Investment

- Concluded Basel III consultation with Bermuda's banks
- Special Resolution Regime
- Consulted with domestic and foreign stakeholders to develop an AIFM regime for Bermuda fund managers.
- Continued work on Corporate Service Provider (CSP) Regime
- Consulted on framework changes for money services business, payment and foreign exchange services

Insurance

- Continued enhancements to supervisory toolkit – Bermuda Solvency Capital Requirement (BSCR)
- Consulted on policyholder protection
- Worked on internal capital model applications

Other

- Continued input and support for National Risk Assessment



Executive TEAM

Pictured from left to right:

Andrew Gibbs

Director, Supervision (Insurance)

Craig Swan

Managing Director, Supervision

David Theaker

*Chief Actuary, Supervision
(Actuarial Services)*

Jeremy Cox

Chief Executive Officer

Shelby Weldon

Director, Licensing & Authorisations

Sauna MacKenzie

*Director, Legal, Policy &
Enforcement*

Roger Scotton

*Senior Advisor, Head of
Communications*

Sheridan Smith

Director, Management Services

NOT SHOWN:

Marcia Woolridge-Allwood

*Director, Supervision
(Banking, Trust, Corporate
Services & Investment)*

Shanna Lespere

Director, Operations

Chairman's REPORT



The Hon. Gerald Simons, OBE
Chairman

Having a professional and credible regulatory body is essential for Bermuda to maintain its status as a respected international financial services centre.

The Board of Directors plays a key role in ensuring that the Authority continues to be an outstanding regulatory body.

The Board focuses its attention on three main areas:

- **Strategy:** The Board is charged with ensuring the Authority discharges its functions in line with Board strategy and objectives.

- **Fiscal:** The Board has a duty to ensure that the Authority's financial policies and processes are in order and that we act with financial prudence at all times.

- **Leadership:** The Board has a duty to ensure the Authority has a strong leader and senior executive team. Arguably this is its most significant responsibility. Without the leader that the team will follow, the Authority cannot succeed.

With regard to leadership, the Board was very pleased that Jeremy Cox, who has led the Authority for the past five years, has signed on for a second five-year term. This is very good news. Jeremy's deep knowledge of the financial services sector, his familiarity with international regulation, his technical skills and his charisma have served Bermuda well for more than 20 years.

Over the past five years, Jeremy has covered thousands of miles and spent many months abroad in pursuit of the Authority's business. He has indicated that while he will remain focused on the global scene, he also intends to spend time and energy over the next five years on the inner workings of the Authority which has grown considerably in complexity and in the number of employees as a result of the implementation of its enhanced regulatory and supervisory regimes. Jeremy's objective will be to consolidate the position of the Authority, to ensure that it is prepared for the next decade. Bermuda is most fortunate to have a professional with his insight, intellect and integrity to lead this vital institution during these perilous economic times.

On behalf of the entire Board of Directors, I would like to take this opportunity to thank Jeremy, the senior executive team and all other members of the Authority's staff for their contributions over the past year.

In carrying out its responsibilities, the Board is mindful of the multiple risks to which Bermuda is exposed: endlessly shifting regulatory requirements, Anti-Money Laundering and Anti-Terrorism Funding regimes and the increasingly competitive nature of the financial services industry. This environment makes the role of the Authority and by extension the role of Directors, more important to Bermuda than ever before. In 2014, the full Board met nine times. In addition, the several committees of the Board met on a regular basis as detailed elsewhere in this report.

Much has been achieved during 2014, however, the granting to Bermuda of Qualified Jurisdiction status by the National Association of Insurance Commissioners (NAIC) of the United States must rank as one of the most significant achievements. On behalf of the Board, I would like to thank all of the staff who were directly involved in this initiative, particularly the Insurance Supervision team overseen by Craig Swan, and the Legal and Policy units lead by Shauna MacKenzie.

Finally, I'd like to thank my fellow Directors for their dedication to the Authority and for their support of me as Chairman. Their role of overseeing the work done by the Authority's staff remains critical to reinforcing the organisation's ability to withstand the demands and scrutiny being placed on financial regulators and in maintaining the BMA's international reputation as highly respected regulator.

A handwritten signature in black ink, reading 'G. Simons'.

The Hon. Gerald Simons, OBE
Chairman

30th April, 2015



Board of **DIRECTORS** as at 31st December, 2014

Pictured from left to right:

E. Michael Leverock
*President, Leverock
Advisors & Associates*

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

Allan Marshall
*Director and Consultant, Somers
Real Estate Opportunity Fund Ltd.*

Jeremy Cox
*Chief Executive Officer,
Bermuda Monetary Authority*

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

The Hon. Gerald Simons, OBE
Chairman

E. Barclay Simmons
*Managing Partner,
Attride-Stirling & Woloniecki*

Lynda Milligan-Whyte
*Senior Corporate Attorney,
Apex Law Group Ltd.*

Anthony Joaquin
*Deputy Chairman,
Ernst & Young (retired)*

NOT SHOWN:

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

Board COMMITTEES 2014

Non-Executive Directors

The Hon. Gerald Simons (Chair)

Anthony Joaquin (Deputy Chair)

Walter Bell

Michael Leverock

Fiona Luck

Allan Marshall

Lynda Milligan-Whyte

Barclay Simmons

Tracy Tepper

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

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

Investment

Barclay Simmons (Chair)

Jeremy Cox

Allan Marshall

Lynda Milligan-Whyte

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

Anthony Joaquin (Chair)

Fiona Luck

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 determine their remuneration
- Oversees the Authority's risk management process
- Provides the Board with the results of its monitoring and recommendations, as well as additional information and materials the Committee deems necessary to make the Board aware of significant financial matters that require the Board's attention
- Oversees the internal audit function of the Authority.

Legislative & Policy

Lynda Milligan-Whyte (Chair)

Gerald Simons

Tracy Tepper

- 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

Tracy Tepper (Chair)

Jeremy Cox

Michael Leverock

Barclay Simmons

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 BMA Board, management and staff 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

Anthony Joaquin

Fiona Luck

The HCC 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 Development & Framework Enhancement

Throughout 2014 the Authority balanced the task of adhering to international standards with that of maintaining a regulatory environment that remained appropriate for the firms which operate here.

Banking, Trust, Corporate Services & Investment

BANKING

Basel III consultation concluded

In 2014, consultation with industry continued on the adoption of Basel III for Bermuda's banks. In November 2013, the Authority had issued a consultation paper proposing to implement revised regulatory capital and liquidity standards for Bermuda's banks. As a result of this outreach, the Authority received valuable feedback on a number of issues, including the revised reporting standards. On 31st December, 2014 a *Basel III for Bermuda Banks – Final Rule* was published. This allowed for transitional implementation of the new Basel III regime commencing on 1st January, 2015.

Guidelines for enhanced stress-testing in the Capital Assessment and Risk Profile (CARP)

Following consultation with the banking sector in 2014, the Authority enhanced its supervisory review process for Bermuda's banks. Specifically, it established stress testing as a stand-alone requirement to

assess a bank's capital adequacy after a period of financial stress. Also, in line with principles of the Basel Committee on Banking Supervision, the Authority's Guidance Note issued in April 2014 incorporated an enhanced approach to stress testing that further integrated stress test results in a bank's CARP. This enhancement produced a more robust capital analysis and corresponding Pillar II requirement, which was more reflective of a bank's risk profile. The result of the stress test was taken into consideration when assessing each bank's capital requirements to determine if a capital add-on was required under Pillar II of the Basel Accord.

Loan-to-Value (LTV) limits and Total Debt Service Ratio (TDSR) guidelines issued

In May 2014, the Authority issued a paper providing guidelines for Supervisory LTV limits and TDSR for real estate loans undertaken by Bermuda's banks. These limits are deemed a supervisory baseline and are not to be used as a replacement

for more conservative and tailored limits appropriate to the inherent risk of the loans underwritten by banks.

TRUST AND CORPORATE SERVICE PROVIDERS (TCSP)

New Trust and Corporate Service Providers (TCSP) standards paper

In 2014, the Authority was a member of a working group of the Group of International Finance Centre Supervisors (GIFCS) that assisted with the drafting of a standard paper on the Regulation of Trust and Corporate Service Providers (TCSPs). The GIFCS standard, which was released in October 2014, introduces a new minimum benchmark for businesses administering international trusts and companies and intends to promote and reinforce high standards in the sector. Specifically, the GIFCS standard paper addresses prudential and conduct regulation and is designed to complement the international supervisory standards of the Basel Committee on Banking

Supervision, the International Organisation of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS).

Corporate Service Provider regime nears completion

In September 2014, the Authority consulted on a code of practice for Corporate Service Providers (CSPs). The code provided guidance on the duties, requirements, procedures, standards and sound principles to be observed by persons carrying on CSP business in Bermuda.

During 2014, the Corporate Service Provider Business Act 2012 was amended to create two classes of licensees, limited and unlimited. This licensing separation recognised two scales of operational activities present in Bermuda's CSP sector: full, which includes the provision of new incorporation services and subsequent changes in beneficial ownership; and narrow, which includes the provision of basic corporate secretarial services.

In addition, a CSP corporate governance policy was drafted, in line with the policy for the Trust sector, and will be finalised in 2015.

Finally, the CSP Act was amended in Q1-2014 to link the corporate governance policy for CSPs with the minimum licensing criteria.

INVESTMENT

Alternative Investment Fund Managers (AIFM) consultation

In 2014, the Authority engaged in extensive consultation with domestic and foreign stakeholders to develop an Alternative Investment Fund Managers (AIFM) regime for Bermuda fund managers.

The Authority's dialogue with industry concluded that a domestic AIFM regime would assist Bermuda fund managers and funds, both under current European Union (EU) provisions for private placement and transitioning through to a full AIFM regime. Further, there was consensus that the Authority would best achieve such a regime by amending the existing Investment Business Act 2003 and developing associated regulations.

As a consequence, in November 2014, the Authority published a discussion paper revealing plans to create the necessary legal framework. While advancing its AIFM initiative, the Authority is mindful of international regulatory developments relating to investment management and investment business generally, and continues to assess the broader Bermuda regime in order to maintain adherence to international principles and standards in these areas.

MONEY SERVICE BUSINESS

In April 2014, the Authority produced a Discussion Paper covering money service business, payment services and foreign exchange services. The paper outlined the growth of this sector and its growing importance both in Bermuda and globally. The Authority will take all comments garnered during this consultation period into account as it enhances this sector's regime in 2015.

In Q4-2014, amendments were made to the Money Service Business Regulations 2007 to facilitate more effective regulation of this sector. This included the revision of the minimum criteria schedule to be more risk-based, adding powers for the Authority to impose certain conditions on a licence and enhancing the reporting requirements for licensees.

LEGISLATIVE FRAMEWORK REVIEW

As part of its overall framework enhancement, the Authority continues to review both the Investment Business Act 2003 and the Investment Funds Act 2006. This review will ensure that both pieces of legislation are in line with international standards while still supporting expansion of Bermuda's asset management sector.

Insurance Developments

Enhanced statutory reporting for Limited Purpose Insurers

As a result of a successful trial run in 2013, the Authority made enhancements to the electronic filing (e-filing) platform and models for Bermuda's Limited Purpose Insurers (Classes 1, 2, 3, A and B insurers). In order to have sufficient time to prepare the e-filing models, the Authority deferred implementation of the enhanced reporting requirements until

2015. This means all limited purpose and dual licence insurers will continue to file their 2014 year-end statutory financial returns in accordance with existing requirements. The Authority will liaise with relevant stakeholders about the phased implementation of the revised e-filing models in 2015.

Policyholder protection discussion paper issued

The Authority consulted with industry groups and issued a Discussion Paper in Q2-2014 to explore the provision of additional protection to insurance policyholders. The Paper reviewed different approaches to achieve this aim, including a proposal that policyholders be removed from 'general creditors' under Section 236 of the Companies Act 1981

and be ranked instead as ‘preferred creditors’.

Guidance Note on assessment of shareholder controllers

In September 2014, the Authority issued a Guidance Note on “the Assessment of Shareholder Controllers and Controllers”. The objective of this Guidance Note was to describe the Authority’s process for assessing shareholder controllers and controllers pursuant to the Minimum Criteria for Registration under the Insurance Act 1978. In addition, the Guidance Note set out notifications criteria as provided in Sections 30D, 30E and 30J of the Insurance Act 1978. The Guidance Note assisted industry by establishing the minimum documentation required for making such notifications to the Authority.

Information Bulletin on the Assessment and Licensing Committee’s insurance application process

In October 2014, the Authority issued a revised Information Bulletin on the Assessment and Licensing Committees’ (ALC) insurance application process. This Bulletin replaced a previous version issued in December 2008. Revisions included an update to industry on the ALC’s insurance application process as well as related licensing documentation requirements arising out of the Authority’s comprehensive review of the ALC’s terms of reference. This review led to several enhancements to the ALC licensing process, including updated information and documentation requirements to reflect recent legal and regulatory amendments. This work supported the continued ability and intent of the Authority to remain responsive to industry developments.

National Association of Insurance Commissioners’ (NAIC) Qualified Jurisdiction Status

Throughout 2014, the Authority continued to collaborate with the US National Association of Insurance Commissioners (NAIC) during its Qualified Jurisdiction initiative. The Authority was granted

Conditional Qualified Jurisdiction status in December 2013. For the stage of the assessment conducted last year, the NAIC focused on the Authority’s supervisory and regulatory framework for Bermuda’s commercial insurance market. It was essential that the Authority’s regime be viewed as meeting the standards of and achieving similar supervisory outcomes to the US regulatory system for insurers. In December 2014, the NAIC confirmed Bermuda’s full Qualified Jurisdiction status for general business commercial Classes 3A, 3B and 4, and Long-Term (life) commercial Classes C, D and E.

Insurance Code of Conduct amended

In August 2014, the Authority proposed amendments to the Insurance Code of Conduct to provide clarity on issues surrounding the role of a board of directors, as well as additional corporate governance requirements. Specific amendments included the implementation of a remuneration policy aligned with the interests of the insurers and the establishment of an independent internal audit function. Other changes included enhancements to market discipline and disclosures. The amendments to the Insurance Code of Conduct came into effect in January 2015 and Bermuda’s insurers have up until 1st July 2015 to comply with the requirements.

Solvency II equivalence assessment continues

Since its last equivalence assessment report was published in 2011, the European Insurance and Occupations Pensions Authority (EIOPA) invited the Authority to provide an update on developments within its regulatory and supervisory regimes. Throughout 2014, the Authority worked extensively with EIOPA to provide an update which accurately reflected Bermuda’s reworked commercial (re)insurance regulatory regime. EIOPA published its updated report in December 2014, which endorsed key aspects of Bermuda’s regime as meeting the criteria of the Directive, with certain caveats.

As part of this work, significant progress was made on refining the Authority’s Economic Balance Sheet (EBS) provisions in preparation for a January 2016 roll-out. In May 2014, a trial run was conducted with Property & Casualty companies to further develop proposals and to finalise a risk-free yield curve. In Q4-2014, a comprehensive Consultation Paper was issued and corresponding draft legislation was developed.

Technical amendments to the Insurance Act 1978

As the Authority continued to enhance its regulatory regime in 2014, a number of corresponding changes were proposed for the Insurance Act 1978. The Authority issued a draft Insurance Amendment Bill for consultation in September 2014. Important proposed changes included the introduction of a published declaration of compliance for commercial insurers and setting down corporate governance requirements in the Minimum Criteria for Registration. In addition, the Authority’s approval will now be required for the sale of an insurer and all schemes covering the acquisition or transfer of business under Section 99 of the Companies Act 1981. Initial debate on the Bill took place in Parliament in December 2014 and will continue in Q1-2015.

Macprudential Monitoring

During 2014, the Authority continued its work to develop a financial stability framework for Bermuda. Following the global financial crisis of 2007-2008, Bermuda experienced a significant drawdown in economic output, which continued to impact the economy throughout 2014. Due to the downturn, Bermuda's banks were severely impacted both from a lending and profitability perspective. The Authority identified that the fragility of Bermuda's financial system hinges on developments impacting the island's banking and insurance sectors. As a result, one of the primary goals of the Authority was to identify and develop

macro-economic indicators that could be used as early warning indicators of imbalances developing within the local financial industry. In March 2014, these preliminary indicators were presented to the Financial Stability Committee, made up of senior Authority and Ministry of Finance personnel. Throughout 2014, the Authority continued to modify existing macro-economic indicators and identify new indicators for improved monitoring of domestic and global trends.

In 2014, the Authority also completed work on a National Crisis Plan which includes policies and procedures for a Special Resolution Regime (SRR). The

overriding goal of the SRR is to protect and enhance the stability of Bermuda's banking and financial services systems. The Authority also produced an SRR manual which identified the key bodies needed to maintain financial stability in Bermuda. It also outlined a process to be followed should Bermuda be faced with a banking crisis that threatened its financial stability.

Throughout 2014, the Authority produced thematic papers focusing on special topics such as the banking and insurance sectors, public finances, and the Bermuda pension system.

International Participation

The Authority remained active on the international front in 2014 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. Despite resource constraints, it is important for

Bermuda to continue to have a seat at the table during these ongoing discussions about global regulatory standards.

Highlights Of International Participation – 2014

Insurance

IAIS participation

- Supervisory Forum in Chile, Basel and London
- Technical Committee (TC) and Financial Stability Committee (FSC) in Basel, Quebec City and Amsterdam
- Insurance Groups Working Group in Basel and Frankfurt
- Field Testing Working Group in Basel
- Macprudential Policy & Surveillance Working Group in Washington DC and Bermuda
- Reinsurance and Other Forms of Risk Transfer Subcommittee in Washington DC, Copenhagen, and Bermuda
- Annual Conference in Amsterdam
- IAIS & Association of Latin American Insurance Supervisors (ASSAL), Seminario Regional sobre Capacitación de Supervisores de Seguros de Latinoamérica in Panama City

National Association of Insurance Commissioners (NAIC)

- Spring National meeting in Orlando
- Summer National meeting in Louisville
- Fall National meeting in Washington DC
- NAIC International Insurance Forum in Washington DC

Financial Stability Board

- Financial Stability Board's Regional Consultative Group (FSB RCG) for the Americas, Shadow Banking Working Group Workshop in Panama City
- Financial Stability Board's Regional Consultative Group (FSB RCG) for the Americas meetings in Bogota, Colombia and Panama City

Other

- Joint International Monetary Fund/ World Bank/Federal Reserve Board – Conference on Policy Challenges for the Financial Sector in Washington DC
- EU-US Insurance Symposium in Washington DC
- EU-US Insurance Project in Amsterdam
- Group of International Insurance Centre Supervisors (GIICS) Annual General meeting in London
- EIOPA/EC/BMA in Amsterdam
- Financial Stability Institute (FSI), 10th International Insurance Seminar on Core Supervisory Issues in Beatenberg, Switzerland
- American Conference Institute's Advanced Forum on Insurance-Linked Securities in New York City
- American Conference Institute's National Forum on Reinsurance Regulation in New York City

Presentation, seminars and delivery of technical training

- Reinsurance Association of America on the Authority's Bermuda Solvency Capital Requirement (BSCR) and Supervisory Regime in Bermuda
- Global Insurance Conference in Frankfurt
- NAIC International Insurance Forum in Washington DC
- Bermuda Captive Conference in Bermuda
- Financial Stability Institute (FSI), 10th International Insurance Seminar on Core Supervisory Issues in Beatenberg, Switzerland
- American Conference Institute's Advanced Forum on Insurance-Linked Securities in New York City
- American Conference Institute's National Forum on Reinsurance Regulation in New York City
- IAIS & ASSAL, Seminario Regional sobre Capacitación de Supervisores de Seguros de Latinoamérica in Panama City
- Reinsurance Compliance Association Conferences in New York City
- Inaugural Bermuda International Long-Term Insurers and Reinsurers (BILTIR) Conference in Bermuda

Banking

- Bank of International Settlements, Workshop for BIS International Banking Statistics Compliers in Basel
- Group of International Finance Centre Supervisors (GIFCS) meetings in London, England and Tianjin, China
- International Congress of Banking Supervisors meeting in Tianjin, China
- Licensee review/regulatory meetings in London and Guernsey
- Supervisory Colleges in London and Bermuda

Investment

- International Organisation of Securities Commissions (IOSCO) in Rio De Janeiro
- IOSCO Seminar on implementing the IOSCO Principles for stock exchanges, self-regulated organisations and national regulators in Tokyo
- UK Financial Conduct Authority (FCA) meeting on UK Alternative Investment Fund Managers (AIFM) framework and third country dialogue in London
- European Securities and Markets Authority (ESMA)/Central Bank of Ireland (CBI) meeting on Irish AIFM regime and future dialogue with third countries in London
- AIFM meeting with ESMA in advance of ESMA's opinion to the European Commission regarding extension of the passport to third countries in Paris
- Licensee review meetings in Tokyo and Seoul, South Korea
- Hosted one Investment Supervisory College in Bermuda

Trust and Company Service Providers (TCSP)

- The Group of International Finance Centre Supervisors (GIFCS) Standard on the Regulation of TCSPs. The Authority participated on the working group, in the drafting of the Standard Paper.

Legislative Developments

Legislative Change Overview

Throughout 2014, several legislative changes were made to take into account various technical matters arising out of legislation administered by the Authority. Further, the Authority proposed that Government enact new legislation in relation to payment services and to expand the Authority's supervisory remit to include this burgeoning financial sector.

TECHNICAL AND HOUSEKEEPING MATTERS ADDRESSED WITHIN INSURANCE AMENDMENT ACTS

On the insurance side, the Authority amended the Insurance (Eligible Capital) Rules 2012 to allow for all provisions and requirements of the Rules to apply to Long-Term insurer Classes C and D.

In addition, a new section was added to the Insurance Amendment Act 2015 which will require all registered persons to state whether or not they meet the minimum criteria for licensing on an annual basis.

This new certification falls in line with similar statutory requirements for other financial sectors (and provided for civil penalties to be imposed in the event of non-compliance).

Other revisions related to: notification of material changes; allowing the Authority to intervene when an insurer is in breach of its minimum margin of solvency and eligible capital requirements; and a requirement for friendly societies and trade associations to be registered by the Authority prior to conducting insurance business.

Amendments were also made to Insurance (Prudential Standards) Rules relating to the Solvency Requirements for Bermuda Group insurers, Long-Term (life) insurance Classes C, D and E and general business commercial Classes 3A, 3B and 4.

OTHER LEGISLATIVE HIGHLIGHTS

Money Service Business Amendment Regulations 2014

After a period of industry consultation, in December 2014 the Authority introduced an amendment to the Money Service Business Regulations 2007. Amendments to the regulations were required due to the technological advances of this business as well as the growth of Money Service Businesses (MSB) globally.

The amendment strengthened the Authority's information-gathering powers and supervisory tools and allowed it to more meaningfully address the challenges presented by potential new applicants utilising technological platforms to manage their businesses.

Amendments to the Bermuda Monetary Authority Act 1969 (Fees Bill)

Effective 1st January 2015, the Authority will increase its fees after running a deficit since 2010 in an effort to minimise the impact of fee increases on the financial services industry. As a result, in 2014 the Fourth Schedule to the Bermuda Monetary Authority Act 1969 was amended to increase the fees applicable

to those entities licensed or proposed to be licensed to carry on business under the Banks and Deposit Companies Act 1999, Corporate Service Provider Business Act 2012, Insurance Act 1978, Investment Business Act 2003, Investment Funds Act 2006, Money Service Business Regulations 2007, Proceeds of Crime Anti-Money Laundering and Anti-Terrorist Financing (Supervision and Enforcement Act 2008, Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Regulations 2008 and the Trusts (Regulation of Trust Business) Act 2001. Further, registration and annual fees were increased in relation to those entities registered or intending to be registered under the Insurance Act 1978, defined “as non-resident insurance undertakings” (pursuant to the Non-Resident Insurance Undertaking Act 1967). Finally, the Banks and Deposit Companies (Fees) Act 1975 was amended and registration and annual fees were introduced for entities operating or intending to operate as a credit union under the Credit Unions Act 2010.

Banking (Special Resolution Regime) Act 2014

The Banking (Special Resolution Regime)

Act 2014 makes provision for stabilisation powers, an insolvency procedure, and an administration procedure to be exercised and carried out by the Authority and the Bermuda Government (collectively, the authorities) in the event of a serious bank failure in Bermuda.

The Special Resolution Regime (SRR) is structured into three parts. Part I states which stabilisation powers may be exercised, the roles to be undertaken by the authorities under the SRR Act, and the instruments to be utilised to effect such powers. Part II addresses the scenario where a bank has or is about to fail by providing for a bank insolvency order to be made by a court to commence with the bank’s insolvency process. Once a stabilisation power has been exercised by Government under Part I of the SRR, Part III introduces an administration procedure in relation to a ‘residual bank’ to be carried out by an administrator appointed by bank resolution order. The SRR embeds many of the provisions of the (UK) Banking Act 2009 and proposes to provide the authorities with the necessary stabilisation powers to transfer part or all of a failing bank’s business to a private

sector purchaser, to assume control of part or all of a failing bank’s business through a bridge bank and to acquire temporary public ownership of a bank where required.

Friendly Societies and Section 57 of Insurance Act 1978

The Authority consulted with stakeholders regarding an exclusion set out in Section 57 (1)(a) of the Insurance Act 1978.

Under this Section, a registered Friendly Society conducting business in which the risks of the members are insured is outside the supervision of the Authority. In the particular case of activities by the Bentley Friendly Society, it should be noted that at all material times the Society was registered under the Friendly Societies Act 1868.

The Authority remains committed to the principle that any entity that offers insurance, particularly when it affects the interests of third parties, should be subject to supervision under the Act and proposes to conduct further consultation of its proposals over the course of the year.

Supervision & Licensing

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

Banking Supervision

ENHANCED REPORTING AND MONITORING

2014 reflected the continuation of active monitoring concerning credit risk exposures in the banking sector. Banks continue to provide regular monthly reports on their respective credit portfolios, and the Authority continues to actively review this information and meet with individual banks to discuss developments in their credit quality and trends in their loan books.

Overall, Bermuda banks continue to maintain high levels of capital relative to international minimum standards, including the recently adopted Basel III standards. These prudent levels will help buffer further stresses from the ongoing recession. The Authority also continues to challenge the sector on stress-testing and loss provisioning methodologies and is also monitoring the restructuring of problem loans.

OVERVIEW OF THE FINANCIAL POSITION

Bermuda has had six years of recessionary economic conditions which has continued to impact the banking sector with domestic credit portfolios still showing signs of stress. While the ratio of non-performing loans to total loans has improved in 2014, it is still at elevated levels from where the sector was before the recession. Despite this, capital levels remain high and above all international regulatory requirements.

Assets and Liabilities

There was a decrease of 8.0% in the consolidated assets of the banking sector; down from \$25.1 billion at the end of 2013 to \$ 23.1 billion at the end of 2014. This was a significant change from the increase of \$0.9 billion or 3.8% experienced in 2013.

The net decrease in assets was a reflection of the following asset class movements: Investments decreased by 8.4%, Loans & Advances decreased by 0.6%, Deposits with Other Financial Institutions decreased

by 17.2% and Other Assets had negligible movement.

The driver behind the overall decrease in the sectoral balance sheet was a 9.0% decrease in deposit liabilities to \$20.3 billion from \$22.3 billion. This related to decreases in time deposits of 39.3%, partially offset by an increase in demand deposits of 3.4% and savings deposits of 2.4%.

Balance Sheet Structure

The overall allocation of assets remained much the same as previous years; however, investments remain the largest asset class for a second year in a row. Loans and advances are now the second largest portion of assets, and cash and deposits with other financial institutions staying in third. The share of loans increased from 33.3% to 35.9%, while the share of investments decreased slightly from 37.6% to 37.4% and the share of cash and deposits fell from 25.9% to 23.2%, reflecting the primary source of funding for the bulk of the aforementioned deposit outflows.

Earnings and Profitability

Net income for the banking sector was higher in 2014 compared to the previous year with an increase of \$21.7 million or 16.6%. This mainly reflected a notable decrease in loan charge offs of 45.2% coupled with a marginal increase in banking income of 1.4%. Banking income contributes 82.2% of total income with net interest income being the most significant component. During 2014, net interest income increased by 0.7% due to a decrease in interest expense of 9.2%.

As a portion of total income, net interest income increased from 61.8% in 2013 to 62.3% in 2014 (see chart on page 32). The interest margin for the sector increased to 91.3% of interest income in 2014 relative to 90.4% in 2013. Operating costs increased by 6.6%, driven primarily by increased payments to external service providers.

Capital Adequacy

Capital adequacy in the Bermuda banking sector, as measured by the Risk Assets Ratio (RAR), remained strong in 2014, standing above regulatory minimum capital requirements and in excess of all international benchmarks, including Basel III. RAR for the sector was slightly higher as it stood at 22.8%, compared to 21.9%

at the end of 2013 and was achieved through reductions in risk weighted assets (see Banking Sector Consolidated Risk Asset Ratio table on page 32).

CREDIT UNION SUPERVISION

Bermuda's supervisory and legislative framework for credit unions incorporates the principles contained within the Model Law of the World Council of Credit Unions and the International Credit Union Safety and Soundness Principles.

The Bermuda Industrial Union Credit Union is currently the only credit union in Bermuda. The Authority conducted ongoing supervision of this entity in accordance with the provisions of the Credit Unions Act 2010 throughout 2014.

BERMUDA STOCK EXCHANGE (BSX)

The total market capitalisation of the BSX as at 31st December, 2014 (excluding collective investment vehicle listings) stood at over \$455 billion of which approximately \$1.95 billion represented the domestic market. Total trading volume for the period was 12.5 million shares

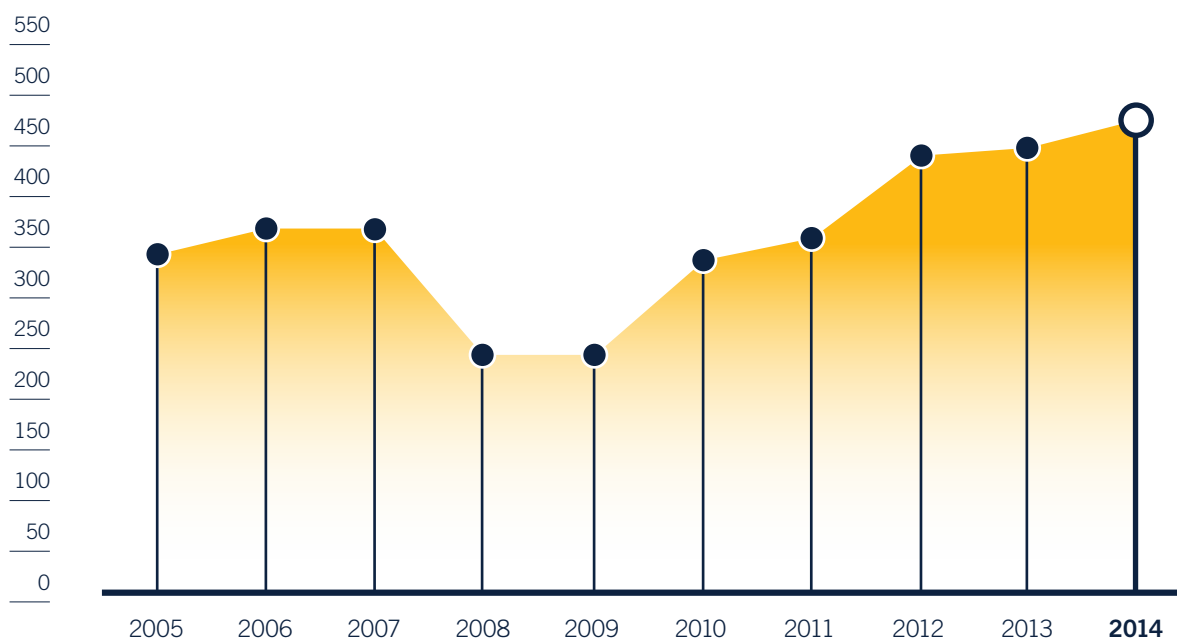
with a corresponding value of \$37.4 million compared to 10.2 million shares with a corresponding value of \$30 million for 2013.

Net listings grew by 97 securities year-on-year. New listings increased by 146 securities, including 56 Insurance Linked Securities with a capitalisation value of \$8.3 billion. There was growth across all sectors including international equities, debt, derivatives and collective investment vehicle listings.

The RG/BSX Index closed the year at 1357.12 which is 12.99% higher than 2013.

As at 31st December, 2014 there was a total of 762 securities listed on the BSX. The number of Insurance Linked Securities listed on the BSX grew to 118 from 77 (a 53% increase) while the value of these securities grew to \$15.9 billion from \$9.7 billion (a 64% increase) from the same period last year. There were 26 new collective investment vehicles, 18 international equities, 33 new derivatives and 13 fixed income securities listed, along with 13 subsequent issues undertaken by existing listed issuers. Delistings included several Insurance Linked Securities that matured during the year in the normal course of business and some 23 collective investment vehicles.

Bermuda Stock Exchange – Market Capitalisation (US\$ bln)



Insurance Supervision

OVERVIEW MARKET RESULTS

Bermuda's insurance sector remained buoyant in 2014, with steady growth in registrations across several classes of insurers. A total of 89 new insurance entities registered in Bermuda in 2014, 65 new insurers and 24 new intermediaries.

The most significant area of growth in 2014 was in the Long-Term (life) sector, with four new Class E insurers, five Class C insurers, and one Class A insurer establishing in Bermuda during the year. This compares to six Long-Term registrants in 2013 – three Class C insurers, two Class B insurers and one Class A insurer.

Class E licence holders are the largest of Bermuda's Long-Term insurers. These are required to have total assets of more than \$500 million. The new Class E insurers commenced business in 2014 with over \$2 billion of assets.

An influencing factor in the growth of the Long-Term sector was the National Association of Insurance Commissioners' (NAIC) granting conditional Qualified Jurisdiction (QJ) status to Bermuda in December 2013. QJ status allows reinsurers from a particular domicile to

reinsure US risk on a non-discriminatory basis and benefit from reduced collateral requirements.

In the general business sector, there were a total of 55 new insurers registered in 2014. There were 16 new captives, 11 commercial insurers and 28 Special Purpose Insurers (SPIs). This compares to 24 new captives, 16 commercial insurers and 51 SPIs being recorded the previous year.

Both captive and commercial registrations remained moderate in 2014, with an additional 22 insurers who were granted approval during the year expected to formally register during the first quarter of 2015.

The beneficial owners of the new insurance vehicles remain diverse, although the US continues to be the most significant jurisdiction, with Bermuda and Europe second and third respectively. Amongst the 2014 registrations, two insurers originate from Latin America and two captives were from Canada.

Growth in the SPI sector slowed in 2014, as existing SPIs were used for both new and renewal business.

In 2013, total gross premiums written

accounted for \$135 billion. Of that total, the commercial sector wrote \$112.1 billion and the captive sector \$22.9 billion. Bermuda's insurers recorded aggregate total assets of \$520.9 billion, compared to \$505.5 billion achieved the previous year. Total capital and surplus was \$173 billion compared to \$193 billion the previous year.

GROUP SUPERVISION

A range of supervisory activity in relation to insurance groups took place during 2014. The Authority conducted one group on-site review and 18 supervisory colleges covering groups for which it is Group Supervisor. In addition, the Authority was a participating supervisor in a further 22 colleges. During the colleges, the Authority presented and received detailed analyses, as well as coordinated supervisory plans with relevant overseas regulators on insurance groups with Bermuda-related operations. In addition, the Authority continued to establish Memoranda of Understanding (MOUs) with relevant jurisdictions in relation to group supervisory colleges.

INSURANCE-LINKED SECURITIES

Continued demand for alternative risk transfer and cost-efficient (re)insurance capacity has helped solidify Bermuda's status as the premier jurisdiction for the issuance of Insurance Linked Securities (ILS).

In 2014, Bermuda strengthened its position as the leading jurisdiction within the ILS market in terms of the number of deals issued and total issuance volume. Domestic issuance volume grew for a fourth consecutive year in 2014 as ILS structures issued by locally domiciled Special Purpose Insurers (SPIs) increased by 63% (compared

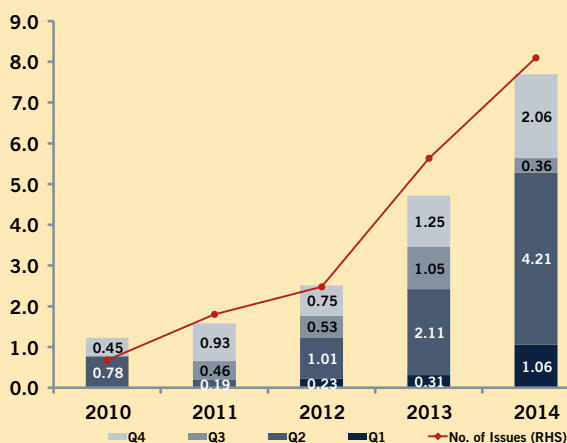
to 89% in 2012) to \$7.7 billion. Over the same period, the number of deals issued was 36 compared to 25 in 2013. Driving global market developments, the average size per deal issued by Bermuda-based SPIs increased from \$189 million in 2013 to \$214 million.

The Bermuda market shows a specialisation in catastrophe (cat) bonds, with the majority of transactions using more conservative trigger types (namely indemnity and industry loss index) that focus primarily on North American perils. The majority of business being written by ILS is higher layer catastrophe exposure reinsurance. Domestic

issuance tends to be motivated by Property and Casualty (P&C) underwriting, given the large footprint of the business line in Bermuda.

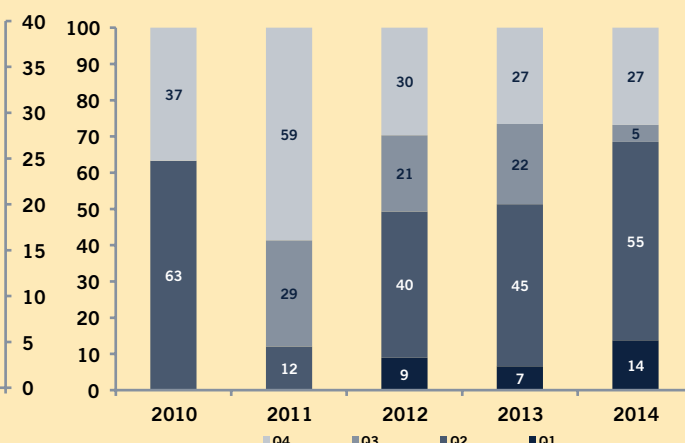
The BSX accounted for over 59% of the global market capitalisation of ILS at the end of Q4-2014. A total of 63 ILS deals (comprising 81 tranches) are listed on the BSX with an aggregate nominal value of approximately \$14.9 billion, of which \$463 million (or 3%) are issued by non-Bermuda entities. In May 2014, the BSX-listed Citizens Property Insurance sponsored a \$1.5 billion cat bond, the largest cat bond transaction ever issued.

Quarterly ILS Issuance by Volume and Number of Deals (In US\$ bln) – Bermuda only



Source: Artemis and BMA staff calculations.

Seasonal Breakdown of Bermuda-issued Deals (Deal Volume) 2010-2013 (In %)



Source: Artemis and BMA staff calculations.

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

The Authority conducted 19 Anti-Money Laundering/Anti-Terrorist Financing (AML/ATF) on-site assessments across the banking, money service business, trust, insurance, fund administrator and investment business sectors in 2014.

The Authority also conducted company-specific desk-based reviews examining the AML/ATF policies and procedures for applicants to the Licensing & Authorisations department and new Non-Licensed Persons registrants.

In 2014, the Authority conducted

industry outreach sessions for the trust, fund administration, and investment business sectors. The main focus of these outreach sessions was the National Risk Assessment findings. Additional sessions were conducted with the trust sector regarding the on-site inspection process.

NATIONAL RISK ASSESSMENT

In advance of the International Monetary Fund's next assessment of Bermuda's

AML/ATF regime the Authority has taken a leading role in the creation of a National Risk Assessment (NRA) for Bermuda over the last several years. In 2014, this included delivering key findings of the first Bermuda-wide NRA to banking sector representatives, executives from the Bermuda Association of Licensed Trustees, and investment business and fund administration licensees.

Enforcement Activity

In 2014, the Authority maintained its policy of applying enforcement powers judiciously in cases of material non-compliance. Regulatory concerns were identified in a variety of financial sector matters and those concerns were either addressed in consultation with the entities involved or are still under active consideration by the Authority.

Following due process, formal directions, restrictions and conditions were applied on a few occasions to address concerns identified during the normal supervisory process. In other cases, in-depth enquiries and investigative activities took place, requiring the Authority to exercise its formal statutory powers. Further, monetary penalties for failure to lodge required documents such as financial

returns were levied on a number of entities over the course of the year.

In AML enforcement activity conducted in contravention of the Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing Supervision and Enforcement) Act 2008, during 2014 the Authority levied \$1.5 million in penalties related to an enforcement action.

Summary of Supervisory Activity Across Sectors for 2014

Sector	Focus of Supervisory Activity	Supervisory Activity
Banking	<ul style="list-style-type: none"> • 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"> • Twelve quarterly risk compliance and internal audit meetings • Eleven prudential and strategy meetings • Two on-site reviews • One supervisory college hosted • One supervisory college attended
Trust	<ul style="list-style-type: none"> • 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"> • Eleven on-site reviews
Investment Business	<ul style="list-style-type: none"> • On-site inspections focused on corporate governance, enterprise risk, and compliance with the Investment Business Act 2003, General Business Conduct and Practice – Code of Conduct, and Advertising Code of Conduct • Assessing the ongoing financial viability of the firms 	<ul style="list-style-type: none"> • Eighteen on-site reviews • Three prudential meetings • Three post licensing follow up meetings • Four strategy meetings • Three desk-based reviews • One supervisory college hosted
Fund Administrators	<ul style="list-style-type: none"> • 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"> • Seven on-site reviews • One post licensing follow up meeting • One desk-based review
Credit Union	<ul style="list-style-type: none"> • General compliance with the Act 	<ul style="list-style-type: none"> • One limited scope on-site review
Money Service Business	<ul style="list-style-type: none"> • Assessing the ongoing financial viability of firms 	<ul style="list-style-type: none"> • Two on-site reviews
Stock Exchange	<ul style="list-style-type: none"> • Stock exchanges are financial institutions within the meaning of the Bermuda Monetary Act 1969 and are subject to supervision, regulation and inspection 	<ul style="list-style-type: none"> • One review preparation meeting • Two strategy meetings
Insurance	<ul style="list-style-type: none"> • On the commercial side, the focus was on risk management, corporate governance and capital adequacy • On the captive side, we continued to conduct reviews as appropriate • Work continued on reviewing applications to allow an internal capital model to be used for setting regulatory capital purposes 	<ul style="list-style-type: none"> • One group on-site • Fourteen solo on-sites • Eighteen supervisory colleges as Group Wide Supervisor • Twenty-two colleges as host supervisor
Anti-Money Laundering/ Anti-Terrorist Financing	<ul style="list-style-type: none"> • Industry-specific desk-based reviews examining AML/ATF policies and procedures already in use by Long-Term insurance companies writing direct policies, funds, fund administrators as well as Non-Licensed Persons (NLP) 	<ul style="list-style-type: none"> • Nineteen on-sites across several sectors including: banking, money service business, insurance, trust, fund administrator and investment business sectors

Formal Use of Powers

Banks and Deposit Companies Act 1999		
Section	Provision	Use in 2014
35	To vet licensed institutions who give written notice to the Authority when a person becomes a director or senior executive	Twenty-two notifications received; Authority conducted the appropriate vetting and provided relevant response
Trusts (Regulation of Trust Business) Act 2001		
Section	Provision	Use in 2014
34	Notification of change of controller or office	Nine notifications received; Authority conducted the appropriate vetting
Investment Business Act 2003		
Section	Provision	Use in 2014
43	Notification of change of controller or officer	Nineteen notifications received; Authority conducted the appropriate vetting
46(1)	Power to require production of documents	One notice issued
Investment Funds Act 2006		
Section	Provision	Use in 2014
45A	Notification of new or increased control	One notification received; no objection provided
46	Notification of change of director, senior executive and controller	Twenty-three notifications received; Authority conducted the appropriate vetting
The Bermuda Stock Exchange (BSX)		
Section	Provision	Use in 2014
BSX bylaw, Section 3(ii)	Approval of change of shareholder(s)	One request received; approval provided

Licensing

ASSESSMENT AND LICENSING COMMITTEE ACTIVITY

The Authority's Assessment and Licensing Committee (ALC) reviewed a total of 113 applications in 2014 – 111 were insurance-related and two were investment-related.

Insurance Applications

Out of the 111 insurance-related applications received, 102 were approved; two remain outstanding for further consideration, one was withdrawn and six were declined. Out of the approved applications: 38 were for general business insurers ranging from Class 1 to Class 4; eight were for Long-Term (life) insurers ranging from Class A to Class E; and 32 were for Special Purpose Insurers (SPI's.) The remaining 24 insurance-related approvals were for insurance intermediaries, inclusive of managers, brokers and agents.

Banking, Trust & Investment Applications

Two Investment Manager applications were received for this sector – one was approved and one was withdrawn.

Summary of ALC-Approved Applications

Class 1	9
Class 2	7
Class 3	4
Class 3A	11
Class 3B	1
Class 4	6
Class A	0
Class B	0
Class C	4
Class D	0
Class E	4
SPI	32
Insurance Manager	9
Insurance Broker	5
Insurance Agent	10
Investment Manager	1
Fund Administrator	0
Total	103

Summary of BTCSI-related Licensee Status as at year-end 2014

Sector	Licensing Activity
Banking	<ul style="list-style-type: none"> Total licensees at end of the year: four (no change from 2013)
Trust	<ul style="list-style-type: none"> Total licensees at end of the year: 29 (30 in 2013) Licences surrendered: One (zero in 2013) New Private Trust Companies: 15 (29 in 2013)
Investment Business	<ul style="list-style-type: none"> New: One (two in 2013) Total licensees at end of the year: 59 (60 in 2013) Licences surrendered: Two (three in 2013)
Investment Funds	<ul style="list-style-type: none"> New Authorised Funds: 16 (25 in 2013) Total Number of Funds: 614 (695 in 2013)
Fund Administrators	<ul style="list-style-type: none"> New: Zero (three in 2013) Total licensees at end of the year: 33 (35 in 2013) Licences surrendered: two (five in 2013)
Credit Union	<ul style="list-style-type: none"> Total licensees at end of the year: one (no change from 2013)
Money Service Business	<ul style="list-style-type: none"> Total licensees at end of the year: two (no change from 2013)
Stock Exchange	<ul style="list-style-type: none"> Total licensees at end of the year: one (no change from 2013)

BMA Performance Against 2014 Service Standards

Transaction	Service Standards	2014 Performance
Corporate Registrations: - Company incorporations - Listed (stock exchange) company incorporations - Permit companies - Partnerships - Issues and transfer of shares	90% of applications within: - 24 hours - 1 hour - 2 days (vetting of owners) - 2 days - 2 days	Met
Investment Fund Applications:	Process and approve 80% of applications for new funds or material changes within eight business days	96%
Insurance Supervision¹:		
- 2013 Class 4 and Class E company Statutory Financial Returns	100% to be completed by 1st June 2014	Met
- 2013 Class 3B, 3A, D and domestic ² insurance company Statutory Financial Returns	100% to be completed by 1st July 2014	Met
- 2013 Class C company Statutory Financial Returns	100% to be completed by 1st August 2014	Met
- 2013 Class 1, 2, 3, A and B companies Statutory Financial Returns	100% to be completed by 31st December 2014	Met
Certificates of Compliance:	90% to be completed in two business days	Met

¹ These service standards are set for year-end 2013 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 2013 SFRs was April 2014. In keeping with the BMA'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.

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

Companies, Partnerships and Permits Statistics – Applications Approved

	Q4-2014	Q3-2014	Q2-2014	Q1-2014	Q4-2013	Q3-2013
Exempted Companies	283	270	282	284	302	269
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	31	7	22	20	31	25
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	0	0	1	5	0	2
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	12	17	17	11	5	5
Unit Trusts	2	4	1	3	1	3
Total Applications Approved*	328	298	323	323	339	304

* Quarterly numbers are amended to reflect more up-to-date consent information.

The statistics shown above reflect the number of applications that have received vetting clearance from the Bermuda Monetary Authority. These figures do not reflect the actual number of entities incorporated in Bermuda during the period. Such statistics can be obtained from the Registrar of Companies.

Supporting Effective Regulation

Communications

In 2014, the Authority continued to protect and enhance Bermuda's reputation and position as a leading financial centre by educating key stakeholders both at home and abroad about its regulatory regimes.

One of the main accomplishments of the year was the inaugural BMA Insurance Seminar which was held at the Fairmont Southampton on 4th December, 2014.

With keynote speeches by two of London's best known financial leaders, a star-studded panel featuring some of the most prominent CEOs in Bermuda's international reinsurance industry and an audience of almost 300 attendees, the Seminar was hailed a success.

John Nelson, Chairman of Lloyd's of London, gave the opening keynote address and Andrew Bailey, Deputy Governor, Bank of England and CEO, Prudential Regulation Authority, spoke at the seminar luncheon.

However, the main event was a full and frank panel discussion titled 'Understanding the New Normal in

Insurance and Reinsurance'. It was moderated by Fiona Luck, a member of the BMA's Board of Directors.

Appearing on the panel alongside John Nelson and Andrew Bailey were Brian Duperreault, CEO of the Hamilton Insurance Group, Dennis Mahoney, Director of Ironshore Inc., Frank Majors, Co-founder and Principal of Nephila Capital, and Mike McGavick, CEO of the XL Group.

Welcoming remarks were made by Dr the Hon Grant Gibbons, Acting Deputy Premier and Minister of Finance, and Jeremy Cox, BMA CEO provided closing comments. Additional highlights of the Authority's external outreach activity for the year included:

- Industry outreach and support for jurisdictional initiatives: actively participated in key conferences focusing on the asset management and insurance sectors, as well as provided regulatory and technical input in working groups charged with exploring opportunities for the jurisdiction; also assisted the

Ministry of Finance and Ministry of Economic Development with the drafting of publications/provided information for Ministerial briefs, etc. The Authority also held numerous outreach sessions with industry in 2014.

- Media relations: reached out to international and local media outlets to build positive perceptions of the quality and effectiveness of the Authority and its regulations.
- Advocacy efforts: developed presentations for the International Association of Insurance Supervisors (IAIS), National Association of Insurance Commissioners (NAIC) and the Caribbean Association of Insurance Regulators (CAIR).

Information Technology

With the Authority's Electronic Regulatory Information Compliance Application (ERICA) fully embedded into its Information Technology (IT) infrastructure, in 2014 a new phase of IT development began, focusing on data-driven supervision. ERICA improved efficiencies for both the Authority and

financial services firms by streamlining the reporting, collection and analysis of data required for supervisory processes.

In 2014, the Authority continued to extend electronic filing (e-filing) functionality across all of its departments. Part of the e-filing initiative was to incorporate feedback received during a limited

purpose insurer trial run carried out in 2013.

In 2014, the Authority also initiated an information classification initiative in order to enhance the collection, validation and mapping of its data.

Talent Management & Staff Development

In 2014, the Authority continued to develop its intellectual capital by recalibrating its technical competency framework across all supervisory units. Going forward, the development plans of Authority personnel will take these recalibrated competency levels into account and pertinent elements have already been imbedded in job descriptions.

The Authority's ongoing commitment to the development of its talent pool continued in 2014. Subject matter experts continued to design specialised training programmes to supplement the supervisory and regulatory toolkit of the Authority's professional regulators.

GRADUATE TRAINING PROGRAMME

The Graduate Training Programme (GTP) continues to be valuable to the

Authority, as the programme continues to attract high-calibre candidates. In 2014, 42 applications were received for the programme's 2015 intake year, representing a 20% increase over the previous year. The Authority welcomed its newest graduate trainees Steven Skinner and Courtney Coddington. Both are now completing their programme rotations with positions in the Authority's Supervision (Banking, Trust, Corporate Service and Investment) and Supervision (Insurance) departments respectively. In addition, the programme successfully graduated Alisha Phillips and Tiffany Austin who were confirmed to posts as Senior Analysts within the Licensing and Authorisations Department and Supervision (Insurance) Department respectively.

One of the key mandates of the Authority's GTP is to develop the leadership capability of our future regulators. GTP participants

welcomed the opportunity to demonstrate their skills and abilities in 2014 by hosting presentations on the Authority's regulatory framework to three visiting international risk management schools.

Following completion of their annual group research paper, the programme participants were invited to present highlights of their work to the Authority's Board of Directors. Titled "Diving into the Depths of ILS", the paper looked into the booming ILS business in Bermuda. The presentation was very well received and bound copies of the report were made available for attendees to take away with them.

BMA Management Team *(as at 31st December 2014)*

Jeremy Cox	Chief Executive Officer
Craig Swan	Managing Director, Supervision
Licensing & Authorisations	
Shelby Weldon	Director
Melissa Morton	Assistant Director, Authorisations
Leslie Robinson	Assistant Director, Corporate Authorisations
Akilah Wilson	Assistant Director, Licensing
Supervision (Actuarial Services)	
David Theaker	Chief Actuary
Ricardo Garcia	Assistant Director, Actuarial Services, Property & Casualty
Richard May	Assistant Director, Actuarial Services, Long-Term
Gina Smith	Assistant Director, Actuarial Services, Property & Casualty
Gary Thomas	Assistant Director, Actuarial Services, Long-Term
Donald Treanor	Assistant Director, Actuarial Services, Property & Casualty
Supervision (Banking, Trust, Corporate Services & Investment)	
Marcia Woolridge-Allwood	Director
Leanne Alami-Merrouni	Assistant Director, Investment Groups
Tamara Anfossi	Assistant Director, Trust & Corporate Services Providers
Thomas O'Rourke	Assistant Director, Banking Groups
Christopher Tribley	Assistant Director, Investment Business & Fund Administrators
Supervision (Insurance)	
Andrew Gibbs	Director
Suzanne Williams	Deputy Director, Insurance Supervision
Collin Anderson	Assistant Director, Insurance Supervision
Laila Burke	Assistant Director, Insurance Supervision
Eric Donkoh	Assistant Director, Insurance Supervision
Gerald Gakundi	Assistant Director, Insurance Supervision
Graham Lamb	Assistant Director, Insurance Supervision
David Lawler	Assistant Director, Insurance Supervision
Lee Maximchuk	Assistant Director, Insurance Supervision
Moses Muoki	Assistant Director, Insurance Supervision
Montgomery Nearon	Assistant Director, Macroprudential
Policy, Legal & Enforcement	
Shauna MacKenzie	Director
Thomas Galloway	Deputy Director, Legal & 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
Operations	
Shanna Lespere	Director, Operations
Finance & Currency Operations	
Terry Pitcher	Deputy Director, Head of Finance & Currency Operations
Human Resources	
Mesheiah Crockwell	Deputy Director, Head of Human Resources
Communications	
Roger Scotton	Senior Adviser & Head of Communications
Amanda Outerbridge	Deputy Director, Communications
Organisational Development	
Verna Hollis-Smith	Assistant Director

Statistics

Financial Highlights 2014

For the year ended 31st December 2014, the Authority recorded net income of \$340,000 compared with a net deficit of \$1.53 million at year-end 31st December 2013. As a result of ongoing economic pressures on the Bermuda market, the Authority maintained its current fee structure for the fifth consecutive year, although increases have been approved for 2015.

Total revenue for the year was \$41.9 million, which is an increase of \$950,000 over 2013 mainly due to AML penalties of \$1.5 million levied during the year. The continued decline in revenues from the investment portfolio was solely a

function of reinvesting in lower interest rate securities with maturing positions. The Authority's held-to-maturity portfolio of investments remains high quality with all securities maintaining a rating of AA+ or better.

Total expenses decreased by 2% versus the prior year as a result of enforcing cost control measures and prudent spending. All expenses except amortisation and depreciation are lower than in the prior year, 2013.

As at 31st December 2014, the organisation's headcount remained flat year over year. A slight increase in the headcount of Senior Management and

professional staff is likely in the coming year in order to support resourcing needs arising from the Authority's continued implementation of its enhanced regulatory and supervisory regimes. It is projected that our 2015 recruitment activity will increase marginally until we reach our full complement of staff.

Currency Notes Issued & Redeemed (Bermuda Dollar)

Month	Notes Issued			Notes Redeemed	Notes Issued & O/S at End of	Net Change During Month	
	New*	Re-issued	Total			Change	% Change
January	200,170	5,651,000	5,851,170	36,803,948	98,897,812	(30,952,778)	-23.84%
February	700,448	5,360,000	6,060,448	8,017,420	96,940,840	(1,956,972)	-1.98%
March	1,068,227	4,817,000	5,885,227	6,794,200	96,031,867	(908,973)	-0.94%
April	875,770	5,280,000	6,155,770	3,899,000	98,288,637	2,256,770	2.35%
May	1,997,941	6,366,000	8,363,941	7,498,000	99,154,578	865,941	0.88%
June	1,423,145	6,600,000	8,023,145	5,672,000	101,505,723	2,351,145	2.37%
July	3,988,438	17,940,000	21,928,438	8,643,000	114,791,161	13,285,438	13.09%
August	202,225	2,800,000	3,002,225	18,841,000	98,952,386	(15,838,775)	-13.80%
September	20,463	4,850,000	4,870,463	7,699,500	96,123,349	(2,829,037)	-2.86%
October	720,332	7,730,000	8,450,332	5,685,000	98,888,681	2,765,332	2.88%
November	2,053,716	5,626,000	7,679,716	6,977,000	99,591,397	702,716	0.71%
December	370,396	15,540,000	15,910,396	3,682,000	111,819,793	12,228,396	12.28%
Year							
2014	13,621,271	88,560,000	102,181,271	120,212,068	111,819,793	(18,030,797)	-13.89%
2013	41,478,991	87,449,000	128,927,991	113,205,211	129,850,590	15,722,780	13.78%

* Includes numismatic sales at the bottom of this chart.

Currency Coins Issued & Redeemed (Bermuda Dollar)

Month	Coins Issued	Coins Issued & O/S at End of Month	Net Issues During Month	
			Change	% Change
January	3	15,442,462	3	0.00%
February	0	15,442,462	0	0.00%
March	6	15,442,468	6	0.00%
April	1,148	15,443,616	1,148	0.01%
May	17	15,443,633	17	0.00%
June	24	15,443,657	24	0.00%
July	175,010	15,618,667	175,010	1.13%
August	25	15,618,692	25	0.00%
September	14	15,618,706	14	0.00%
October	2	15,618,708	2	0.00%
November	7,512	15,626,220	7,512	0.05%
December	8	15,626,228	8	0.00%
Year				
2014	183,769	15,626,228	183,769	1.19%
2013	55,542	15,442,459	55,542	0.36%

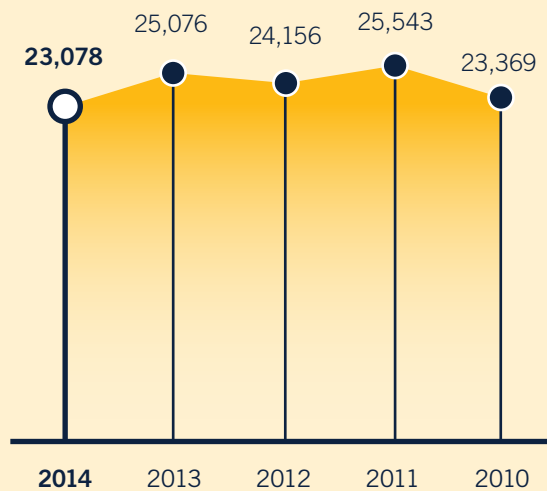
BANKING

Bermuda Money Supply

(BD\$ mln)	Q4-2014	Q3-2014	Q2-2014	Q1-2014	Q4-2013	Q3-2013
Notes & Coins in Circulation*	127	112	117	111	145	127
Deposit Liabilities	3,259	3,294	3,275	3,400	3,343	3,404
Total	3,386	3,406	3,392	3,512	3,488	3,532
Less: Cash at Banks & Deposit Companies	44	32	34	31	66	46
BD\$ Money Supply	3,342	3,374	3,358	3,480	3,422	3,486
% Change on Previous Period	-0.93%	0.46%	-3.51%	1.70%	-1.83%	0.45%
% Change Year-on-Year	-2.34%	-3.22%	-3.23%	-5.07%	-0.36%	0.20%

* 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.

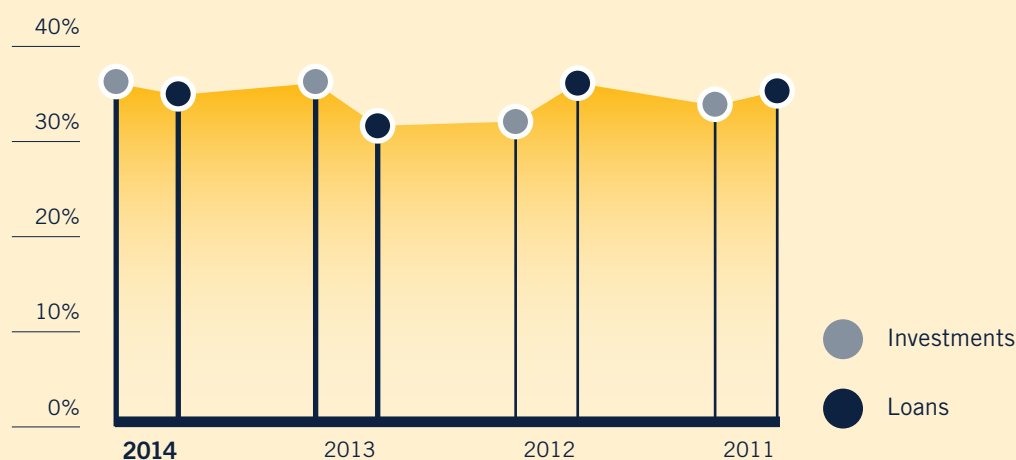
Bermuda Bank and Deposit Companies (Consolidated) Total Assets (BD\$ bln)



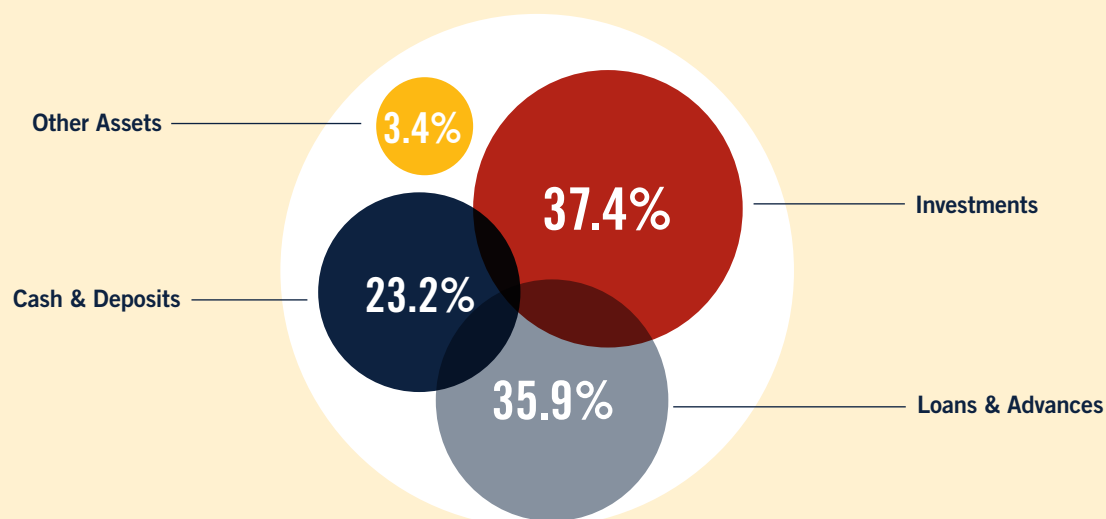
Banking Sector Assets & Deposits

(BD\$ mln)	Q4-2014	Q3-2014	Q2-2014	Q1-2014	Q4-2013	Q3-2013
Total Assets	23,078	22,110	24,260	24,251	25,076	23,205
Quarterly Change (%)	4.4%	-8.9%	0.0%	-3.3%	8.1%	0.1%
Total Deposits	20,347	18,833	21,488	21,458	22,296	20,347
Quarterly Change (%)	8.0%	-12.4%	0.1%	-3.8%	9.6%	0.4%

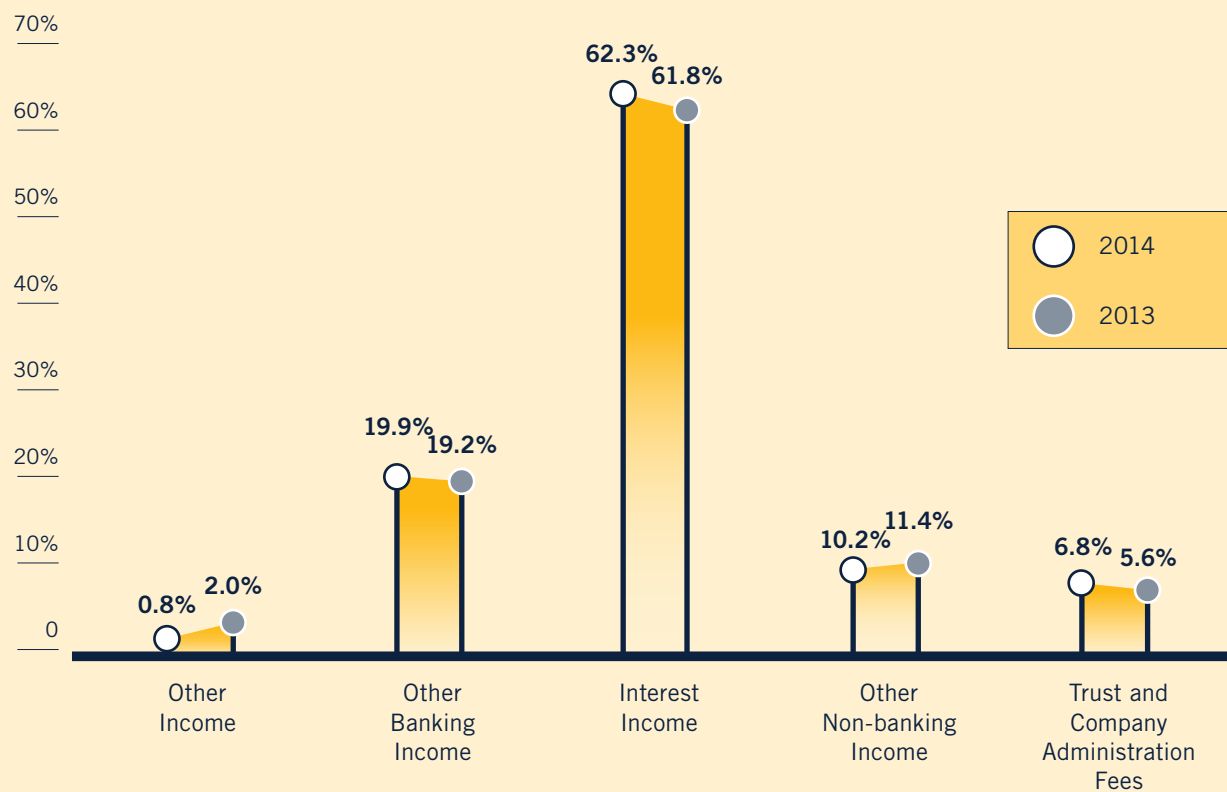
Loans and Investments as a Proportion of Total Assets



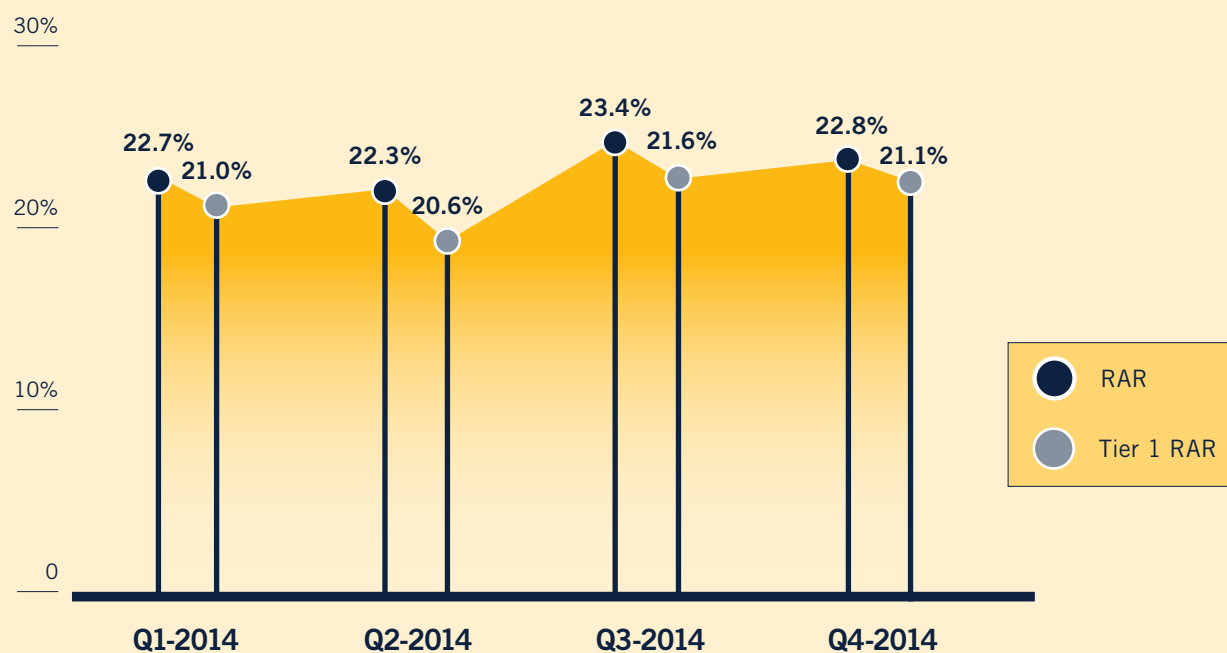
Composition of Banks' Assets as at 31st December 2014



Banks and Deposit Companies Revenues (Consolidated)



Banking Sector Consolidated Risk Asset Ratio



Combined Banks and Deposit Companies Foreign Currency Position (Consolidated)

(BD\$ mln)	Q4-2014	Q3-2014	Q2-2014	Q1-2014	Q4-2013	Q3-2013
Total Foreign Currency Assets	18,349	17,073	19,293	19,227	19,942	18,095
Less: Other Assets	239	410	239	157	154	148
Less: Foreign Currency Loans to Residents	804	716	691	664	696	722
Net Foreign Currency Assets	17,306	15,947	18,363	18,406	19,092	17,225
Foreign Currency Liabilities	17,256	16,215	18,363	18,247	19,101	17,099
Add: BD\$ Deposits of Non-Residents	172	161	177	247	184	196
Net Foreign Currency Liabilities	17,428	16,376	18,540	18,494	19,285	17,295
Net Foreign Currency Position	(121)	(429)	(178)	(88)	(193)	(70)

Totals may not add due to rounding.

BD\$ Deposit and Loan Profile – Combined Banks and Deposit Companies (Unconsolidated)

(BD\$ mln)	Q4-2014	Q3-2014	Q2-2014	Q1-2014	Q4-2013	Q3-2013
Deposit Liabilities	3,259	3,294	3,275	3,400	3,343	3,404
Less:						
Loans, Advances and Mortgages	(4,255)	(4,337)	(4,420)	(4,466)	(4,542)	(4,654)
Surplus/(Deficit) Deposits	(996)	(1,043)	(1,145)	(1,066)	(1,199)	(1,250)
Percentage of Deposit Liabilities Loaned	130.6%	131.7%	135.0%	131.4%	135.9%	136.7%

Totals may not add due to rounding.

Combined Balance Sheet of Bermuda Banks and Deposit Companies (Consolidated)

(BD\$ mln)	Q4-2014			Q3-2014			Q2-2014		
	Total	BD\$	Other*	Total	BD\$	Other*	Total	BD\$	Other*
Assets									
Cash	76	44	32	68	32	36	75	34	41
Deposits	5,281	27	5,254	3,978	39	3,939	5,764	35	5,729
Investments	8,641	52	8,590	9,210	229	8,981	9,352	51	9,301
Loans & Advances	8,291	4,146	4,145	7,840	4,225	3,615	8,173	4,290	3,883
Premises & Equipment**	453	365	89	472	380	92	496	396	99
Other Assets**	335	96	239	543	133	410	402	162	239
Total Assets	23,078	4,729	18,349	22,110	5,037	17,073	24,260	4,968	19,293
Liabilities									
Demand Deposits	10,540	879	9,662	9,038	888	8,150	10,616	878	9,738
Savings	6,038	1,486	4,552	5,475	1,506	3,969	5,792	1,501	4,291
Time Deposits	3,768	838	2,930	4,321	846	3,475	5,080	843	4,237
Sub Total - Deposits	20,347	3,203	17,144	18,833	3,239	15,594	21,488	3,222	18,266
Other Liabilities	430	318	112	956	335	621	418	320	98
Sub Total - Liabilities	20,777	3,521	17,256	19,789	3,575	16,215	21,906	3,542	18,363
Equity & Subordinated Debt	2,301	1,928	373	2,321	1,975	345	2,355	1,969	386
Total Liabilities and Capital	23,078	5,449	17,629	22,110	5,550	16,560	24,260	5,511	18,749

(BD\$ mln)	Q1-2014			Q4-2013			Q3-2013		
	Total	BD\$	Other*	Total	BD\$	Other*	Total	BD\$	Other*
Assets									
Cash	70	31	39	104	66	38	77	46	32
Deposits	5,292	45	5,248	6,379	41	6,338	5,962	31	5,930
Investments	9,931	52	9,879	9,437	53	9,384	7,749	36	7,713
Loans & Advances	8,138	4,334	3,804	8,342	4,414	3,927	8,623	4,481	4,142
Premises & Equipment**	505	404	101	507	406	101	516	386	130
Other Assets**	315	158	157	308	154	154	278	130	148
Total Assets	24,251	5,024	19,227	25,076	5,134	19,942	23,205	5,110	18,095
Liabilities									
Demand Deposits	10,462	877	9,584	10,190	835	9,354	8,842	870	7,972
Savings	5,909	1,503	4,406	5,896	1,469	4,427	5,429	1,480	3,949
Time Deposits	5,087	959	4,128	6,210	979	5,232	6,076	997	5,079
Sub Total - Deposits	21,458	3,339	18,119	22,296	3,283	19,013	20,347	3,347	17,000
Other Liabilities	474	346	128	416	328	88	480	381	98
Sub Total - Liabilities	21,932	3,686	18,247	22,712	3,611	19,101	20,827	3,728	17,099
Equity & Subordinated Debt	2,319	1,960	359	2,364	1,934	430	2,378	1,921	457
Total Liabilities and Capital	24,251	5,645	18,606	25,076	5,545	19,531	23,205	5,649	17,556

* Other includes USD and other currencies

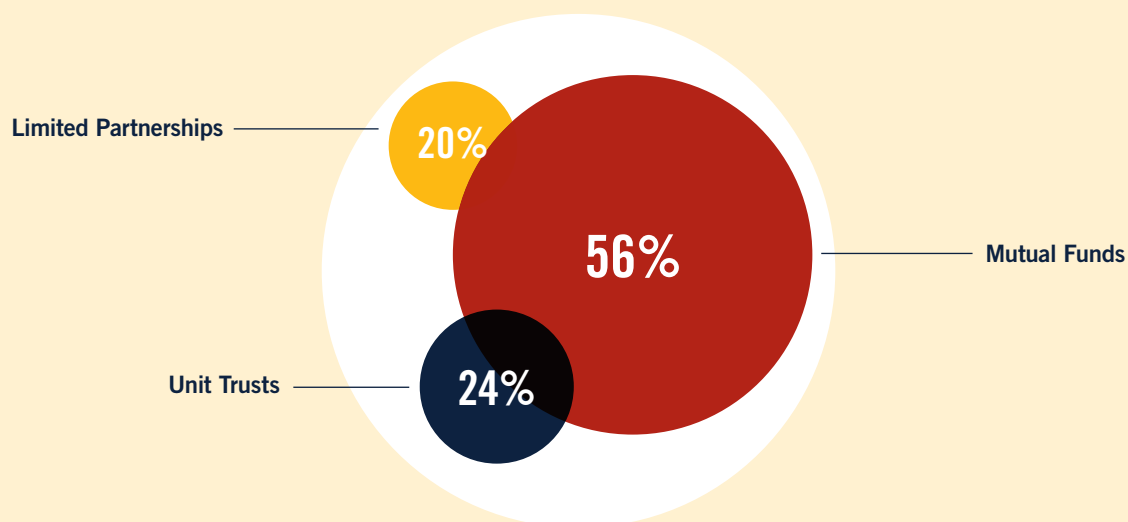
** Premises and Equipment, and Other Assets have been restated to reclassify equipment and other fixed assets that were previously recorded under Other Assets
Totals may not add due to rounding.

INVESTMENT FUNDS

Investment Fund Statistics

	Q4-2014	Q3-2014	Q2-2014	Q1-2014	Q4-2013	Q3-2013
Mutual Funds	438	457	463	462	468	478
Umbrella Funds	38	40	39	40	41	42
Segregated Account Companies	70	65	66	65	72	72
Unit Trusts	54	52	50	50	57	57
Umbrella Trusts	47	47	48	48	60	60
Total Number of Funds	647	661	666	665	698	709
Net Asset Value <i>(in US\$ bln)</i>	\$164.82	\$175.02	\$180.17	\$182.96	\$176.36	\$175.80

Investment Funds Applications Approved 2014



INSURANCE

Analysis of all Insurers Registered

Class of Insurer	2014	%	2013	%
Class 1	246	20.2%	249	20.6%
Class 2	300	24.7%	300	24.9%
Class 3	236	19.4%	242	20.1%
Class 3A	108	8.9%	104	8.6%
Class 3B	20	1.6%	17	1.4%
Class 4	29	2.4%	27	2.2%
Long-Term Class A	3	0.2%	3	0.2%
Long-Term Class B	1	0.1%	1	0.1%
Long-Term Class C	74	6.1%	71	5.9%
Long-Term Class D	4	0.3%	4	0.3%
Long-Term Class E	20	1.6%	15	1.2%
Special Purpose Insurer	111	9.1%	101	8.4%
Dual Licences	65	5.3%	72	6.0%
Totals:	1,217	100%	1,206	100%

Analysis of 2014 Additions to the Register

Class of Insurer	2014 Registrations	%	2013 Registrations	%
Class 1	6	9.2%	8	8.8%
Class 2	7	10.8%	6	6.6%
Class 3	3	4.6%	7	7.7%
Class 3A	7	10.8%	9	9.9%
Class 3B	1	1.5%	3	3.3%
Class 4	1	1.5%	1	1.1%
Long-Term Class A	0	0.0%	1	1.1%
Long-Term Class B	0	0.0%	2	2.2%
Long-Term Class C	5	7.7%	3	3.3%
Long-Term Class D	0	0.0%	0	0.0%
Long-Term Class E	4	6.2%	0	0.0%
Special Purpose Insurer	28	43.1%	51	56.0%
Dual Licences	3	4.6%	0	0.0%
Totals:	65	100%	91	100%

Market Statistics by Class of Insurer as at 31st December 2013*

Class of Insurer	No. of Licences**	Gross Premiums	Net Premiums	Total Assets	Capital & Surplus
Class 1	230	3,605,901,847	2,872,035,527	16,329,356,428	11,181,176,212
Class 2	280	9,116,090,224	7,407,055,410	55,988,333,334	25,214,066,990
Class 3	236	34,814,623,964	23,427,544,332	87,273,332,571	22,588,468,160
Class 3A	113	15,002,697,896	10,913,940,737	34,860,493,175	15,391,103,050
Class 3B	19	4,168,860,216	3,709,991,717	15,791,212,884	8,049,651,969
Class 4	36	34,994,249,641	29,907,122,156	225,064,759,620	72,074,329,969
Long-Term Class A	7	460,487,000	460,487,000	1,495,787,370	344,027,653
Long-Term Class B	7	141,493,027	141,493,027	189,476,700	92,787,695
Long-Term Class C	108	16,290,190,936	16,290,190,936	77,672,830,279	15,241,090,533
Long-Term Class D	6	411,469,780	411,469,780	5,502,065,785	671,731,445
Long-Term Class E	22	43,005,080,134	42,180,172,134	76,750,216,082	19,485,969,455
Special Purpose Insurer	55	1,013,505,007	1,007,499,087	10,684,480,410	1,292,354,668
Totals: (in \$US)	1,119	\$163,024,649,673	\$138,729,001,844	\$607,602,344,638	\$191,626,757,799

* Underwriting statistics quoted are from insurance company Statutory Financial Returns (SFR) and modified filings for 2013. Companies submit filings on a phased basis throughout the year following the financial year-end. The initial submission deadline for 2013 SFRs was April 2014. Due to this schedule the most recent complete year-end figures for this overview are from 2013.

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

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

- **Class 1:** Single-parent captive insuring the risks of its owners or affiliates of the owners.
- **Class 2:** (a) A multi-owner captive insuring the risks of its owners or affiliates of the owners; or (b) A single parent or multi-owner captive: (i) insuring the risks arising out of the business or operations of the owners or affiliates, and/or (ii) deriving up to 20% of its net premiums from unrelated risks.
- **Class 3:** Captive insurers underwriting more than 20% and less than 50% unrelated business.
- **Class 3A:** Small commercial insurers whose percentage of unrelated business represents 50% or more of net premiums written or loss and loss expense provisions and where the unrelated business net premiums are less than \$50 million.
- **Class 3B:** Large commercial insurers whose percentage of unrelated business represents 50% or more of net premiums written or loss and loss expense provisions and where the unrelated business net premiums are more than \$50 million.
- **Class 4:** Insurers and reinsurers capitalised at a minimum of \$100 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% of net premiums from unrelated risks.

Class C: Long-Term insurers and reinsurers with total assets of less than \$250 million; and not registrable as a Class A or Class B insurer.

Class D: Long-Term insurers and reinsurers with total assets of \$250 million or more, but less than \$500 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 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/s as at 31st December 2013

Domicile of Owners	No. of Licences	Gross Premiums	Net Premiums	Total Assets	Capital & Surplus
Captives					
Africa/Middle East	12	55,544,395	13,316,421	227,647,169	172,240,604
Asia	25	1,431,471,562	1,346,344,208	1,007,107,476	689,988,461
Australia/New Zealand	11	53,643,907	21,596,340	380,239,808	284,358,021
Bermuda	64	3,213,495,944	1,796,707,369	18,962,220,935	5,696,402,306
Caribbean/Latin America	34	165,548,614	94,158,923	586,278,958	424,909,154
Europe	121	17,318,722,015	16,490,131,156	53,086,886,273	15,811,643,710
North America	493	25,900,169,625	14,546,360,879	87,025,905,784	36,340,984,454
Sub-totals:	760	48,138,596,062	34,308,615,296	161,276,286,403	59,420,526,710
Professional Insurers/Reinsurers					
Africa/Middle East	3	193,653,080	150,145,807	2,705,215,537	838,681,213
Asia	13	747,819,003	738,244,589	3,615,232,300	1,751,193,915
Australia/New Zealand	2	3,292,476,877	3,026,866,011	7,132,973,996	1,745,993,650
Bermuda	93	15,879,421,729	14,086,201,600	84,402,112,018	37,512,752,602
Caribbean/Latin America	15	2,849,856,716	2,625,200,103	20,425,830,426	6,143,775,352
Europe	68	17,474,392,452	14,029,318,324	66,404,325,525	27,560,184,656
North America	165	74,448,433,754	69,764,410,114	261,640,368,433	56,653,649,701
Sub-totals:	359	114,886,053,611	104,420,386,548	446,326,058,235	132,206,231,089
Totals: (in \$US)	1,119	\$163,024,649,673	\$138,729,001,844	\$607,602,344,638	\$191,626,757,799

Market Statistics by Company Type *as at 31st December 2013*

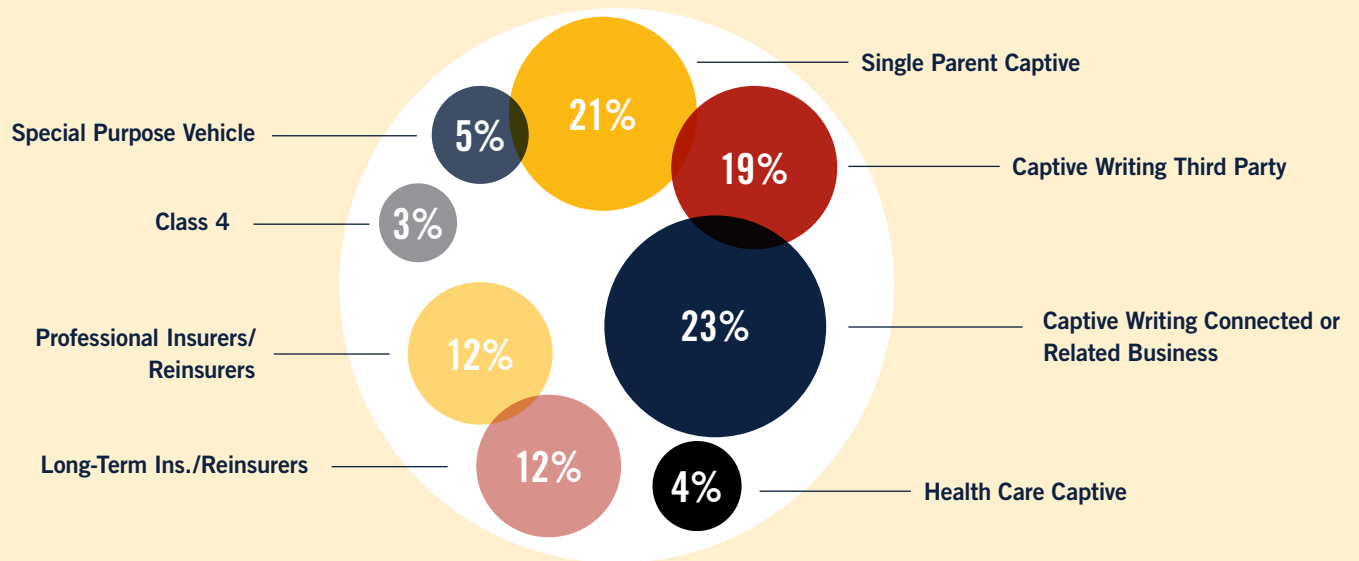
Company Type	No. of Licences	Gross Premiums	Net Premiums	Total Assets	Capital & Surplus	% of Insurers
Captives						
Captive writing Third Party	218	34,089,765,381	22,715,418,982	85,675,053,625	22,307,469,160	19%
Captive writing Connected or Related Business	262	8,678,043,175	7,031,779,298	54,647,748,430	24,410,468,001	23%
Health Care Captive	43	1,304,398,659	1,228,194,333	3,440,712,920	1,185,309,337	4%
Single Parent Captives	237	4,066,388,847	3,333,222,683	17,512,771,428	11,517,280,212	21%
Sub-totals:	760	48,138,596,062	34,308,615,296	161,276,286,403	59,420,526,710	68%
Professional Insurers/Reinsurers						
Professional Ins./Reinsurers	132	19,171,558,112	14,623,932,454	50,651,706,060	23,440,755,019	12%
Class 4	36	34,994,249,641	29,907,122,156	225,064,759,619	72,074,329,969	3%
Long-Term Ins./Reinsurers	136	59,706,740,850	58,881,832,850	159,925,112,146	35,398,791,433	12%
Special Purpose Vehicle	55	1,013,505,007	1,007,499,087	10,684,480,410	1,292,354,668	5%
Sub-totals:	359	114,886,053,611	104,420,386,548	446,326,058,235	132,206,231,089	32%
Totals: (in \$US)	1,119	163,024,649,673	138,729,001,844	607,602,344,638	191,626,757,799	100%

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% 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 2015

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
website: www.bma.bm

Dear Minister:

In accordance with section 28(1) of the Bermuda Monetary Authority Act 1969, I have the honour to submit to you a report of the operations of the Authority for the year 2014 together with the annual statement of accounts and the opinion of the Auditor General.

This document also contains the reports for the year 2014 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 2015

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
website: 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.

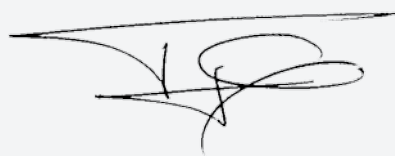
In support of its responsibility, management maintains financial and management control systems and practices to provide reasonable assurance that the financial information is reliable, that the assets are safeguarded, and that the operations are carried out effectively.

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

Website: 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, 2014, and the statements of comprehensive income (loss), 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, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Hamilton, Bermuda
April 20, 2015

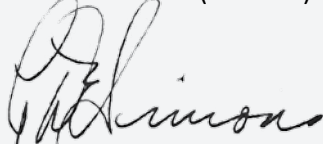
Heather A. Jacobs Matthews, JP, FCPA, FCA, CFE
Auditor General

BERMUDA MONETARY AUTHORITY


Statement of Financial Position As at December 31, 2014

(In thousands of Bermuda dollars)	Note	2014	2013
Assets			
Current assets			
Cash and cash equivalents	5	36,766	48,699
Accounts and other receivables	6	896	987
Prepayments		654	500
Stock of numismatic items	7	824	796
Stock of notes and coins for circulation	8	6,356	6,772
		45,496	57,754
Non-current assets			
Investments, held-to-maturity	3	99,490	104,788
Property and equipment	9	24,749	25,235
Intangible assets	10	1,660	2,904
		125,899	132,927
Total Assets		171,395	190,681
Liabilities			
Current liabilities			
Accounts and other payables	11	4,804	6,583
Notes and coins in circulation	12	127,446	145,293
Due to the Consolidated Fund of the Government of Bermuda	13	170	-
		132,420	151,876
Equity			
Capital subscribed	14	20,000	20,000
General reserve	14	18,975	18,805
		38,975	38,805
Total Liabilities and Equity		171,395	190,681

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 (Loss) For the year ended December 31, 2014

(In thousands of Bermuda dollars)	Note	2014	2013
Revenues			
Supervisory and licensing fees	15	37,015	36,203
Incorporation fees, vault commission and other income		1,394	1,248
Net sale of special coins		56	163
Operating revenue		38,465	37,614
Investment income	16	3,469	3,371
Total revenues		41,934	40,985
Expenses			
Salaries and employee benefits	17	31,527	31,608
General expenses	18	5,549	5,596
Professional fees		1,586	1,865
Amortisation of intangible assets	10	1,341	1,298
Depreciation of property and equipment	9	1,142	1,084
Circulation note and coin expenses	8	449	1,063
Total expenses		41,594	42,514
Total comprehensive income (loss) for the year		340	(1,529)

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, 2014

(In thousands of Bermuda dollars)	Note	2014	2013
Capital		20,000	20,000
General Reserve			
Balance, beginning of year		18,805	20,334
Total comprehensive income (loss) for the year		340	(1,529)
Distribution payable to the Consolidated Fund of the Government of Bermuda	13	(170)	-
Balance, end of year		18,975	18,805
Equity		38,975	38,805

The accompanying notes are an integral part of these financial statements

BERMUDA MONETARY AUTHORITY

Statement of Cash Flows

For the year ended December 31, 2014

(In thousands of Bermuda dollars)	Note	2014	2013
Cash flows provided by /(used in) operating activities			
Total comprehensive income (loss) for the year		340	(1,529)
Adjustment for:			
Non-cash items included in total comprehensive income (loss) for the year	19	3,385	2,810
Change in operating assets	19	(383)	(2,030)
Change in operating liabilities	19	(1,779)	(950)
Net cash provided by /(used in) operating activities		1,563	(1,699)
Cash flows provided by /(used in) investing activities			
Additions of intangible assets	10	(160)	(825)
Additions of property and equipment	9	(593)	(1,102)
Proceeds from sale of capital assets		1	-
Purchase of investments		(7,180)	(19,377)
Proceeds from maturity of investments		12,283	9,362
Net cash provided by /(used in) investing activities		4,351	(11,942)
Cash flows (used in)/ provided by financing activities			
Net (decrease)/increase in notes and coins in circulation		(17,847)	15,778
Net cash (used in)/ provided by financing activities		(17,847)	15,778
Net (decrease)/increase in cash and cash equivalents		(11,933)	2,137
Cash and cash equivalents at beginning of year		48,699	46,562
Cash and cash equivalents at end of year	5	36,766	48,699
Operational cash flows from interest			
Interest received	16	3,651	3,605

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, 2014
(In thousands of Bermuda dollars)

1. General information

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

The primary responsibilities of the Authority are:

- acting as issuing authority for Bermuda dollar notes and coins;
- the supervision, regulation and inspection of all financial institutions operating in or from within Bermuda;
- the promotion of the financial stability and soundness of financial institutions;
- the supervision, regulation and approval of the issue of financial instruments by financial institutions or by residents;
- the fostering of close relations between financial institutions and between the financial institutions and 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 20, 2015.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014
(In thousands of Bermuda dollars)

2.1 Basis of preparation (continued)

(b) Basis of measurement

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

(c) Use of estimates and judgements

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

2.2 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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, 2014
(In thousands of Bermuda dollars)

2.3 Property and equipment (continued)

a) Recognition and measurement (continued)

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

(b) Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be reliably measured. Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the statement of comprehensive income (loss) in the year the asset is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income (loss) 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:

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 (loss) 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, 2014
(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 by 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 and notes and coins in circulation 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.

2.5.3 Derecognition of financial assets and liabilities

(a) Financial assets

A financial asset is derecognized 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 (loss), 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 (loss).

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 (loss).

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 (loss).

2.6 Impairment of property, equipment and intangible assets (continued)

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

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 (loss) 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 (loss).

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 (loss) 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.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014
(In thousands of Bermuda dollars)

2.9 Cash and cash equivalents (continued)

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

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 pre-retirement leave, 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.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014
(In thousands of Bermuda dollars)

2.11 Employee benefits (continued)

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

2.12 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 2014 nor 2013.

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.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014
(In thousands of Bermuda dollars)

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 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, 2017, 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.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014
(In thousands of Bermuda dollars)

3. Financial risk management

(a) Fair value of financial instruments

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

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

	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS				
Cash and cash equivalents	36,766	36,766	48,699	48,699
Accounts and other receivables	896	896	987	987
Investments, held-to-maturity	99,490	102,860	104,788	106,089
Total financial assets	137,152	140,522	154,474	155,775
FINANCIAL LIABILITIES				
Notes and coins in circulation	127,446	127,446	145,293	145,293
Accounts and other payables	4,804	4,804	6,583	6,583
Due to the Consolidated Fund of the Government of Bermuda	170	170	-	-
Total financial liabilities	132,420	132,420	151,876	151,876

(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

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014
(In thousands of Bermuda dollars)

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, 2014				
Investments, held-to-maturity	102,860	-	-	102,860
Total financial instruments	102,860	-	-	102,860
Financial instruments at fair value as at December 31, 2013				
Investments, held-to-maturity	106,089	-	-	106,089
Total financial instruments	106,089	-	-	106,089

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 75% (2013 – 64%) 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, 2014 and 2013. Details on the impairment of accounts and other receivables are included in Note 6.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014
(In thousands of Bermuda dollars)

3. Financial risk management (continued)

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

	2014	2013
Investments, held-to-maturity		
AAA **	25,457	37,576
AA+ **	74,033	67,212
** Moody's equivalent grade is Aaa.	99,490	104,788
Cash and cash equivalents		
Cash at bank and in-hand		
AAA	75	36
AA+	349	300
A	282	584
BBB+	147	1,065
Not rated	13	14
	866	1,999
Overnight repurchase agreements		
AA+	35,900	46,700
	36,766	48,699

Investments, held-to-maturity

This account consists of:

	2014	2013
US Government and US Government Agencies	74,033	67,212
Supranational Bank	25,457	37,576
	99,490	104,788

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 (loss).

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014
(In thousands of Bermuda dollars)

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.

	+1%	2014 -1%	+1%	2013 -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	290	(13)	444	(24)
US dollar quoted securities	1,069	(1,069)	1,015	(1,015)
Total	1,359	(1,082)	1,459	(1,039)

An increase in interest rates of 1% would result in additional income of \$1,359 (2013 - \$1,459). A decrease in interest rates of 1% would result in decrease in income of \$1,082 (2013 - \$1,039). 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.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014
(In thousands of Bermuda dollars)

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, 2014 and 2013, 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.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014
(In thousands of Bermuda dollars)

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, 2014

	Total	No fixed maturity	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
FINANCIAL ASSETS						
Cash and cash equivalents	36,766	36,766	-	-	-	-
Investments (fair value)	102,860	-	-	5,170	36,559	61,131
Accounts and other receivables	896	896	-	-	-	-
	140,522	37,662	-	5,170	36,559	61,131
FINANCIAL LIABILITIES						
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	-	-
	132,420	127,446	4,804	170	-	-
Net maturity difference	8,102	(89,784)	(4,804)	5,000	36,559	61,131

As at December 31, 2013

	Total	No fixed maturity	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
FINANCIAL ASSETS						
Cash and cash equivalents	48,699	48,699	-	-	-	-
Investments (fair value)	106,089	-	-	12,196	37,274	56,619
Accounts and other receivables	987	987	-	-	-	-
	155,775	49,686	-	12,196	37,274	56,619
FINANCIAL LIABILITIES						
Notes and coins in circulation	145,293	145,293	-	-	-	-
Accounts and other payables	6,583	-	6,583	-	-	-
	151,876	145,293	6,583	-	-	-
Net maturity difference	3,899	(95,607)	(6,583)	12,196	37,274	56,619

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 pre-retirement benefits.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014
(In thousands of Bermuda dollars)

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:

	2014	2013
Cash at bank and in hand	866	1,999
Overnight repurchase agreement with the US Federal Reserve	35,900	46,700
Total	36,766	48,699

Cash at bank earns interest at an effective rate of 0.03% (2013 – 0.05%).

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:

	2014	2013
Accounts receivable	1,472	834
Less: provision for impairment of receivables	(1,412)	(726)
Accounts receivable – net	60	108
Accrued interest	836	879
Current portion	896	987

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014
(In thousands of Bermuda dollars)

6. Accounts and other receivables (continued)

The ageing analysis of these receivable is as follows:

	2014	2013
Up to 3 months	44	104
3 to 6 months	16	4
Total	60	108

As at December 31, 2014, accounts receivable of \$1,412 (2013 - \$726) 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:

	2014	2013
Up to 3 months	93	41
3 to 6 months	36	38
Over 6 months	1,283	647
Total	1,412	726

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

	2014	2013
Balance as at January 1	726	766
Provision for impairment of receivables	686	169
Receivables written off during the year as uncollectible	-	(209)
Balance as at December 31	1,412	726

The creation and release of provision for impairment of receivables has been included in 'general expenses' (Note 18) in the statement of comprehensive income (loss). 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.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014
(In thousands of Bermuda dollars)

7. Stock of numismatic items

This account consists of:

	2014	2013
Commemorative notes and coins	695	603
Circulation notes and coins	23	25
Bullion for inventory production	161	201
Provisions	(55)	(33)
	<u>824</u>	<u>796</u>

8. Stock of notes and coins for circulation

This account consists of:

	2014	2013
Notes	5,616	5,982
Coins	740	790
	<u>6,356</u>	<u>6,772</u>

The cost of stocks recognised as expenses and included in 'circulation note and coin expenses' amounted to \$449 (2013 - \$1,063).

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014
(In thousands of Bermuda dollars)

9. Property and equipment

This account consists of:

	Land, building and improvements	Computer equipment	Furniture and fixtures	Museum items	Total
At January 1, 2014					
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
Year ended December 31, 2014					
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
At December 31, 2014					
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

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014
(In thousands of Bermuda dollars)

9. Property and equipment (continued)

This account consists of:

	Land, building and improvements	Computer equipment	Furniture and fixtures	Museum items	Total
At January 1, 2013					
Cost	30,288	2,767	2,829	66	35,950
Reclassification to intangible assets	-	(254)	-	-	(254)
Cost after reclassification	30,288	2,513	2,829	66	35,696
Accumulated depreciation	(5,773)	(2,324)	(2,611)	-	(10,708)
Amortisation reclassification	-	229	-	-	229
Net book amount	24,515	418	218	66	25,217
Year ended December 31, 2013					
Additions	691	121	289	1	1,102
Disposals - cost	-	(72)	-	-	(72)
Disposals - accumulated depreciation	-	72	-	-	72
Depreciation charge	(727)	(214)	(143)	-	(1,084)
Closing net book amount	24,479	325	364	67	25,235
At December 31, 2013					
Cost	30,979	2,562	3,118	67	36,726
Accumulated depreciation	(6,500)	(2,237)	(2,754)	-	(11,491)
Net book amount	24,479	325	364	67	25,235

Depreciation of \$1,142 (2013 - \$1,084) has been charged in the statement of comprehensive income (loss).

The gross carrying values of property and equipment fully depreciated and still in use are:

	2014	2013
Furniture and fixtures	2,414	2,550
Computer equipment	2,043	1,262

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014
(In thousands of Bermuda dollars)

10. Intangible assets

This account consists of:

	Computer Software					
	Internally developed	2014 Externally acquired	Total	Internally developed	2013 Externally acquired	Total
At January 1						
Cost	5,823	1,423	7,246	5,306	861	6,167
Reclassification (to)/from computer equipment and externally acquired	(108)	45	(63)	24	230	254
Cost after reclassification	5,715	1,468	7,183	5,330	1,091	6,421
Accumulated amortisation	(3,334)	(1,008)	(4,342)	(2,154)	(660)	(2,814)
Amortisation reclassification	-	-	-	(22)	(208)	(230)
Net book amount	2,381	460	2,841	3,154	223	3,377
Year ended December 31						
Additions	43	117	160	493	332	825
Amortisation charge	(1,164)	(177)	(1,341)	(1,158)	(140)	(1,298)
Closing net book amount	1,260	400	1,660	2,489	415	2,904
At December 31						
Cost	5,758	1,585	7,343	5,823	1,423	7,246
Accumulated amortisation	(4,498)	(1,185)	(5,683)	(3,334)	(1,008)	(4,342)
Net book amount	1,260	400	1,660	2,489	415	2,904

Amortisation of \$1,341 (2013 - \$1,298) is included in the statement of comprehensive income (loss).

Gross carrying value for software fully amortised and still in use in 2014 is \$299 (2013 - \$127).

There were no research and development costs charged to the statement of comprehensive income (loss) in 2014 and 2013.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014
(In thousands of Bermuda dollars)

11. Accounts and other payables

This account consists of:

	2014	2013
Accrued expenses	3,561	4,903
Accounts payable	23	409
Amounts due to related parties (Note 21)	1,096	1,175
Customer deposits and annual business fees payable	87	59
Deferred income	37	37
	4,804	6,583

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 in 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, 2014, the Authority was required to hold a reserve of external assets of at least \$63,723 (2013 - \$72,647) and the actual external assets held totalled \$99,490 (2013 - \$104,788).

As indicated in Note 3(d), at December 31, 2014, the fair value of the Authority's total financial assets exceeded its financial liabilities by \$8,102 (2013 - \$3,899).

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

In accordance with Section 8 (3) of the Bermuda Monetary Authority Act 1969, earnings in the amount of \$170 (2013 - \$nil) will be payable to the Consolidated Fund of the Government of Bermuda. This amount is non-interest bearing and payable by May 31, 2015.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014

(In thousands of Bermuda dollars)

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, 2014 capital of \$20,000 (2013 - \$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 \$18,975 (2013 - \$18,805) has been established and maintained in accordance with Section 8 of the Act.

The Minister of Finance granted approval for \$170 (2013 - \$nil) of net earnings to be transferred to the general reserve account.

15. Supervisory and licensing fees

This account consists of:

	2014	2013
Insurance fees	28,309	28,911
Bank and deposit company fees	4,413	4,413
Anti-money laundering fines ("AML fines")	1,500	-
Investment funds	1,166	1,233
Investment business licence fees	648	660
Trust company fees	594	594
Anti-money laundering fees ("AML fees")	385	374
Insurance fines	-	18
	37,015	36,203

In accordance with Section 24 (5) of the Proceeds of Crime Regulations (Supervision and Enforcement) Act 2008, AML fees in the amount of \$385 (2013 - \$374) and AML fines in the amount of \$1,500 (2013 - \$nil) were recognised as revenue and expenses in the amount of \$659 (2013 - \$707) were incurred. AML fines and fees are included in supervisory and licensing fees and AML expenses are included in salaries and employee benefits (Note 17) and general expenses (Note 18).

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014
(In thousands of Bermuda dollars)

16. Investment income

This account consists of:

	2014	2013
Interest on investments, held-to-maturity	3,651	3,605
Interest earned on overnight repurchase agreement with the US Federal Reserve	13	24
Net amortisation/accretion of premiums/discounts on investments, held-to-maturity	(195)	(258)
	3,469	3,371

17. Salaries and employee benefits

This account consists of:

	2014	2013
Salaries and bonuses	26,272	26,529
Payroll tax	2,305	2,252
Pension costs	1,178	1,135
Health insurance	1,038	966
Directors' fees	301	300
Social insurance costs	286	289
Life insurance	90	96
Other benefits	57	41
	31,527	31,608

The Authority has 175 employees at December 31, 2014 (2013 – 175).

Employee benefits include the following:

(a) Pension plans

The Authority provides various pension schemes to its eligible employees:

(i) Defined contribution plan

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

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

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014

(In thousands of Bermuda dollars)

17. Salaries and employee benefits (continued)

payments is available. The Authority's contributions to the Plan during the year were \$1,059 (2013 - \$1,015).

(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% (2013 - 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 (2013 - \$120).

(b) Other employee benefits

Other employee benefits include maternity leave, sick leave, vacation days and pre-retirement leave. 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 accumulates but does not 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, 2014 is \$436 (2013 - \$464) and is included in accounts and other payables.

Certain employees are entitled to pre-retirement leave based upon their years of service at the time of retirement. The present value of the pre-retirement leave 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, \$6 (2013 - \$nil) of pre-retirement leave benefits were paid. The liability as at December 31, 2014 is \$280 (2013 - \$281) and is included in accounts and other payables.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014
(In thousands of Bermuda dollars)

18. General expenses

This account consists of:

	2014	2013
Premises and office	3,042	3,263
Conferences, seminars, education and training	712	807
Provision for impairment of receivables (Note 6)	686	169
Communication	448	389
Other	236	219
Recruitment and repatriation	209	509
Advertising	68	47
Public relations	66	130
Net foreign exchange loss	60	62
Provision for impairment on numismatic items	22	1
	5,549	5,596

19. Cash generated from operations

	2014	2013
Non-cash items included in total comprehensive income (loss) for the year		
Depreciation of property and equipment (Note 9)	1,142	1,084
Amortisation of intangible assets (Note 10)	1,341	1,298
Amortisation/accretion of premiums/discounts on investments, held-to-maturity (Note 16)	195	258
Provision for impairment of receivables (Note 6)	686	169
Gain on retirement of capital assets	(1)	-
Provision for impairment on numismatic items (Note 18)	22	1
	3,385	2,810
Change in operating assets		
Stock of notes and coins in circulation	416	(1,869)
Stock of numismatic items	(50)	(150)
Accounts and other receivables	(595)	139
Prepayments	(154)	(150)
	(383)	(2,030)
Change in operating liabilities		
Accounts and other payables	(1,779)	(950)
	(1,779)	(950)

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014

(In thousands of Bermuda dollars)

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:

	2014	2013
2014	-	830
2015	473	597
2016	266	598
2017	270	599
2018	272	-
Thereafter	151	1,608
	1,432	4,232

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:

	2014	2013
Property and equipment	49	627
Intangible assets	30	-
	79	627

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2014
(In thousands of Bermuda dollars)

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:

	2014	2013
Staff expenses:		
Payroll tax	2,305	2,252
Social insurance	286	289
Pension costs - PSSF	119	120
Premises expense - land tax	197	197
Due to the Consolidated Fund of the Government of Bermuda	170	-
Other general expenses - immigration fees	117	123
Professional fees - audit	110	80
Office expense - postage	16	15

Board and key management compensation

The Directors of the Board of the Authority are appointed by the Minister of Finance 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, Board sub-committee Chairmen are paid an annual fee of \$25 and the Board Chairman receives an annual fee of \$75. Travel expenses of \$45 were paid to an overseas board member.

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

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

	2014	2013
Directors' fees	301	300
Executive management salaries, bonuses and other		
short-term employee benefits	2,758	2,811
Post-employment benefits	150	153

Contact INFORMATION

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