



20 ANNUAL REPORT 13



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.

ABOUT US

The Bermuda Monetary Authority (BMA) is the integrated regulator of the financial services sector in Bermuda.

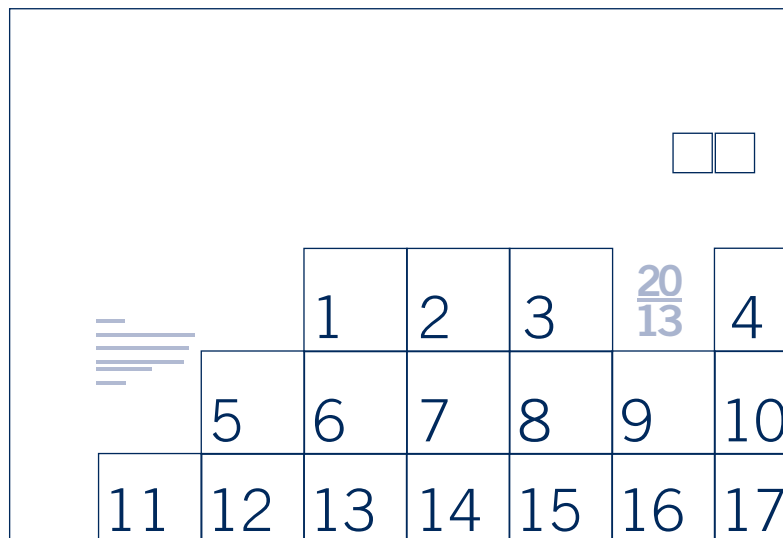
Established under the Bermuda Monetary Authority Act 1969, the Authority supervises, regulates and inspects financial institutions operating in or from within the jurisdiction. It also issues Bermuda's national currency; manages exchange control transactions; assists other authorities in Bermuda with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

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

Bermuda's Unique Currency

Since its inception on 20th February 1969, the Bermuda Monetary Authority has been responsible for the issue of Bermuda's national currency – Bermuda dollars and cents. The unique design of the currency depicts traditional Bermuda landscapes, flora and fauna. This attractive representation of typical Bermudian features makes our currency of special interest to dealers/numismatists both locally and overseas.

The Authority's Note and Coin Exhibit is located at BMA House, 43 Victoria Street, Hamilton. This Exhibit is open from 9:00am – 4:00pm daily (Monday – Friday), where banknotes and commemorative coins are available for purchase.



1. Sea Anemone - \$10 banknote
2. 2011 Silver Proof Bermuda Bluebird coin
3. The House of Assembly - \$100 banknote
4. The Deliverance - \$10 banknote
5. 2012 Silver Proof Blue Marlin coin
6. St. Peter's Church - \$50 banknote
7. Gibbs Hill Lighthouse - \$20 banknote
8. Somerset Bridge - \$5 banknote
9. Bermudiana Flower - \$20 banknote
10. 2013 Silver Proof Blue Angel Fish Coin
11. Sea Turtle - \$10 banknote
12. Bermuda Bluebird - \$2 banknote
13. Dolphin - \$5 banknote
14. 2014 Silver Proof Whistling Frog Coin
15. Statue of Neptune - \$2 banknote
16. 2003 Fitted Dinghy Racing Silver Proof Coin
17. Bermuda Longtail - \$50 banknote

Table of Contents

Board of Directors	02
Board Committees 2013	04
Executive Team	06
CEO's Report	08
Regulatory Development & Framework Enhancement	
Banking, Trust, Corporate Services & Investment	14
Insurance Developments	16
Macroprudential Monitoring	19
International Participation	20
Legislative Developments	
Legislative Change Overview	24
Supervision & Licensing	
Banking Supervision	29
Insurance Supervision	32
Anti-Money Laundering/Anti-Terrorist Financing	34
Enforcement Activity	35
Licensing	38
Supporting Effective Regulation	
Outreach Initiatives	44
Information Technology	45
Resources & Staff Development	46
BMA Management Team	47
Statistics	49
Financials	
Letter to Minister of Finance	66
Statement of Responsibility	67
Auditor's Report	68
Financial Statements	69
Notes to Financial Statements	73
Contact Information	104

Board of Directors *as at 1st January 2014*



Pictured from left to right:

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

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

Jeremy Cox
Chief Executive Officer

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



E. Barclay Simmons

*Managing Partner,
Attride-Stirling &
Wolowiecki*

Walter Bell

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

Allan Marshall

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

E. Michael Leverock

*President,
Leverock Advisors &
Associates*

Not shown:

Fiona Luck

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

Lynda Milligan-Whyte

*Senior Corporate Attorney,
Apex Law Group Ltd.*

Board Committees 2013

Non-Executive Directors Committee

The Hon. Gerald Simons (Chairman)

Anthony Joaquin (Deputy Chairman)

Walter Bell

Fiona Luck

Allan Marshall

Lynda Milligan-Whyte

Barclay Simmons

Ronald Simmons*

Tracy Tepper

The Non-Executive Directors Committee comprises all non-executive members of the Board and is charged under section 4C of the Bermuda Monetary Authority Act 1969 (BMA Act) with responsibility 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; and
- Determining the remuneration and other terms of service of the Executive Directors of the Authority.

The Committee continued to meet regularly to keep under review the matters under its mandate. Throughout the year, the Committee was in liaison with, and reviewed matters related to, the Audit and Risk Management Committee and the Human Capital Committee. These matters covered the Authority's policy objectives and strategy, financial controls, budget and compensation policies. The Committee monitored the Authority's performance and progress on its strategic objectives thus ensuring the continuing accountability of senior management in relation to successful delivery against the Authority's strategic plan and business commitments.

Audit & Risk Management Committee

Anthony Joaquin (Chairman)

Ronald Simmons

Fiona Luck

The purpose of the Audit and Risk Management Committee (ARMC) is to:

- Monitor (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;
- Retain and oversee the independent auditors of the Authority's financial statements and determine their remuneration;
- Oversee the Authority's risk management process;

- Provide the Board with the results of its monitoring and its recommendations, as well as additional information and materials as the ARMC deems necessary to make the Board aware of significant financial matters that require the Board's attention; and
- Oversee the internal audit function of the Authority.

The Committee met as required during the year to:

- Review and monitor the Authority's progress and implementation of amendments to its internal control processes;
- Complete review and oversight of the external audit process for the Authority's 2012 financials;
- Review the internal audit reports for any necessary action in 2013, and confirm the internal audit plan for 2014; and
- Provide ongoing oversight to enterprise risk management development within the Authority's operations, including the appointment of the Authority's first Risk Officer.

Corporate Governance & Ethics Committee

Ronald Simmons (Chairman)

Jeremy Cox

Barclay Simmons

Allan Marshall

The Corporate Governance and Ethics Committee (CGEC) has responsibility for developing, implementing, and monitoring effective corporate governance principles, policies and procedures, which are critical prerequisites for the Authority to fulfill its mandate.

The CGEC also oversees the policies and programmes of the Authority to ensure the BMA Board, management and staff conduct their functions in an ethical manner and continues to apply policies that meet best practice standards for corporate governance.

During 2013 the Committee successfully completed the following item on its agenda for the year:

- Carried out review and revision of the Charters for all Board Committees.

Human Capital Committee

The Hon. Gerald Simons (Chairman)

Anthony Joaquin

Walter Bell

Fiona Luck

The Human Capital Committee (HCC) has delegated responsibility to approve the overall compensation framework for the Authority and approve 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 the Authority's succession planning; and
- Overseeing the development and execution of the Authority's human capital policies and programmes.

The HCC continued to monitor management's progress in relation to succession planning to provide for the long-term growth and development of the Authority. Oversight and review of the Authority's performance against its balanced scorecard was also a priority; a detailed review of quarterly management reports to the Board supported that process throughout the year. Ongoing oversight of the Authority's performance-based compensation policies during the year also included reviewing and approving a comprehensive compensation review. This review confirmed the Authority's compensation policies are appropriate and reflect current best practice.

Investment Committee

Barclay Simmons (Chairman)

Lynda Milligan-Whyte

Allan Marshall

Jeremy Cox

The Investment Committee (IC) has responsibility 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.

During 2013 the IC maintained its review of the quality of investments within the Authority's portfolio by monitoring ongoing compliance with the Investment Guidelines and the BMA Act. The detailed Investment Guidelines are designed to both limit material capital risk and maintain a high degree of liquidity. The investment portfolio has remained in full compliance with the BMA Act and Guidelines throughout 2013, thereby achieving the objectives of liquidity maintenance and avoidance of material capital risk.

Legislative & Policy Committee

Lynda Milligan-Whyte (Chairman)

The Hon. Gerald Simons

Tracy Tepper

Shauna MacKenzie

The purpose of the Legislative and Policy Committee is to:

- Make recommendations to the Board on legislative and regulatory priorities, and oversee the ongoing agenda for development of legislation related to financial services regulation;
- Make recommendations to the Board on proposed changes to primary and subsidiary legislation administered by the Authority and submitted by management; and
- Make recommendations to the Board on regulatory policy generally.

The Committee completed reviews of the following:

- Amendments to the Insurance Prudential Standard Rules (Class 3A, revision of rules for Class E, Class 4 and Class 3B), and housekeeping matters for the Insurance Group Supervision Rules and the Group Solvency Rules;
- Amendments to the Life Insurance Act 1978;
- Captives enhanced risk assessments;
- Banking Special Resolution regime;
- Consultation Paper for Basel III;
- Investment Funds Amendment Act 2013;
- Minimum Licensing Criteria for investment business, investment funds and trusts;
- Amendments to the Corporate Service Providers Business Act 2012; and
- Policy papers supporting the proposed corporate service providers (CSP) licensing regime.

Executive Team



Pictured from left to right:

Craig Swan
*Managing Director,
Supervision*

Andrew Gibbs
*Director,
Supervision (Insurance)*

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



Shelby Weldon
*Director,
Licensing & Authorisations*

Jeremy Cox
Chief Executive Officer

Shanna Lespere
*Director,
Operations*

Not shown:
Shauna Mackenzie
*Director,
Legal, Policy & Enforcement*

John Dill
*Director,
Management Services*

Pat Phillip-Fairn*
*Deputy Director,
Communications & Corporate
Governance*

** Resigned from the Authority effective 7th March 2014.*

CEO's Report

“It is no mere gratuitous stroke of good fortune that the financial services industry in Bermuda continues to grow and diversify. It does so because Bermuda has earned and continues to sustain the trust and respect of international business decision makers.”

Having previously executed against a strategy largely characterised by policy development and change management, the Authority entered 2013 with its sights set firmly on maintaining financial stability while also advancing the kind of regulatory framework that will help attract new business to Bermuda.

That it managed to achieve both was remarkable. That it did so despite the constraints of an economically challenging and increasingly budget conscious environment reflects well on the work ethic of our high-energy team and its commitment to providing value.

Before reviewing the Authority's activities in greater detail, I would like to highlight some of our achievements in 2013.

National Risk Assessment (NRA): During 2013 the Authority worked alongside members of the National Anti-Money Laundering Committee to complete an NRA for anti-money laundering (AML) in Bermuda using the model developed by the World Bank. The NRA was completed in advance of the International Monetary Fund's review of Bermuda's AML regime, expected to take place in 2016. It is anticipated that the Authority will share the NRA results with relevant entities during 2014 as it contributes to efforts to ensure that the implementation of legislation and regulations reflect current international requirements and expectations.

NAIC Qualified Jurisdiction: Bermuda was granted conditional qualified jurisdiction status by the National Association of Insurance Commissioners (NAIC) towards the end of 2013. The status was gained after the Authority became the first of four jurisdictions to agree to participate in an expedited review under the NAIC Process. The Process was developed to evaluate the

reinsurance supervisory capabilities of Bermuda, Germany, Switzerland and the UK. Approval under the Process will allow reinsurers licensed and domiciled in Bermuda to be eligible to be certified for reduced reinsurance collateral requirements under the NAIC Credit for Reinsurance Model Law.

Insurance market growth: The number of new insurers registering in Bermuda increased by 72% year-on-year in 2013. A total of 91 new companies joined the register compared to 52 in 2012. The number of new captives registered in 2013 was double the number recorded in 2012 while a record number of Special Purpose Insurers (SPIs) were formed. In total, 24 new captives, 16 commercial insurers and 51 SPIs were registered in 2013.

Insurance-Linked Securities (ILS): In 2013 Bermuda solidified its status as the premier jurisdiction for the issuance of ILS, outpacing the performance of competing jurisdictions for the first time since entering the ILS marketplace. ILS structures issued by Bermuda-domiciled SPIs and worth \$4.7 billion represented an increase of 89% compared to 2012. In November 2013, the Authority published the first edition of the Bermuda ILS Market Report providing comprehensive statistics and information on developments and trends in the ILS sector.

Regulatory Forum: A record turnout of almost 300 delegates attended the Authority's 4th International Regulatory Forum in Bermuda in 2013. The keynote speaker was Dame Amelia Fawcett, Chairman of the Hedge Funds Standards Board. She was joined by global financial services experts who spoke on key issues relevant to Bermuda's insurance, banking and asset management sectors.

With its wide reach and scope, the Authority prudently adopts a strategic approach to performing its role as Bermuda's integrated financial services regulator. In 2013, this approach concentrated, for the most part, on three objectives: the continued delivery of high quality supervision, the provision of an active international engagement and advocacy programme, and a focus on optimising operational effectiveness and resourcing.

It is important to keep these three qualitative targets in mind in reviewing the broad sweep of activities and responsibilities detailed in our 2013 annual report.

In the banking sector, the Authority continued its focus on the supervisory implications of Basel III standards, which, we recognise, will help protect the interests of depositors, the Bermuda financial system and the reputation of Bermuda's banking market. The Authority conducted a series of quantitative impact studies (QIS) in 2013, initial results of which suggest that the risk-based capitalisation of Bermuda's banks will be broadly capable of meeting Basel III requirements. A further QIS is planned for 2014 targeting liquidity.

A Consultation Paper advancing our views on these standards was published in the final quarter of the year. The paper makes clear that the implementation of Basel III standards in Bermuda must be carefully assessed, ensuring that the revised framework remains appropriate to local conditions while continuing to meet international standards.

Though there is no desire to delay adoption of Basel III, the Authority believes that sufficient time must be

allowed for industry to prepare for implementation and to assess the effect of the proposals, both through ongoing local impact studies and by monitoring international developments. Therefore, our Consultation Paper proposes that Bermuda follow a timetable two years later than that adopted by Basel Committee member jurisdictions, with revised formal regulatory reporting to commence in 2015.

While the Authority supports the adoption of capital and liquidity regulatory requirements consistent with Basel III for our jurisdiction in 2015, these proposals should be viewed in the broader context of the Authority's efforts to promote high standards of risk management and corporate governance within Bermuda's banks. We recognise the significance of the requirements, but the Authority is of the view that observance of quantitative regulatory prudential minima is only one important element in a comprehensive framework. Of equal importance is the adoption by all financial services licensees of a sound framework of governance and risk management and appropriate public disclosure.

In the banking context I should also mention the Banking (Special Resolution Regime) Act 2013. This is an initiative designed to broaden the range of powers available to Bermuda authorities in situations where we are seeking to protect bank depositors. This draft bill, which sets up a bank insolvency framework that meets international standards, was published following extensive consultation.

A similar level of dialogue preceded the Investment Funds Amendment Act 2013, which is aimed at supporting Bermuda's position as a competitive jurisdiction in the funds sector. The Act establishes



Jeremy Cox
Chief Executive Officer

new provisions for Class A and Class B exempted funds with the aim of providing better speed to market advantages for certain types of funds.

Still on the investment industry, the effective start date of the European Union's Alternative Investment Fund Managers Directive (AIFMD) last summer was the driver behind the Authority signing cooperation agreements with EU Member States in 2013. The purpose of the agreements is to ensure that the regulations governing Bermuda-based funds and fund managers do not disadvantage those entities wanting to conduct business in Europe. The next phase of our AIFMD-related programme will involve the creation of an opt-in regime for alternative investment fund managers in Bermuda who conduct business in Europe and who wish to register with an EU member state and be permitted to market funds throughout the EU by way of "passporting" arrangements.

Switching to the insurance aspect of our remit, under its Group Supervision framework for Bermuda's largest insurance companies, the Authority concluded market consultation on group capital requirements last year. These will be phased in over a six-year period starting at 50% for the financial year-ending 2013. The Authority also concluded market consultation on proposed changes to the Group Actuary's Opinion, publishing a final Guidance Note in January 2014. Additionally in 2013, six group on-site reviews and 18 supervisory colleges were completed covering entities for which we are the Group Supervisor.

A significant number of enhancements were made to the Long-Term Bermuda Solvency Capital Requirement (BSCR) model in 2013. Following consultation with industry, changes were implemented in the final quarter of the year which will impact submissions for the 2013

financial year-end, effectively signaling the introduction of new regulatory capital requirements for Long-Term companies.

With the ultimate goal of refining the content and process of filing requirements for Bermuda's Limited Purpose Insurers i.e. those holding either Class 1, Class 2, Class 3, Class A, Class B or dual-license insurers, the Authority initiated an electronic filing trial run at the end of 2013. Feedback from this will be reflected in the final e-filing models which will be published on the Authority's web-site in advance of the 2014 year-end filing deadline. Implementation of the enhanced reporting requirement has been deferred until the 2014 year-end.

Continuing its efforts to enable Bermuda's insurers to use their own Internal Capital Model (ICM) to set regulatory capital requirements, the Authority began accepting applications for ICM approval in the third quarter of 2013 and will continue to invite ICM applications throughout 2014.

Restructuring for results: Establishing the right structure with the right people in the right places is a challenge for any organisation, ours included. Part of the challenge is figuring out what part of the structure needs to change and who the change agent should be. In April 2013, we tackled both issues. Having identified the benefits of adopting a common vision for financial services supervision across all sectors of the Bermuda market, we created a new top supervisor executive post reporting to the CEO. The position is responsible for all supervisory functions, including the supervision of banks, trust companies, corporate services and investment businesses, as well as insurance supervision.

Former Director of Insurance Supervision, Craig Swan, a respected member of our leadership team, accepted the challenge

of this new role and, in April last year, became our first Managing Director, Supervision.

Other management team changes made in the wake of Craig's appointment were as follows:

- Marcia Woolridge-Allwood added the supervision of businesses licensed under Bermuda's new Corporate Services Providers regime to her role as Director of Supervision (Banking, Trust, Corporate Services & Investment)
- Shelby Weldon, Director of Licensing & Authorisations, will assume expanded responsibilities for all non-insurance entities
- Shanna Lespere, formerly head of International Affairs, became Director of Operations responsible for Finance & Currency Operations, Human Resources, Communications, Research, Facilities, Programme Management and Enterprise Risk Management
- Shauna MacKenzie's role as Director of Legal & Enforcement was enlarged to include the formulation of regulatory policy

Having access to a talented bench makes restructuring decisions such as these infinitely less challenging than might otherwise be the case. The more challenging part is creating a pipeline of talent and establishing an infrastructure capable of maintaining it. In this regard, partly in response to the change in the supervisory model, the Authority's Human Resource strategy in 2013 was to develop a learning and development programme supporting cross-sectoral supervisory teams. This new approach enabled greater knowledge transfer, mentoring and on-the-job training opportunities.

Additionally, our continued focus on the development of young professionals and succession planning has remained a key driver of our Graduate Training Programme which, in 2013, attracted a record number of applications from very high calibre candidates. During 2014, we anticipate two members of the Programme will complete their international secondments with Bermuda-based insurance entities and take up Senior Analyst positions with the Authority.

It is no mere gratuitous stroke of good fortune that the financial services industry in Bermuda continues to grow and diversify. It does so because Bermuda has earned and continues to sustain the trust and respect of international business decision makers. But, like most relationships, this one cannot exist in a vacuum. The part the Authority plays is to provide the oxygen the relationship needs in order to thrive. You will find evidence of this life supporting element on virtually every page of our annual report. It is evident in our interaction with the financial services industry and in our unique value proposition, which is spelled out on the inside front cover of this report and which consistently helps to differentiate the Bermuda product.

In closing, I would like to extend my sincere thanks to all those who contributed to our achievements in 2013. As always, I am grateful to the Authority's hardworking team of employees and to our dedicated Board of Directors. A warm welcome to our newest director Michael Leverock and a special note of appreciation to Ronald Simmons, who stepped down from the Board at the end of 2013. Ronald was chairman of our Corporate Governance and Ethics Committee, which reviewed and revised the Charters for all Board Committees during 2013.



Jeremy Cox
Chief Executive Officer

April 30th 2014

2013 Business Plan Milestones Completed

Insurance

- ➔ Group Capital Requirements consultation completed
- ➔ Enhanced Solvency Regime in place
- ➔ Bermuda Solvency Capital Requirement (BSCR) enhancements introduced for Long-Term sector
- ➔ Enhanced reporting trial run completed for Bermuda's Limited Purpose Insurers
- ➔ Internal Capital Model (ICM) applications received

Banking, Trust, Corporate Services & Investment

- ➔ Basel III Consultation Paper published
- ➔ AIFMD cooperation agreements signed
- ➔ Class A & Class B exempted funds regime introduced
- ➔ Corporate Governance policy issued for trust companies, fund administrators and investment businesses
- ➔ CSP Amendment Act submitted for Parliament's consideration

Currency

- ➔ Launch of demonetisation process for legacy banknote series

Regulatory Development & Framework Enhancement

The Authority's risk-based approach to applying quality supervision remains the underlying principle for developing Bermuda's financial regulations. We continued to apply regulations that are appropriate for Bermuda while strategically aligning our frameworks with the relevant international standards.

Banking, Trust, Corporate Services & Investment Developments

As we progressed our planned regime enhancements for the banking, trust, investment and corporate services sectors during the year, we remained committed to establishing independent, pragmatic regulatory changes that are suitable for Bermuda's unique market.

BANKING

Basel III – Quantitative Impact Studies (QIS) for Bermuda Banks

Consultation on implementing Basel III in Bermuda continued throughout the year and a Consultation Paper advancing our views was published in Q4-2013. Also during the year, the Authority conducted a series of quantitative impact studies (QIS) with Bermuda's banks. The QIS process comprised a detailed assessment of a more stringent definition of capital and risk-weighted assets in addition to a more rigorous short-term liquidity requirement. Ongoing analysis of results suggests that risk-based capitalisation remains broadly stable and capable of meeting a revised regime consistent with Basel III. The findings from this exercise will help the Authority manage the potential supervisory implications of adopting these standards in 2015.

We will conduct an additional QIS exercise in 2014 on the liquidity standards proposed by the Basel Committee on Banking Supervision in January 2013.

Thematic Credit Review

In late 2012 the Authority began a thematic credit review of the banking sector to assess the adequacy of Bermuda's banks' credit and risk management policies and practices. This review was part of the Authority's programme of thematic reviews of the sector under our remit. The review provided valuable insight into broader issues ultimately affecting the wider Bermuda economy and provided the Authority with additional information that will allow it to more effectively monitor the level of credit risk in the banking sector. This thematic review was updated in the fourth quarter 2013 and results gained will be used to guide our 2014 supervisory activities.

Bank Resolution Regime

After a period of extensive consultation, the Authority published a draft Bill, the "Banking (Special Resolution Regime) Act 2013", for industry comment in Q3-2013. The Bill seeks to establish a comprehensive bank insolvency framework that meets international standards. The framework would ensure that Bermuda authorities have a broader range of powers that enable swift action to protect depositors in the event of a bank facing potential failure. Consultation on this regime is continuing with further discussions with stakeholders being undertaken throughout 2014.

INVESTMENT

Investment Class A and Class B Exempted Funds

In September 2013 the Authority introduced a new regime that provides for two new classes of exempted investment funds; Class A and Class B. Following consultation with market stakeholders in Bermuda and overseas, as well as with the Bermuda Government, the Investment Funds Amendment Act 2013 ("the Act") was passed in September 2013. The Act repeals the previous provisions on exempted funds and makes new provisions for the Class A and Class B exempted funds. The addition of the new classes provides accelerated speed to market for funds that meet specific criteria and supports Bermuda's position as a competitive jurisdiction in the global funds sector.

Alternative Investment Fund Managers Directive (AIFMD)

The Authority signed cooperation agreements with European Union (EU) Member States in relation to the Alternative Investment Fund Managers Directive (AIFMD) in July 2013. The AIFMD, which establishes a regulatory

regime for European managers of alternative investment funds, such as hedge funds, came into force on 22nd July 2013. The cooperation agreements ensure Bermuda-based funds and fund managers who want to conduct business in Europe are not disadvantaged from a regulatory perspective. It also means that Bermuda can continue to provide significant benefits for new and existing funds and fund managers seeking to access the European market, while also servicing those looking to operate in non-EU markets.

Signing the cooperation agreements was the first step in the Authority's AIFMD-related initiatives. The next phase involves developing an AIFMD opt-in regime for Bermuda-based alternative investment fund managers. The opt-in regime will further enhance Bermuda's regulatory regime and provide for a wide range of fund activity for the market operating from Bermuda, within an internationally recognised regulatory framework.

CORPORATE SERVICE PROVIDERS

The Corporate Service Provider Business Act 2012 came into effect on 1st January 2013. The Act establishes a licensing and supervisory regime covering professional service providers that act as agents for company formation and provide corporate secretarial functions and other services, including acting as a nominee for undertakings established in Bermuda. The Authority consulted on a Guidance Paper and Statement of Principles to support implementation of the CSP regime. This consultation is continuing into 2014.

OTHER DEVELOPMENTS

Corporate Governance Policy

After completing industry consultation, the Authority issued a corporate governance policy in October 2013 that is applicable to licensees under the Investment Funds Act 2006, the Investment Business Act 2003 and the Trusts (Regulation of Trust Business Act) 2001. The Policy sets out nine principles and related guidance which reinforce key elements of corporate governance. These principles do not replace or reduce any existing statutory requirements for the trust and investment sectors; instead the Policy is designed to assist industry in adopting a sound corporate governance framework that supports prudent business conduct. When assessing compliance with the Policy, the Authority will apply the proportionality principle, taking into account the size, complexity, structure, and risk profile of an entity.

Insurance Developments

In 2013, the Authority continued to build on work completed to date to establish key regulatory and supervisory framework enhancements for the Bermuda insurance sector.

GROUP SUPERVISION FRAMEWORK

The Authority has been implementing Group Supervision on a phased basis for Bermuda's largest insurance groups over the last three years. In 2013, the Authority concluded market consultation in relation to group capital requirements which will apply to reporting for the 2013 financial year-end. Group capital requirements will be phased in over a six-year period starting at 50% for the financial year-ending 2013.

In addition, consultation on proposed changes to the Group Actuary's Opinion (GAO), to bring it more closely in line with the Authority's existing actuarial opinion requirements, concluded in 2013.

In early 2013, a working group of industry specialists was convened and by November the Authority was able to issue a revised GAO Guidance Note for formal consultation. The final GAO Guidance Note was published in January 2014 and the Authority will receive applications for Group Actuary approvals during 2014.

BSCR ENHANCEMENTS

A significant number of enhancements were made to the Long-Term Bermuda Solvency Capital Requirement (BSCR) model in 2013. Primary areas for enhancement included variable annuity guarantees, longevity risk, investment risks and credit risk. The latter two areas were also carried over into the requirements for property and casualty (P&C) models. After a close consultation process with industry groups including the Association of Bermuda Insurers and Reinsurers (ABIR) and Bermuda International Long-Term Insurers and Reinsurers (BILTIR), draft changes were published mid-year for consultation.

These changes were implemented in Q4-2013 and will take effect for submissions for the 2013 financial year-end. As this is effectively the initial introduction of the new regulatory capital requirements for Long-Term companies, the requirements for these companies are to be phased in over three years.

These changes were also combined into the BSCR model for Groups, and the regulatory capital requirements were phased in over a six year period starting with the financial year-ending 2013.

ENHANCING OUR SUPERVISORY TOOLKIT

The Authority continued to develop its supervisory toolkit in 2013 in order to provide an effective, risk-based and appropriate regulatory environment for the firms we supervise. Major developments regarding the Capital Solvency Return and Enhanced Regulatory Reporting are discussed in the Insurance Capital Adequacy Framework Enhancements for 2013 Table on page 18.

In addition, a review of the BMA's public filing policy in relation to Class 3A, Class C and Class D insurers continued in 2013. The Authority is looking to distribute an information bulletin and stakeholder letter on its public filing policy in 2014.

In 2013, the Authority also continued to develop our position on an economic balance sheet for commercial insurers. Specifically, we continued discussions with respective industry associations and monitored ongoing insurance accounting standards proposals at international standard-setting bodies such as the Financial Accounting Standards Board and International Accounting Standards Board.

INTERNAL CAPITAL MODEL (ICM)

In 2013, the Authority continued its work to enable Bermuda's insurers to utilise their own ICM to set regulatory capital requirements. During the first half of 2013 the Authority finalised its internal processes for reviewing ICM applications, including appointing an external expert panel to supplement internal resources. In addition, the Authority met with several regulators in other countries to discuss potential operational efficiencies in the ICM approval processes currently operating between the respective jurisdictions. The Authority began accepting applications for ICM approval from Q3-2013. The Authority will continue to invite ICM applications throughout 2014.

GUIDANCE NOTE ON THE ROLE OF APPROVED AUDITOR

The Authority issued a revised consolidated Guidance Note on the "Role of the Approved Auditor" which replaces the two previous Guidance Notes issued in March 2005: "Role of the Approved Auditor" and "Fit and Proper Criteria and Approval Process for the Approved Auditor". The revision reflects the changes to the Authority's current procedures and amendments to the Insurance Act 1978, particularly addressing the role of the approved auditor for the insurance group and the requirements dealing with reporting material events to the Authority by both the approved auditor for the insurer and the insurance group.

ENHANCED STATUTORY REPORTING FOR LIMITED PURPOSE INSURERS

In 2013, the Authority conducted a two month enhanced reporting trial run for Limited Purpose Insurers (i.e. Class 1, Class 2, Class 3, Class A, Class B and Special Purpose Insurers (SPIs)). The Authority is in the process of reviewing the results and is deferring enhanced reporting requirements for Limited Purpose Insurers until the 2014 year-end filing period. SPIs will not be required to file under the enhanced reporting requirements for Limited Purpose Insurers. In 2014, we will consult with relevant stakeholders regarding the future filing requirements for SPIs.

Insurance Capital Adequacy Framework Enhancements for 2013

Component	Developments in 2013
Capital and Solvency Return	<ul style="list-style-type: none"> • Implemented the Enhanced Capital Requirement (ECR) for insurance groups, phased in over a six year period starting at 50% for the financial year-ending 2013. • Implemented the ECR for Class C, D and E Long-Term insurers, phased in over a three year period starting at 50% for the financial year-ending 2013. • Revised the Long-Term insurance aspects of the BSCR model, in particular in relation to the treatment of Variable Annuities and longevity risk, to ensure the capital charges more appropriately reflect the risks of the underlying business. • Recognised a degree of negative correlation between the mortality risk and longevity risk charge in Long-Term models. • Enhanced the investment risk and credit risk areas of the models for all classes of companies (including P&C companies) and groups to increase the risk sensitivity of the charges. • Enhanced the Schedule of Eligible Capital to reflect improved guidance for transferring encumbered assets for policyholder obligations between Tier 1 and 2.
Enhanced Regulatory Reporting	<ul style="list-style-type: none"> • Enhanced the Minimum Solvency Margin (MSM) for commercial insurers to have a minimum value of 25% of the ECR, and also removed the MSM from the scope of the audit opinion for these companies.

Macroprudential Monitoring

In recent years, macroprudential surveillance practices have become increasingly more important in promoting effective financial supervision and global financial stability. In 2011 the Authority developed a dedicated macroprudential monitoring and analysis function to further enhance our policymaking and supervisory capabilities. In 2013, this function continued to support both our supervisory programmes and our work to promote financial stability in the local marketplace.

In 2013, the Authority released the Market Monitoring Solution (MMS) application, a market intelligence-based software application which serves as an interactive analytical framework for macroprudential surveillance and microprudential supervision.

The MMS application helps Authority staff to identify, monitor and assess market and financial developments and other environmental factors that may impact the risk profile of financial entities operating in Bermuda. In addition, MMS encourages greater consistency in producing analytical outputs for supervisory purposes and facilitates the generation of comprehensive information for the decision-making process on financial stability issues at the executive level.

The BMA launched the first issue of the Bermuda Insurance-Linked Securities (ILS) Market Report in November 2013. The Bermuda ILS Market Report provides comprehensive statistics and industry information on key developments and trends related to the ILS market.

The Authority advanced discussions with relevant government departments regarding analysis of financial stability of the jurisdiction.

International Participation

The Authority remained active internationally, participating in key technical committees within global standard-setting bodies. In addition we continued to monitor ongoing discussions and developments relating to regulatory standards and initiatives globally. Highlights of this activity are shown below.

Highlights of International Participation for 2013

Financial Stability Board participation

- Financial Stability Board's Regional Consultative Group (FSB RCG) for the Americas meetings in the Cayman Islands and Rio De Janeiro, Brazil
- Inaugural meeting of the Global Legal Entity Identifier (LEI) Regulatory Oversight Committee (ROC) in Toronto, Canada

Insurance

IAIS participation

- Chairman: Macroprudential Policy & Surveillance Working Group
- Financial Stability Committee
- Technical Committee
- Reinsurance and Other Forms of Risk Transfer Subcommittee/Reinsurance Transparency Group (RTG)/Captives Drafting Group
- Insurance Groups & Cross Sectoral Issues Subcommittee
- Higher Loss Absorbency Drafting Group (HLADG)
- Financial Stability Specialist Group (Data & Policy)
- Supervisory Forum
- Tri-annual meetings

Presentations, seminars and delivery of technical training

- Financial Stability Institute (FSI) seminar on "Applied Risk Management Techniques and Understanding Internal Models" in Beatenberg, Switzerland
- National Association of Insurance Commissioners (NAIC) Winter meetings in Washington, D.C.
- Securities Industry and Financial Markets Association (SIFMA) ILS conference in New York City
- Captive Insurance Companies Association (CICA) 2013 International Conference in Palm Springs, California
- 6th Annual International Insurance Regulatory Issues Dialogue in Brussels, Belgium
- 9th International Insurance Supervision Seminar on Core Supervisory Issues in Beatenberg, Switzerland
- XXIV ASSAL Annual General Meeting and IAIS ASSAL Training Seminar on Market Conduct, Money Laundering and Consumer Protection in Panama City
- Asian Development Bank (ADB) International Insurance Seminar: "In pursuit of a more resilient and inclusive insurance sector" in Manila, Philippines

Banking

- Group of International Finance Centre Supervisors (GIFCS) meetings in London and Panama
- Caribbean Group of Banking Supervisors (CGBS) - hosting Basel III training programme
- Licensee review/regulatory meetings, Cayman Islands

Investment

- International Organisation of Securities Commissions (IOSCO)
- Caribbean Group of Securities Regulators
- Offshore Group of Collective Investment Scheme Supervisors
- Licensee review/regulatory meetings in London and Luxembourg

Other

- GIFCS workshop in Malbun, Lichtenstein on Bermuda's experience with conducting its first National Risk Assessment (NRA)
- AML/ATF NRA bi-lateral meeting with Hong Kong Police Department in Hong Kong SAR, on the countries' experience with conducting its first NRA
- Caribbean Financial Action Task Force (CFATF)
- Financial Action Task Force (FATF)

Legislative Developments

Legislative Change Overview

The Authority made several legislative changes to enable ongoing regulatory and supervisory framework enhancements, as well as introduced a corporate governance framework for trusts, funds administrators and investment businesses, similar to the measures introduced for banks in 2012. The Authority also advanced work on its Alternative Investment Fund Managers Directive initiative.

The Insurance Act 1978 was amended to facilitate enhancements, and proposals were agreed to amend the Corporate Service Providers Business Act 2012 to enhance the licensing and supervisory regime for corporate service providers. Additionally, the Trusts (Regulations of Trust Business) Act 2001, the Investment Business Act 2003 and the Investment Funds Act 2006 were amended to introduce a corporate governance framework for trusts, fund administrators, and investment businesses, similar to the measures introduced for banks in 2012. The Authority also assisted the Ministry of Finance with embedding the policy framework for introducing an appeals tribunal process for entities registered under the Credit Unions Act 2010 and the Corporate Service Providers Act 2012.

TECHNICAL AND HOUSEKEEPING MATTERS ADDRESSED WITHIN INSURANCE AMENDMENT ACTS

The Insurance Act 1978 (the “Act”) was amended during the first half of 2013 to revise certain “material change” requirement provisions under section 30JB. Consequential amendments to section 30JC were also made as a result of the proposed changes to section 30JB. In addition, the meaning of “competent authority” was clarified under the Act to note that such authority applies to any “regulatory” authority (which would include a “national” authority) which is a housekeeping matter noted by the Authority.

The Insurance No. 2 Amendment Act 2013 amended the provisions of the Act and was advanced in the second half of 2013. The Bill addressed certain technical and housekeeping amendments to the

Act required by the Authority to ensure consistency in the manner in which we supervise and regulate Bermuda insurers. In addition, amendments were made to the Insurance Accounts Regulations 1980, the Insurance Returns and Solvency Regulations 1980 and Insurance (Group Supervision) Rules 2011, for consistency in this regard. Technical and housekeeping amendments to the Insurance Prudential Standard Rules were also made under the Act in relation to all classes of insurer, along with amendments to the Insurance Eligible Capital Rules 2012. All amendments were effective as of 31st December 2013, unless otherwise stated.

The Authority also proposed further amendments to the Insurance Returns and Solvency Regulations 1980 to introduce enhanced reporting for captive insurers following consultation with the market. The Authority anticipates that such amendments will be in force in 2014.

OTHER LEGISLATIVE HIGHLIGHTS **Corporate Governance Requirements for Trusts, Fund Administrators and Investment Businesses Implemented**

The Trusts (Regulation of Trust Business) Act 2001, the Investment Business Act 2003 and the Investment Funds Act 2006 (the “Regulatory Laws”) were amended to introduce a corporate governance framework. The amendments build on existing practices and requirements applicable to Bermuda’s trusts, fund administrators, investment funds, and investment businesses. Specific amendments were made to the minimum licensing criteria under the Regulatory Laws to make provision for institutions to implement corporate governance

policies and processes. The amendments establish that the Authority will take such entities' compliance with the requirements into consideration when assessing whether they have met requisite licensing and ongoing requirements.

Corporate Service Providers Business Act 2012 (the "CSP Act")

In 2012, the CSP Act established a regulatory framework to license and supervise Bermuda entities defined as corporate service providers (CSPs). In 2013, the Authority proposed amendments to the CSP Act to adopt among other things, a new tiered licensing regime, an appropriate corporate governance structure and measures to impose conditions on the scope or manner of corporate services that a CSP may conduct. The amendments to the Act were passed by Parliament in Q1-2014.

Class A and Class B Exempted Funds

In 2013, the Authority amended the provisions of the Investment Funds Act 2006 to establish principles and standards for the conduct of the management of alternative investment funds, including but not limited to hedge funds, private equity and venture capital funds and investment trusts. The amendments provide for filing exemptions from the authorisation requirements under the Act which came into force on 3rd October 2013.

The Class A exemption provides for a streamlined exemption for funds which are marketed only to qualified investors and which have managers who are regulated or which have gross assets under management of \$100 million. The Class B exemption provides for an

exemption for funds which are marketed only to qualified investors and whose manager is not regulated. For the Class B exemption the fund must apply and the Authority will vet the service providers, reviewing their fit and proper condition.

Corporate Service Providers Appeals Tribunal Regulations 2013 and Credit Unions Appeals Tribunal Regulations 2013 (the "Regulations")

The Corporate Service Providers Business Act 2012 and the Credit Union Act 2010 provide for among other matters, a process for undertakings to appeal a decision taken by the Authority under their respective regulatory frameworks. In this connection, the Authority assisted the Ministry of Finance with drafting regulations to establish an appeals tribunal framework ("Tribunal") for CSPs and credit unions in Bermuda. The Regulations ensure that relevant persons are provided with an appropriate process to make appeals to a panel established under the Tribunal. The Regulations also provide for, among other things: requirements relating to the time and manner of bringing an appeal; notices to be filed; establishment of the Tribunal; grounds for appeal; interim relief; membership of the Tribunal; withdrawal of appeals; and costs and time elements for bringing an appeal.

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.

Elements of the Authority's supervisory process across sectors include a mix of fundamental monitoring via statutory reporting and desk-based reviews, regular prudential meetings with company management, and on-site reviews.

Typically, on-site reviews consist of supervisory staff meetings with the top management of regulated entities to assess matters such as the company's business strategy, risk management controls and processes, as well as Anti-Money Laundering/ Anti-Terrorist Financing provisions.

Additionally, in instances where a regulated entity is part of a group, we may hold or participate in multilateral or bilateral meetings with relevant overseas regulators. This is the case for supervising Bermuda insurance, banking and investment groups.

The supervisory programme for each sector is conducted in accordance with the provisions of the relevant Acts. The following pages highlight specific activity relating to ongoing supervision of these sectors during 2013.

Banking Supervision

ENHANCED REPORTING AND MONITORING

During 2013 the Authority continued to engage in active monitoring of credit risk exposures in the banking sector as a precautionary measure given the prolonged economic downturn. The persistently high level of the ratio of non-performing loans to total loans in bank credit portfolios, along with the continued effects of the Eurozone debt crisis, warranted enhanced supervision of the sector.

Banks provided regular monthly reports on their credit portfolios and the Authority continued to challenge institutions on their stress-testing methodologies and general framework, as well as the adequacy of the provision for loan losses. The Authority also conducted parallel stress-testing of loan portfolios and met with banks regularly to discuss credit quality and developments in the loan portfolio.

Overall, the banking sector maintained high levels of capital during the year, especially relative to international minimum standards. This was a prudent safeguard against further negative developments due to the ongoing economic challenges faced locally and abroad.

OVERVIEW OF THE FINANCIAL POSITION

The prolonged recessionary economic climate continued to have a depressed impact on the financial position of the banking sector. Credit portfolios saw a general slowdown in growth and a significant increase in non-performing loans resulted in higher loan provisioning and write-offs. Overall however, capital remained above international regulatory

requirements and banking income saw a moderate increase during the year.

Assets and Liabilities

There was a slight increase of 3.8% in the consolidated assets of the banking sector; up from \$24.2 billion at the end of 2012 to \$25.1 billion at the end of 2013 (see Bermuda Banks and Deposit Companies (Consolidated) Total Assets on page 55). This was a significant change from the decline of \$1.3 billion or 5.4% experienced in 2012.

The net increase in assets was a reflection of the following asset class movements: investments increased by 17.8%; loans and advances decreased by 5.6%; cash and deposits with other financial institutions increased by 0.3% and other assets declined by 4.2%.

The driver behind the overall increase in the balance sheet was a 8.8% rise in deposit liabilities to \$22.3 billion from \$20.5 billion. This related to increases in all components over the year, with time deposits increasing by 9.9%, demand deposits by 5.6% and savings deposits 13.6%.

Balance Sheet Structure

The overall allocation of assets remained much the same as previous years; however there was a significant change in weighting that saw investments become the largest asset class. Loans and advances were the second largest portion of assets, and cash and deposits with other financial institutions was third. The share of loans decreased from 36.6% to 33.3%, while the share of investments increased from 33.2% to 37.6%, and the share of cash and deposits saw a relatively marginal change from 26.8% to 25.9% (see Composition of Banks Assets chart on page 53).

Earnings and Profitability

Total income for all banks was relatively unchanged for 2013 compared to the previous year with an increase of 0.1%. This mainly reflected a notable increase in non-banking income of 12.1% coupled with a marginal decline in banking income of 2.3%. Banking income contributes 81% of total income with net interest income being the most significant component. During 2013, net interest income declined by 4.8% due to a decrease in interest income of 7%.

As a portion of total income, net interest income decreased from 64.7% in 2012 to 61.8% in 2013. The interest margin for the sector increased to 90.4% of interest income in 2013 relative to 88.2% in 2012. Operating costs also declined by 5.5%, reflecting savings generated from continued cost management.

Capital Adequacy

Capital adequacy in the Bermuda banking sector, as measured by the risk assets ratio (RAR), remained strong in 2013 and above regulatory minimum capital requirements and in excess of international benchmarks. RAR for the sector was relatively unchanged standing at 21.9%, compared to 21.7% at end 2012 (see Banking Sector Consolidated Risk Asset Ratio table on page 54).

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 throughout 2013 in accordance with the provisions of the Credit Union Act 2010.

BERMUDA STOCK EXCHANGE (BSX)

The total market capitalisation of the BSX as at 31st December 2013 (excluding collective investment vehicle listings) stood at over \$428 billion, of which approximately \$1.7 billion represented the domestic market. Total trading volume for the period was 10.2 million shares with a corresponding value of \$50.1 million compared to 12.7 million shares with a corresponding value of \$38 million for 2012.

Listings on the BSX grew by 32 securities year-on-year. New listings grew by 81 securities, including 42 Insurance-Linked Securities with a capitalisation value of \$4.6 billion. There was also growth in international equities and debt listings while listings of collective investment vehicles declined modestly. Noteworthy in 2013 were the listings of two new Bermuda Government bonds.

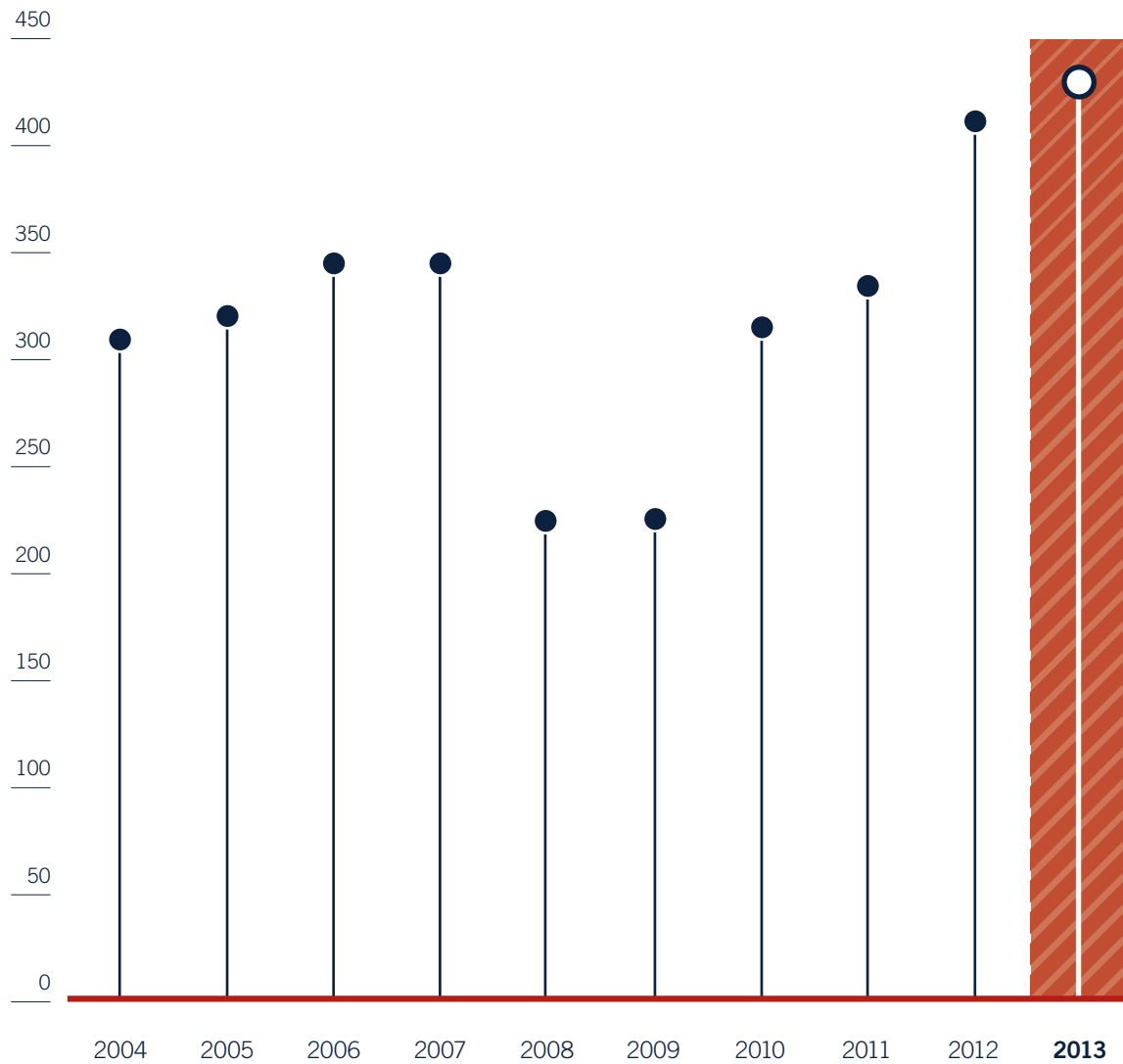
The RG/BSX Index closed the year at 1,201.05 which is 10.1% higher than 2012.

As at 31st December 2013, 665 securities were listed on the BSX.

The number of Insurance-Linked Securities listed on the BSX grew to 77 from 38 (a 103% increase) while the value of these securities grew to \$9.71 billion from \$5.81 billion (a 67% increase) from the same period last year. There were 19 new collective investment vehicles, 12 international equities and four fixed income securities listed along with 13 subsequent issues undertaken by existing listed issuers.

The BSX launched its NASDAQ OMX's X-stream trading platform in April 2013 providing the BSX with world-class trading. NASDAQ OMX technology is used by over 70 marketplaces in 50 countries.

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



Insurance Supervision

OVERVIEW - MARKET RESULTS

Bermuda's insurance sector continued to thrive in 2013. The number of new insurers registering in Bermuda increased by 72% year-on-year with a total of 91 new insurance companies registering in 2013, compared to 53 in 2012.

The new entrants to the Bermuda insurance market covered both the traditional and fast-growing alternative risk transfer sectors.

The number of new captives registered in 2013 doubled the totals recorded in 2012 but we also registered a record number of Special Purpose Insurers (SPIs) in 2013. This reflects how Bermuda has emerged as a leading jurisdiction for the creation, listing and servicing of Insurance-Linked Securities (ILS). By the end of 2013, out of the \$21.0 billion of global ILS issuance, \$9.2 billion was sponsored by Bermuda-based SPIs, representing 41% of the world-wide stock of ILS.

The new registrations also include significant firms in the traditional reinsurance space, including a Class 4 reinsurer.

In total there were 24 new captives, 16 commercial insurers and a record 51 Special Purpose Insurers (SPIs) registered in 2013. This compares to 12 new captives, 14 commercial insurers and 27 SPIs being recorded the previous year.

In 2012 total gross premiums written accounted for \$120.5 billion. Of that total, the commercial sector wrote \$74.4 billion and the captive sector \$46.1 billion. Bermuda's insurers recorded aggregate total assets of \$505.5 billion, compared to

\$452.2 billion achieved the previous year. Total capital and surplus was \$193.0 billion compared to \$168.7 billion the previous year.

GROUP SUPERVISION

A range of supervisory activity in relation to insurance groups took place during the year. The Authority conducted six group on-site reviews and 18 supervisory colleges covering groups for which we are Group Supervisor. In addition, we were a participating supervisor in a further seven colleges. During the colleges we presented and received detailed analyses, and coordinated supervisory plans with relevant regulators from overseas on insurance groups with Bermuda-related operations. Also, we continued ongoing work 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 2013 Bermuda surpassed the Cayman Islands for the first time since entering the ILS market in both the number of deals issued and total issuance volume. Domestic issuance volume grew for a third consecutive year in 2013 as ILS structures issued by locally domiciled Special Purpose Insurers (SPIs) increased by 89% (compared to 59% in 2012) to \$4.7 billion. Over the same period, the number of deals issued more than doubled to 25 compared to 11 in 2012. In line with global market developments, the average size per deal issued by Bermuda-based SPIs contracted from \$226 million in 2012 to \$189 million.

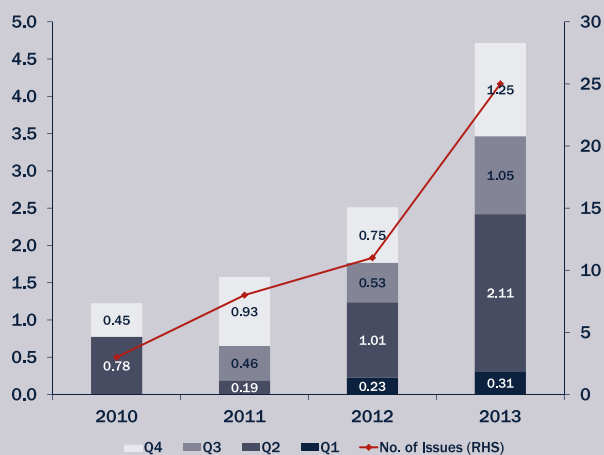
The Bermuda market shows a specialisation in catastrophe bonds, with the majority of transactions using more conservative trigger types that focus primarily on North American perils. The majority of business being written by ILS is higher layer catastrophe exposure reinsurance.

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

Slightly less than 10% of the 2013 issuance (\$455 million) stems from three SPIs that were licensed prior to 2013¹; conversely, 21 of the 51 SPIs that were licensed in 2013 accounted for the total ILS-based underwriting of \$4.3 billion of various P&C risks, of which 18 were listed on the BSX by the end of 2013.

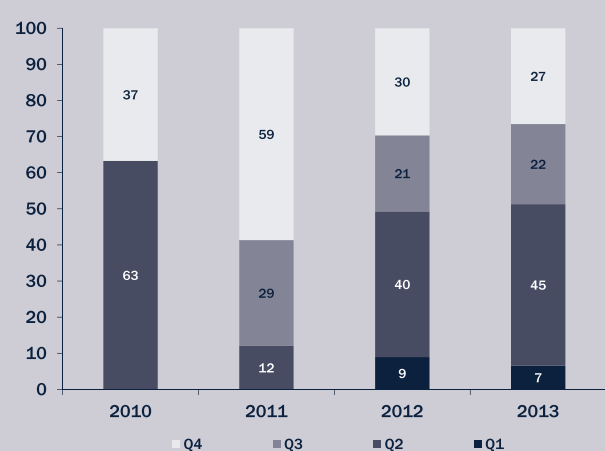
The BSX accounted for over 43% of the global market capitalisation of insurance-linked securities at the end of Q4 2013. A total of 40 ILS deals (comprising 53 tranches) are listed on the BSX with an aggregate nominal value of approximately \$9.1 billion, of which \$560 million (or 6%) are issued by non-Bermuda entities. In April 2013, the BSX listed North Carolina Joint Underwriting Association/ Insurance Underwriting Association as sponsors of a \$500 million catastrophe (CAT) bond, the largest ILS deal issued globally during the year.

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.

¹ In 2012, the BMA licensed 27 new SPIs compared to 23 in 2011, eight in 2010 and one in 2009. 51 SPIs were licensed in 2013.

Anti-Money Laundering / Anti-Terrorist Financing

The Authority conducted 19 Anti-Money Laundering/Anti-Terrorist Financing (AML/ATF) on-site assessments across the insurance, trust, fund administrator and investment business sectors in 2013.

The Authority also conducted company specific and industry-specific desk-based reviews. These reviews looked at the AML/ATF policies and procedures in use by Long-Term insurance companies writing direct policies, funds and fund administrators, as well as Non-Licensed Persons. We also conducted a series of industry outreach sessions for trust, fund administrators, banking and investment business representatives.

NATIONAL RISK ASSESSMENT

In advance of the International Monetary Fund's next assessment of Bermuda's AML/ATF regime – expected to take place in 2016 – the Authority took a leading role in the creation of a National Risk Assessment (NRA) of Bermuda. This included the development and progression of the NRA, particularly the financial sector component, which was provided to the National Anti-Money Laundering Committee for consideration in 2013. Another data call to update the NRA is anticipated for late 2014/early 2015.

Enforcement Activity

In 2013 the Authority maintained its policy of applying enforcement powers judiciously in cases of material non-compliance. During the year there were a number of occasions where regulatory concerns arose regarding potential non-compliance and supervised remedial activity took place in lieu of formal enforcement actions. In other cases, in-depth enquiries and investigative activities took place which utilised the Authority's formal statutory powers. Two significant issues arose in the trust and funds sectors where investigative activities are ongoing into 2014. Regulatory concerns were identified in a number of instances in

AML matters and those concerns were either addressed in consultation with the entities involved, or still under active consideration, at the time of this Report. Following due process, formal directions, restrictions and conditions were applied to the licences of a number of regulated entities, dealing with concerns identified during the normal supervisory process.

On another level, 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.

Summary of Supervisory Activity Across Sectors for 2013

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"> Quarterly risk compliance and internal audit meetings Several prudential and strategy meetings Two on-site reviews Credit thematic review
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"> 11 on-site reviews Two prudential meetings
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"> Two prudential meetings 10 strategy meetings Five post-licensing follow up meetings 17 on-site reviews
Fund Administrators	<ul style="list-style-type: none"> On-site inspections focused on corporate governance, enterprise risk, business strategy and compliance with the Investment Funds Act 2006, and the Code of Conduct for Fund Administrators. 	<ul style="list-style-type: none"> 11 on-site reviews One post-licensing follow up meeting Two desk-based reviews
Investment Funds	<ul style="list-style-type: none"> Review of funds' periodic statistical reports and content of prospectuses Vetting of fund service providers Vetting and approval of material change requests 	<ul style="list-style-type: none"> Reviewed and processed 27 notifications, 10 exclusions and 414 material changes 70 new fund authorisations
Money Service Business	<ul style="list-style-type: none"> Assessing the ongoing financial viability of firms 	<ul style="list-style-type: none"> Strategy meetings held
Credit Union	<ul style="list-style-type: none"> General compliance with the Act 	<ul style="list-style-type: none"> Ongoing review of compliance with the Act including the review of statutory filings
Insurance	<ul style="list-style-type: none"> On the commercial side, on-site inspection focused on risk management, corporate governance and capital adequacy On the captive side, we continued to supervise appropriately 	<ul style="list-style-type: none"> Six group on-sites 12 solo on-sites 18 supervisory colleges as Group-Wide Supervisor Seven colleges as host supervisor

Formal Use of Powers

Banking and Deposit Companies Act 1999

Section	Provision	Use in 2013
35	To vet licensed institutions who give written notice to the Authority when a person becomes a director or senior executive	Notifications received; Authority conducted the appropriate vetting and provided relevant responses
36	To object or not object to notifications of significant shareholder changes	One application received; "No objection" provided

Trusts (Regulation of Trust Business) Act 2001

Section	Provision	Use in 2013
24	Notification of new or increased control	Two notifications received; "No objection" provided
34	Notification of change of controller or officer	Notifications received; Authority conducted the appropriate vetting
36	Power to obtain information and records	One notice issued

Investment Business Act 2003

Section	Provision	Use in 2013
28	Notification of new or increased control	Four notifications received; "No objection" provided
43	Notification of change of controller or officer	14 notifications received; Authority conducted the appropriate vetting

Investment Funds Act 2006

Section	Provision	Use in 2013
45A	Notification of new or increased control	Six notifications received; "No objection" provided
46	Notification of change of director, senior executive and controller	19 notifications received; Authority conducted the appropriate vetting
64	Appointment of investigator	One notice issued
64 (4)	Notice requiring appearance of examination	One notice issued

Licensing

Assessment and Licensing Committee Activity

The Assessment and Licensing Committee (“ALC”) reviewed a total of 122 applications in 2013 of which 117 were insurance-related and five were investment and fund-related.

Insurance Applications	Summary of ALC-Approved Applications																																		
Out of the 117 insurance-related applications received, 112 were approved; one remains outstanding for further consideration; two were withdrawn and two were declined. Out of the successful applications 35 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 48 were for Special Purpose Insurers (SPIs). The remaining 26 insurance-related approvals were for insurance intermediaries, inclusive of managers, brokers and agents.	<table> <tr><td>Class 1</td><td>8</td></tr> <tr><td>Class 2</td><td>4</td></tr> <tr><td>Class 3</td><td>9</td></tr> <tr><td>Class 3A</td><td>9</td></tr> <tr><td>Class 3B</td><td>2</td></tr> <tr><td>Class 4</td><td>1</td></tr> <tr><td>Class A</td><td>1</td></tr> <tr><td>Class B</td><td>2</td></tr> <tr><td>Class C</td><td>4</td></tr> <tr><td>Class E</td><td>1</td></tr> <tr><td>SPI</td><td>48</td></tr> <tr><td>Insurance Manager</td><td>10</td></tr> <tr><td>Insurance Broker</td><td>5</td></tr> <tr><td>Insurance Agent</td><td>8</td></tr> <tr><td>Investment Manager</td><td>2</td></tr> <tr><td>Fund Administrator</td><td>3</td></tr> <tr><td>Total</td><td>117</td></tr> </table>	Class 1	8	Class 2	4	Class 3	9	Class 3A	9	Class 3B	2	Class 4	1	Class A	1	Class B	2	Class C	4	Class E	1	SPI	48	Insurance Manager	10	Insurance Broker	5	Insurance Agent	8	Investment Manager	2	Fund Administrator	3	Total	117
Class 1	8																																		
Class 2	4																																		
Class 3	9																																		
Class 3A	9																																		
Class 3B	2																																		
Class 4	1																																		
Class A	1																																		
Class B	2																																		
Class C	4																																		
Class E	1																																		
SPI	48																																		
Insurance Manager	10																																		
Insurance Broker	5																																		
Insurance Agent	8																																		
Investment Manager	2																																		
Fund Administrator	3																																		
Total	117																																		
Banking, Trust & Investment Applications																																			
All five applications for BTCS&I were approved. Two of the successful applications were investment manager applications and three were fund administrator applications.																																			

Summary of BTCS&I-related Licensee Status as at year-end 2013

Sector	Licensing Activity
Banking	<ul style="list-style-type: none"> Total licensees at end of the year: 4
Trust	<ul style="list-style-type: none"> Total licensees at end of the year: 30 (30 in 2012) New Private Trust Companies: 29
Money Service Business	<ul style="list-style-type: none"> Total licensees at end of the year: 2
Investment Business	<ul style="list-style-type: none"> New: 2 Total Licensees at end of the year: 60 (61 in 2012) Licences surrendered: 3
Investment Funds	<ul style="list-style-type: none"> New Authorised Funds: 25 (48 in 2012) Total Number of Funds: 695 (762 in 2012)
Fund Administrators	<ul style="list-style-type: none"> New: 3 (0 in 2012) Total Licensees at end of the year: 35 (37 in 2012) Licences surrendered: 5

BMA Performance Against 2013 Service Standards

Transaction	Service Standards	2013 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 - 2 days - 2 days	Met
Investment Fund Applications:	Process and approve 85% of applications for new funds or material changes within 6 business days	Met
Insurance Supervision²:		
- 2012 Class 4 and Class E company Statutory Financial Returns	100% to be completed by 1st June 2013	Met
- 2012 Class 3B, 3A, D and domestic ³ insurance company Statutory Financial Returns	100% to be completed by 1st July 2013	Met
- 2012 Class C company Statutory Financial Returns	100% to be completed by 1st August 2013	Met
- 2012 Class 1, 2, 3, A and B companies Statutory Financial Returns	100% to be completed by 31st December 2013	Met
Certificates of Compliance	90% to be completed in 2 business days	Met

² These service standards are set for year-end 2012 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 2012 SFRs was April 2013. 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.

³ Separate service standards are set for each class of insurance company in keeping with their risk profile.

Companies, Partnerships and Permits Statistics – Applications Approved

	Q4-2013	Q3-2013	Q2-2013	Q1-2013	Q4-2012	Q3-2012
Exempted Companies	302	269	288	240	265	214
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	31	25	16	15	17	20
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	0	2	2	1	1	1
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	5	5	7	15	9	13
Unit Trusts	1	3	3	3	5	2
Total Applications Approved*	339	304	316	274	297	250

* 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

Outreach Initiatives

Through 2013, an active external outreach and strategic stakeholder communications programme continued to support the Authority's position as a leading, international regulator.

The 2013 programme focused on supporting jurisdictional outreach initiatives and educating key stakeholders about Bermuda's regulatory regimes, both locally and internationally.

Key elements consisted of industry and media relations, support for senior staff members' participation within international regulatory fora and publishing the Authority's printed materials.

The 4th Annual International Regulatory Forum was a major highlight for the year. The Forum brought together a record number of attendees who heard global financial services leaders speak on topics covering key international issues relevant to Bermuda's insurance, banking and asset management sectors.

Additional highlights of the Authority's external outreach activity for the year included:

- Advocacy programme - maintained regular and frequent contact with key international opinion-formers and decision makers in the EU and US. A particular focus on the National Association of Insurance Commissioners resulted in Bermuda being granted conditional qualified jurisdiction status.
- Industry outreach and support for jurisdictional initiatives - provided support to jurisdictional outreach efforts to build on the market's understanding of Bermuda's risk-based framework and its effectiveness. In addition, actively participated in key conferences focused on the areas of asset management and captives, as well as provided regulatory and technical input in working groups charged with exploring developmental opportunities for the jurisdiction.

Examples of this activity included participation with the New York Hedge Fund Roundtable and the Securities Industry and Financial Markets Association's annual Insurance and Risk-Linked Securities Conference.

- Media relations - conducted proactive media outreach and supported participation in local/international conferences, seminars and events to build positive perceptions of the quality and effectiveness of the Authority and its regulations.
- Senior management support - promoted the Authority's active contributions and achievements in the development of international regulations and standards.
- Local outreach - executed targeted communications initiatives to raise public awareness of the calling in of Legacy banknotes.

Information Technology

The Authority continued to leverage technology to increase the capacity and accuracy of its supervisory process through the use of robust data collection, validation, and information management practices.

In 2013, we conducted work to deploy our Electronic Regulatory Information Compliance Application (ERICA) for use in the insurance sector. ERICA is a secure web portal that streamlines the reporting, analysis and collection of data for regulatory purposes, resulting in efficiencies within our supervisory processes. ERICA also makes it easier for firms to be in compliance with the Authority's reporting requirements.

The Authority also completed a trial with captive insurers for the collection of enhanced regulatory information using Extensible Business Reporting Language (XBRL), an internationally accepted data standard. In addition we implemented improvements to our macroprudential surveillance capabilities with changes to our Market Monitoring Solution (MMS). MMS is an analytical business intelligence solution that provides our analysts with a powerful tool that allows comprehensive data visualisation, online analytical processing, reporting and advanced modelling.

Progressing our use of ERICA, enhancing our captive insurer's data collection, and enhancing our macroprudential surveillance software was the primary focus of our efforts during 2013. Additional initiatives were also undertaken to enhance the Authority's overall master data management and information governance, and record management capabilities.

We also conducted work to establish a secure collaboration portal for conducting supervisory colleges, as well as data collection, validation, and information management that supports our solo-entity supervision, in addition to the supervision of Groups.

Resources & Staff Development

The Authority's continued commitment to developing our intellectual capital was evidenced by the implementation of strategic Human Resource initiatives designed to enhance leadership at all levels of the organisation in 2013 and beyond.

BUILDING PROFESSIONAL REGULATORS IN 2013

The Authority's Human Resource strategy remains focused on having the right staff with the right skill-sets necessary to meet the demands of being a leading internationally recognised financial service regulator, while deploying the most efficient and effective supervisory and regulatory teams to our market. Consequently, the Authority continued to manage the alignment between staff members' development plans and our Technical Competency Framework. This ensures any gaps in skill-sets are addressed proactively and in a timely manner.

The Authority kept its technical subject matter experts abreast of changes in the regulatory and supervisory landscape by sourcing best-in-class training materials and facilitators to design and deliver relevant training modules for our teams throughout the year. Subject matter experts were also involved in designing specialised training programmes that supplemented the supervisory and regulatory toolkit of our professional regulators.

The change in the Authority's supervisory model that took place in 2013 to establish cross-sectoral supervisory teams also had meaningful implications for our learning and development programme. While individual specialists exist within teams, the new structure enabled greater

knowledge transfer, mentoring and on-the-job training opportunities. The goal is to align our talent pool more effectively with a view to delivering high quality supervision in the long term.

GRADUATE TRAINING PROGRAMME

The Graduate Training Programme, a key component of the Authority's succession planning framework, attracted a high calibre of candidates as evidenced by the record number of quality applications received during the intake period. Two offers were tendered resulting in one candidate being placed within Banking, Trust, Corporate Services & Investment and the other placed within Licensing and Authorisations. One member of the Programme is currently in her final international rotation with Aon Vermont and another will be going to Arch Insurance in New York for her international secondment opportunity in June 2014. It is anticipated that following this final stage of the Programme both graduate trainees will be confirmed to Senior Analyst roles within the Authority's team.

BMA Management Team *(as at 31st December 2013)*

Jeremy Cox	Chief Executive Officer
Craig Swan	Managing Director, Supervision
Shanna Lespere	Director, Operations
Corporate Governance & Communications	
Pat Phillip-Fairn	Deputy Director
Finance & Currency Operations	
Terry Pitcher	Deputy Director, Head of Finance & Currency Operations
Human Resources	
Mesheiah Crockwell	Deputy Director, Head of Human Resources
Licensing & Authorisations	
Shelby Weldon	Director
Leslie Robinson	Assistant Director, Licensing
Melissa Morton	Acting Assistant Director, Authorisations
Akilah Wilson	Acting Assistant Director, Licensing
Management Services	
John Dill	Director
Organisational Development	
Verna Hollis-Smith	Assistant Director
Policy, Legal & Enforcement	
Shauna MacKenzie	Director
Thomas Galloway	Deputy Director, Legal & Enforcement
Marcelo Ramella	Deputy Director, Policy & Research
Ifor Hughes	Assistant Director, Policy
Yvette Pierre	Assistant Director, Policy
Dina Wilson	Assistant Director, Legal Services
Senior Advisors	
Roger Scotton	
Supervision (Actuarial Services)	
David Theaker	Deputy Director, Actuarial Services
Christopher Killourhy	Internal Models Specialist, Actuarial Services
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 Business & Fund Administration
Tamara Anfossi	Assistant Director, Trust & Corporate Service Providers
Thomas O'Rourke	Assistant Director, Financial Groups
Christopher Tribley	Assistant Director, Investment Groups
Supervision (Insurance)	
Niall Farrell	Deputy Director, Run-Off & Monitoring
Suzanne Williams	Deputy Director, Insurance Supervision
Laila Burke	Assistant Director, Insurance Supervision
Eric Donkoh	Assistant Director, Insurance Supervision
Gerald Gakundi	Assistant Director, Insurance Supervision
David Lawler	Assistant Director, Insurance Supervision
Moses Muoki	Assistant Director, Insurance Supervision
Montgomery Nearon	Assistant Director, Macprudential

Statistics

Financial Highlights 2013

The Bermuda Monetary Authority continues to use its general reserve to finance its local operation in this fragile Bermuda economy. For the period ending 31st December 2013, the Authority recorded a net deficit of \$1.53 million as compared to 31st December 2012 net deficit of \$1.15 million. As a result of a very solid Balance Sheet, the Authority was able to maintain its current fee structure to industry without any changes for the fourth year running despite the slow economic recovery.

Total revenue for the year was at \$41 million which was relatively flat versus prior year. This was mainly attributed to very low marginal changes with commercial insurers. 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 remain at a very high quality with all securities maintaining a rating of AA+ or better.

Total expenses rose by less than 1% versus prior year and this was a result of enforcing cost control measures and prudent spending. General expenses were significantly lower than prior year. This positive variance was offset by increased cost in currency expenditures and salary expenses. Currency expenditures rose due to the issuance of currency banknotes to facilitate the demonetisation process and salary expenditure rose from increase benefit cost and the hiring of professional and senior management staff.

As at 31st December 2013, the organisation's headcount had increased by 2.5% in comparison to the previous year-end. A significant factor to this increase was the number of Senior Management and professional staff recruited, either as new hires or promoted within the Authority. It is projected that our 2014 recruitment activity will remain at a similar level 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 Month	Net Change During Month	
	New	Re-issued	Total			Amount Change	% Change
January	530,524	1,950,000	2,480,524	11,727,002	104,881,332	(9,246,478)	-8.10%
February	100,324	5,200,000	5,300,324	5,068,000	105,113,656	232,324	0.22%
March	3,654,167	5,585,000	9,239,167	8,095,006	106,257,817	1,144,161	1.09%
April	138,150	5,660,000	5,798,150	6,451,998	105,603,969	(653,848)	-0.62%
May	953,078	8,092,000	9,045,078	7,460,007	107,189,040	1,585,071	1.50%
June	429,211	9,366,000	9,795,211	9,778,010	107,206,241	17,201	0.02%
July	11,547,299	8,520,000	20,067,299	6,165,520	121,108,020	13,901,779	12.97%
August	1,443,150	2,600,000	4,043,150	12,572,000	112,579,170	(8,528,850)	-7.04%
September	5,120,193	2,160,000	7,280,193	7,873,000	111,986,363	(592,807)	-0.53%
October	1,008,744	7,422,000	8,430,744	12,027,700	108,389,407	(3,596,956)	-3.21%
November	5,935,000	10,690,000	16,625,000	14,515,968	110,498,439	2,109,032	1.95%
December	10,619,151	20,204,000	30,823,151	11,471,000	129,850,590	19,352,151	17.51%
<i>Year</i>							
2013	41,478,991	87,449,000	128,927,991	113,205,211	129,850,590	15,722,780	13.78%
2012	17,317,614	83,392,000	100,709,614	104,355,376	114,127,810	(3,645,762)	-3.10%

Currency Coins Issued & Redeemed (Bermuda Dollar)

Month	Coins Issued	Coins Issued & O/S at End of Month	Net Issues During Month	
			Amount Change	% Change
January	0	15,386,917	0	0.00%
February	4	15,386,922	4	0.00%
March	3	15,386,924	3	0.00%
April	8	15,386,933	8	0.00%
May	16	15,386,948	16	0.00%
June	4	15,386,953	4	0.00%
July	48,017	15,434,969	48,017	0.31%
August	7,467	15,442,437	7,467	0.05%
September	16	15,442,452	16	0.00%
October	1	15,442,454	1	0.00%
November	0	15,442,454	0	0.00%
December	6	15,442,459	6	0.00%
<i>Year</i>				
2013	55,542	15,442,459	55,542	0.36%
2012	60,150	15,386,917	60,150	0.39%

Banking

Bermuda Money Supply

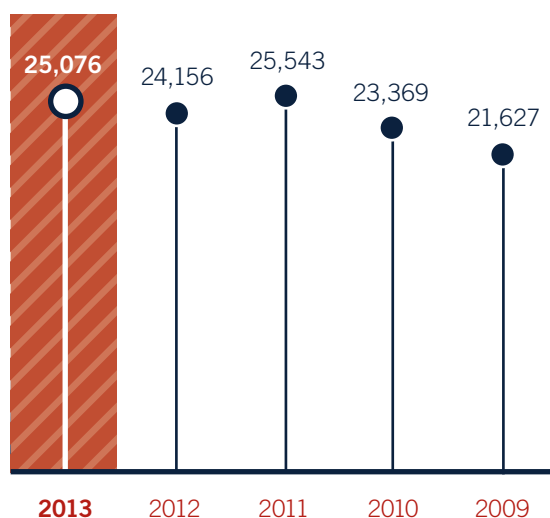
(BD\$ mln)	Q4-2013	Q3-2013	Q2-2013	Q1-2013	Q4-2012	Q3-2012
Notes & Coins in Circulation*	145	127	123	122	130	115
Deposit Liabilities	3,343	3,404	3,386	3,582	3,351	3,398
Total	3,488	3,532	3,509	3,704	3,480	3,513
Less: Cash at Banks & Deposit Companies	66	46	38	37	46	34
BD\$ Money Supply	3,422	3,486	3,470	3,666	3,434	3,479
% Change on Previous Period	-1.83%	0.45%	-5.35%	6.76%	-1.28%	-1.16%
% Change Year-on-Year	-0.36%	0.20%	-1.41%	2.92%	-4.65%	-5.04%

* 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

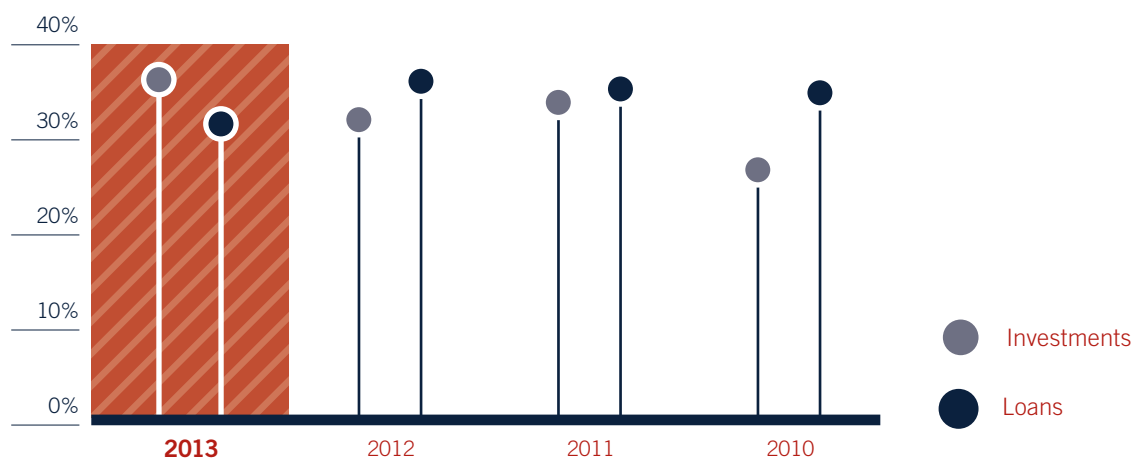
(BD\$ bln)



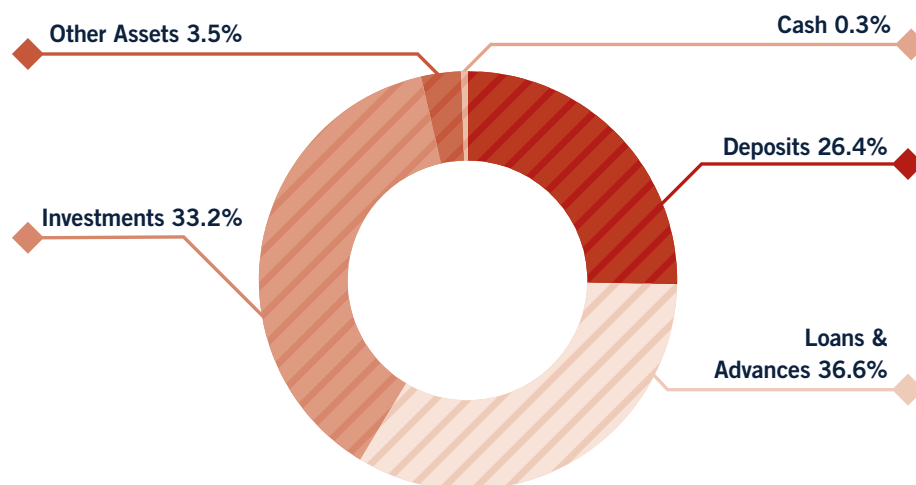
Banking Sector Assets & Deposits

(BD\$ mln)	Q4-2013	Q3-2013	Q2-2013	Q1-2013	Q4-2012	Q3-2012
Total Assets	25,076	23,205	23,189	23,495	24,156	23,588
Quarterly Change (%)	8.1%	0.1%	-1.3%	-2.7%	2.4%	-0.3%
Total Deposits	22,296	20,347	20,256	19,892	20,491	19,966
Quarterly Change (%)	9.6%	0.4%	1.8%	-2.9%	2.6%	-1.0%

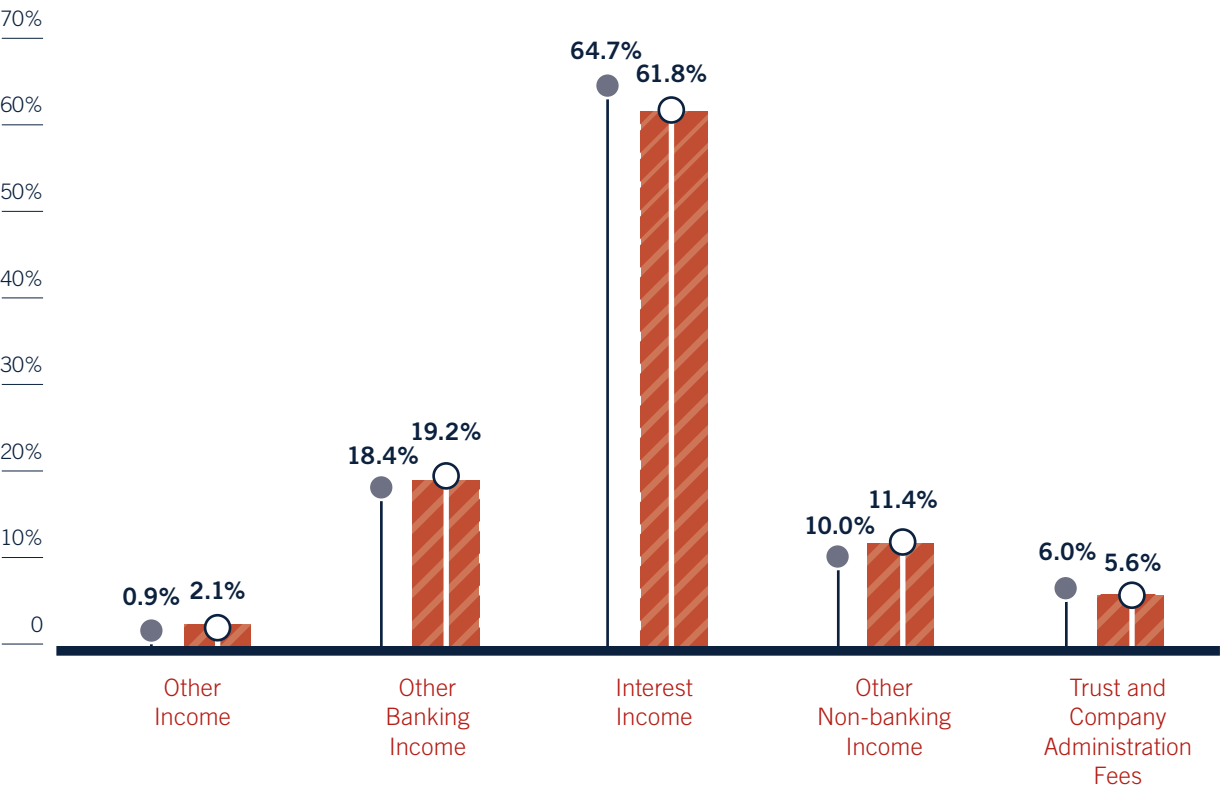
Loans and Investments as a Proportion of Total Assets



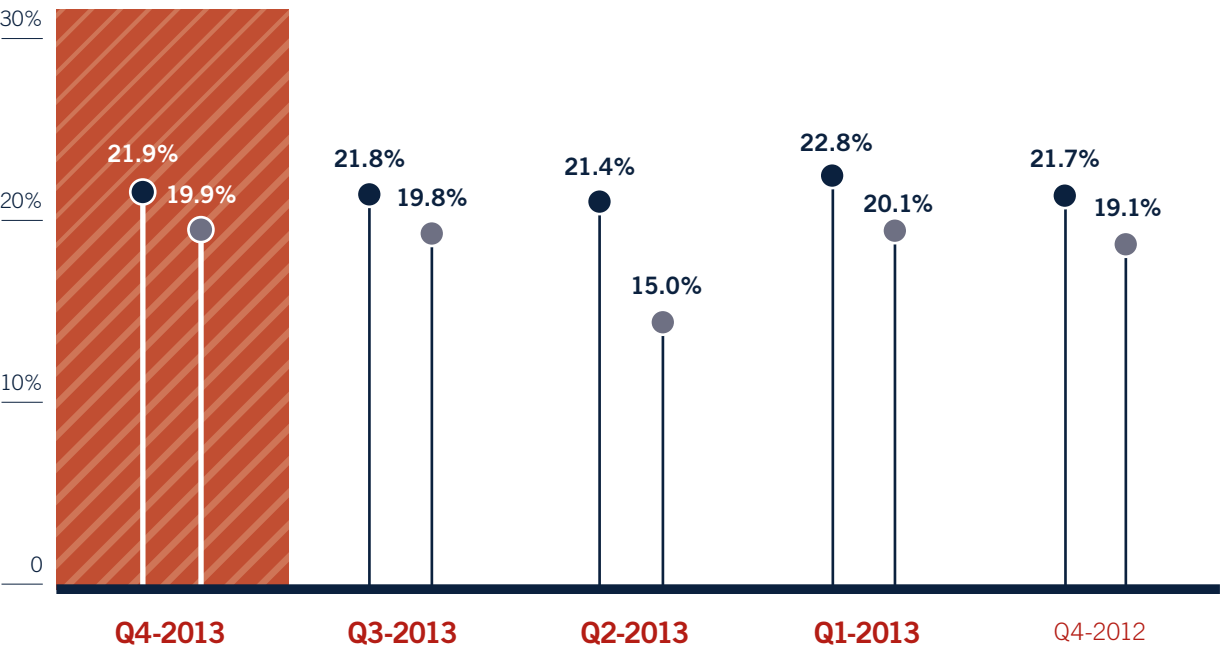
Composition of Banks' Assets as at 31st December 2013



Banks and Deposit Companies Revenues (Consolidated)



Banking Sector Consolidated Risk Asset Ratio



Combined Banks and Deposit Companies Foreign Currency Position (Consolidated)

(BD\$ mln)	Q4-2013	Q3-2013	Q2-2013	Q1-2013	Q4-2012	Q3-2012
Total Foreign Currency Assets	19,942	18,095	17,818	18,111	18,759	18,147
Less: Other Assets	154	148	134	186	196	222
Less: Foreign Currency Loans to Residents	696	722	812	780	819	854
Net Foreign Currency Assets	19,092	17,225	16,872	17,144	17,744	17,071
Foreign Currency Liabilities	19,101	17,099	17,079	16,621	17,434	16,902
Add: BD\$ Deposits of Non-Residents	184	196	192	216	178	185
Net Foreign Currency Liabilities	19,285	17,295	17,271	16,838	17,612	17,086
Net Foreign Currency Position	(193)	(70)	(399)	307	133	(15)

Totals may not add due to rounding.

Total foreign currency assets increased by 6.3% over the year while total foreign currency liabilities increased by 9.6%. As a result there was an expansion in the net foreign currency liabilities over the year to \$193 million contrasted with the contraction of \$133 million in 2012. This result mainly reflected developments throughout 2013 where the growth in foreign currency deposits outpaced the growth in foreign currency loans and investments.

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

(BD\$ mln)	Q4-2013	Q3-2013	Q2-2013	Q1-2013	Q4-2012	Q3-2012
Deposit Liabilities	3,343	3,404	3,386	3,582	3,351	3,398
Less:						
Loans, Advances and Mortgages	(4,542)	(4,654)	(4,897)	(4,804)	(4,855)	(4,885)
Surplus/(Deficit) Deposits	(1,199)	(1,250)	(1,511)	(1,222)	(1,504)	(1,488)
Percentage of Deposit Liabilities Loaned	135.9%	136.7%	144.6%	134.1%	144.9%	143.8%

Totals may not add due to rounding.

The ratio of Bermuda dollar loans to Bermuda dollar deposits decreased from 145% in Q4-2012 to 136% as at Q4-2013. Bermuda dollar loans and advances declined by 6.5% while Bermuda dollar deposits decreased by 0.2% over the same year-on-year period. As in previous years the shortfall in Bermuda dollar deposits relative to Bermuda dollar loans and advances is financed through foreign currency customer deposits mainly denominated in US dollars.

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

(BD\$ mln)	Q4-2013			Q3-2013			Q2-2013		
	Total	BD\$	Other	Total	BD\$	Other	Total	BD\$	Other
Assets									
Cash	104	66	38	77	46	32	75	38	36
Deposits	6,379	41	6,338	5,962	31	5,930	5,553	35	5,518
Investments	9,437	53	9,384	7,749	36	7,713	7,982	44	7,938
Loans & Advances	8,342	4,414	3,927	8,623	4,481	4,142	8,784	4,723	4,061
Premises & Equipment**	507	406	101	516	386	130	521	390	131
Other Assets**	308	154	154	278	130	148	275	141	134
Total Assets	25,076	5,134	19,942	23,205	5,110	18,095	23,189	5,371	17,818
Liabilities									
Demand Deposits	10,190	835	9,354	8,842	870	7,972	9,517	844	8,673
Savings	5,896	1,469	4,427	5,429	1,480	3,949	5,351	1,474	3,877
Time Deposits	6,210	979	5,232	6,076	997	5,079	5,389	1,005	4,384
Sub Total - Deposits	22,296	3,283	19,013	20,347	3,347	17,000	20,256	3,323	16,933
Other Liabilities	416	328	88	480	381	98	598	453	145
Sub Total - Liabilities	22,712	3,611	19,101	20,827	3,728	17,099	20,854	3,776	17,079
Equity & Subordinated Debt	2,364	1,934	430	2,378	1,921	457	2,335	1,891	444
Total Liabilities and Capital	25,076	5,545	19,531	23,205	5,649	17,556	23,189	5,667	17,522

(BD\$ mln)	Q1-2013			Q4-2012			Q3-2012		
	Total	BD\$	Other	Total	BD\$	Other	Total	BD\$	Other
Assets									
Cash	70	37	33	79	46	33	70	34	36
Deposits	5,579	47	5,532	6,383	56	6,327	5,272	28	5,245
Investments	8,319	43	8,275	8,011	46	7,965	8,603	56	8,546
Loans & Advances	8,631	4,676	3,955	8,833	4,725	4,108	8,727	4,757	3,970
Premises & Equipment**	525	395	130	531	401	130	543	415	128
Other Assets**	372	186	186	319	123	196	373	151	222
Total Assets	23,495	5,385	18,111	24,156	5,397	18,759	23,588	5,441	18,147
Liabilities									
Demand Deposits	8,959	871	8,088	9,652	841	8,812	8,961	842	8,119
Savings	5,340	1,650	3,690	5,189	1,438	3,751	5,072	1,437	3,635
Time Deposits	5,593	1,004	4,589	5,650	1,018	4,632	5,932	1,063	4,869
Sub Total - Deposits	19,892	3,525	16,368	20,491	3,296	17,195	19,966	3,343	16,624
Other Liabilities	591	337	254	650	411	239	559	281	278
Sub Total - Liabilities	20,483	3,862	16,621	21,141	3,707	17,434	20,525	3,623	16,902
Equity & Subordinated Debt	3,012	2,415	597	3,015	1,901	1,115	3,063	1,936	1,128
Total Liabilities and Capital	23,495	6,277	17,218	24,156	5,608	18,548	23,588	5,559	18,029

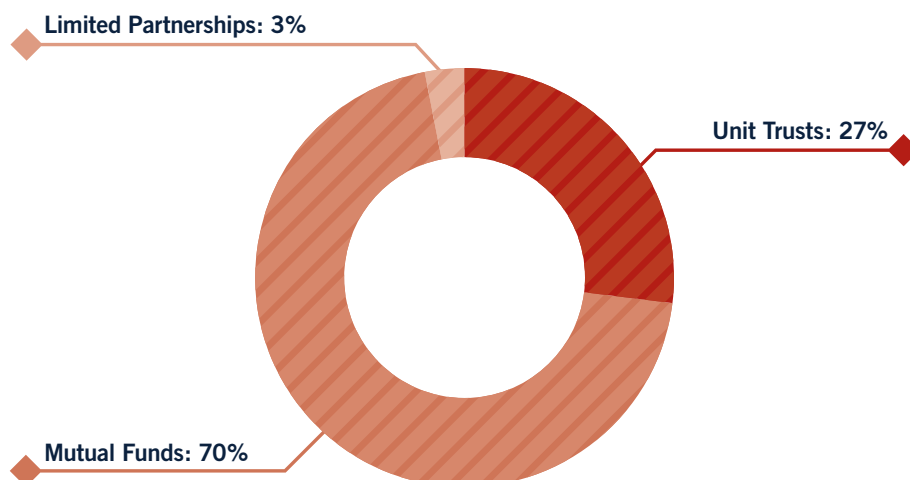
Premises and Equipment, and Other Assets have been restated to reclassify equipment and other fixed assets that were previously recorded under Other Assets

Investment Funds

Investment Fund Statistics

	Q4-2013	Q3-2013	Q2-2013	Q1-2013	Q4-2012	Q3-2012
Mutual Funds	468	478	481	491	499	529
Umbrella Funds	41	42	41	42	47	46
Segregated Account Companies	72	72	71	69	68	69
Unit Trusts	57	57	54	51	62	59
Umbrella Trusts	60	60	60	59	86	84
Total Number of Funds	698	709	707	712	762	787
Net Asset Value <i>(in US\$ bln)</i>	\$176.36	\$175.80	\$178.75	\$190.39	\$187.88	\$185.39

Investment Funds Applications Approved 2013



Insurance

Analysis of all Insurers Registered

Class of Insurer	2013	%	2012	%
Class 1	249	20.6%	266	22.0%
Class 2	300	24.9%	307	25.4%
Class 3	242	20.1%	254	21.0%
Class 3A	104	8.6%	104	8.6%
Class 3B	17	1.4%	16	1.3%
Class 4	27	2.2%	31	2.6%
Long-Term Class A	3	0.2%	2	0.2%
Long-Term Class B	1	0.1%	0	0.0%
Long-Term Class C	71	6.0%	79	6.5%
Long-Term Class D	4	0.3%	6	0.5%
Long-Term Class E	15	1.2%	14	1.2%
Special Purpose Insurer	101	8.4%	55	4.5%
Dual Licences	72	6.0%	75	6.2%
Totals:	1,206	100.0%	1,209	100.0%

Class of Insurer Registered

Class of Insurer	2013 Registrations	%	2012 Registrations	%
Class 1	8	8.8%	4	7.5%
Class 2	6	6.6%	2	3.8%
Class 3	7	7.7%	6	11.3%
Class 3A	9	9.9%	4	7.5%
Class 3B	3	3.3%	0	0.0%
Class 4	1	1.1%	1	1.9%
Long-Term Class A	1	1.1%	0	0.0%
Long-Term Class B	2	2.2%	0	0.0%
Long-Term Class C	3	3.3%	9	17.0%
Long-Term Class D	0	0.0%	0	0.0%
Long-Term Class E	0	0.0%	0	0.0%
Special Purpose Insurer	51	56.0%	27	51.0%
Dual Licences	0	0.0%	0	0.0%
Totals:	91	100%	53	100%

Market Statistics by Class of Insurer as at 31st December 2012*

Class of Insurer	No. of Licences**	Gross Premiums	Net Premiums	Total Assets	Capital and Surplus
Class 1	228	\$3,982,868,443	\$3,143,132,608	\$16,146,427,120	\$10,585,413,873
Class 2	259	\$7,942,135,147	\$6,118,235,922	\$44,805,308,393	\$21,756,044,690
Class 3	243	\$34,078,638,066	\$23,525,328,235	\$83,991,330,250	\$24,526,548,636
Class 3A	108	\$13,193,833,863	\$10,300,421,875	\$35,131,230,576	\$16,908,823,113
Class 3B	15	\$9,946,871,107	\$7,325,995,155	\$17,548,731,572	\$14,026,658,432
Class 4	36	\$30,298,285,136	\$26,761,744,663	\$149,968,154,940	\$70,948,331,043
Long-Term Class A	4	\$7,053,334	\$7,053,334	\$423,774,314	\$127,297,651
Long-Term Class B	7	\$51,263,573	\$51,263,573	\$203,195,707	\$97,296,500
Long-Term Class C	93	\$12,549,420,312	\$12,549,420,312	\$100,183,494,763	\$14,093,860,875
Long-Term Class D	8	\$631,850,315	\$631,850,315	\$6,625,077,815	\$1,176,140,739
Long-Term Class E	11	\$6,677,752,346	\$6,677,752,346	\$44,064,350,060	\$17,003,758,621
Special Purpose Insurer	34	\$1,132,311,420	\$1,038,018,474	\$6,411,277,778	\$1,786,734,767
Totals: (in \$US)	1,046	\$120,492,283,062	\$98,130,216,812	\$505,502,353,288	\$193,036,908,940

* Underwriting statistics quoted are from insurance company Statutory Financial Returns (SFR) and modified filings for 2012. Companies submit filings on a phased basis throughout the year following the financial year-end. The initial submission deadline for 2012 SFRs was April 2013. Due to this schedule the most recent complete year-end figures for this overview are from 2012.

** 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.

Market Statistics by Region of Beneficial Owner/s as at 31st December 2012

Domicile of Owners	No. of Co's	Gross Premiums	Net Premiums	Total Assets	Capital and Surplus
Captives					
Africa/Middle East	7	\$59,427,301	\$24,236,565	\$107,698,499	\$64,792,909
Asia	27	\$1,539,415,623	\$1,471,120,504	\$954,341,257	\$658,859,375
Australia/New Zealand	11	\$68,904,547	\$31,825,796	\$554,106,664	\$445,354,953
Bermuda	63	\$3,067,523,599	\$1,718,182,696	\$15,271,573,847	\$5,247,477,247
Caribbean/Latin America	29	\$254,234,539	\$156,200,465	\$595,681,002	\$381,789,847
Europe	105	\$16,428,195,344	\$15,474,597,731	\$46,660,772,851	\$15,299,829,749
North America	499	\$24,644,257,610	\$13,968,849,915	\$81,425,861,664	\$34,994,497,270
Sub-totals:	741	\$46,061,958,563	\$32,845,013,672	\$145,570,035,784	\$57,092,601,350
Professional Insurers/Reinsurers					
Africa/Middle East	5	\$194,881,280	\$152,233,237	\$4,532,861,893	\$1,331,676,711
Asia	10	\$1,447,680,583	\$1,330,428,937	\$5,128,693,798	\$2,785,523,357
Australia/New Zealand	1	\$3,705,185,952	\$3,419,419,193	\$7,245,574,651	\$1,714,021,978
Bermuda	80	\$17,375,002,744	\$15,579,867,787	\$108,108,637,186	\$50,430,790,871
Caribbean/Latin America	15	\$2,800,784,574	\$2,611,842,044	\$20,825,778,506	\$6,427,948,064
Europe	61	\$11,339,685,041	\$8,441,631,134	\$63,594,172,432	\$25,001,439,190
North America	133	\$37,567,104,325	\$33,749,780,808	\$150,496,599,038	\$48,252,907,419
Sub-totals:	305	\$74,430,324,499	\$65,285,203,140	\$359,932,317,504	\$135,944,307,590
Totals: (in \$US)	1,046	\$120,492,283,062	\$98,130,216,812	\$505,502,353,288	\$193,036,908,940

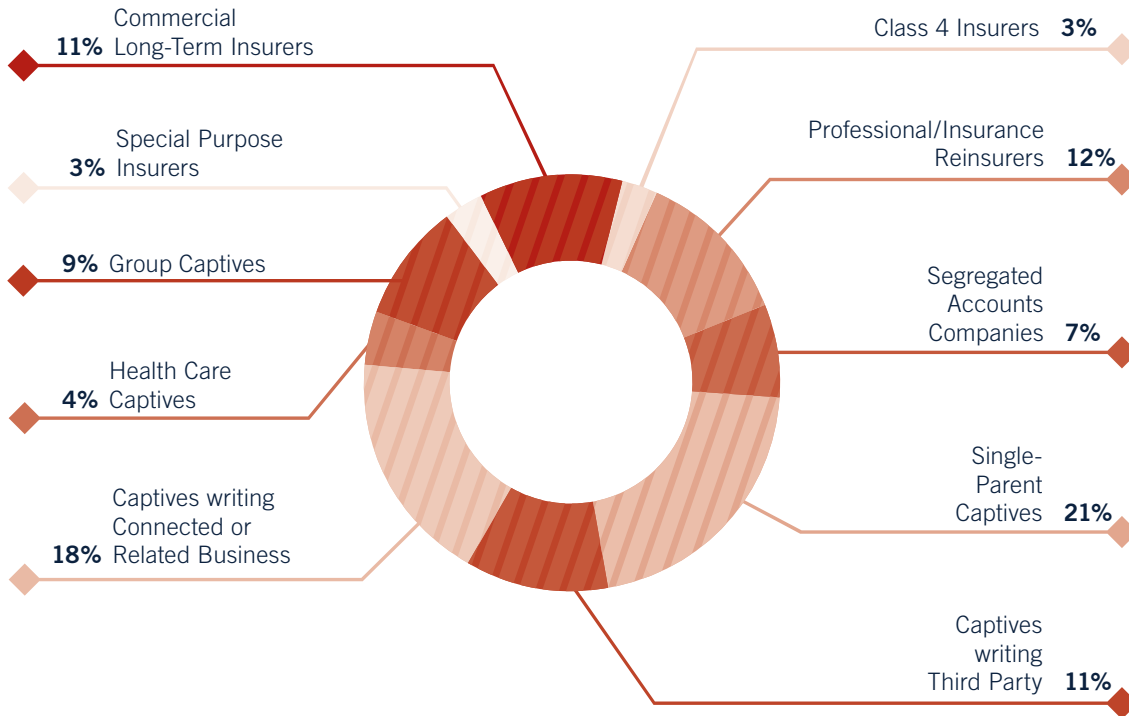
Market Statistics by Company Type *as at 31st December 2012*

Company Type	No. of Licences	Gross Premiums	Net Premiums	Total Assets	Capital and Surplus
Captives					
Captive writing Third Party	115	\$4,813,222,458	\$3,225,754,334	\$20,191,158,529	\$10,912,436,814
Captive writing Connected or Related Business	193	\$30,068,490,065	\$21,393,733,381	\$69,506,033,302	\$22,496,897,564
Health Care Captive	43	\$696,703,363	\$641,580,754	\$4,384,353,176	\$1,316,300,903
Group Captive	96	\$3,538,686,648	\$2,658,869,025	\$20,959,823,683	\$9,385,482,819
Single Parent Captives	216	\$4,093,393,165	\$3,140,410,719	\$15,325,555,978	\$9,595,180,310
Segregated Accounts Company	78	\$2,851,462,864	\$1,784,665,459	\$15,203,111,116	\$3,386,302,940
Sub-totals:	741	\$46,061,958,563	\$32,845,013,672	\$145,570,035,784	\$57,092,601,350
Professional Insurers/Reinsurers					
Professional Ins./Reinsurers	123	\$23,140,704,970	\$17,626,417,030	\$52,679,962,148	\$30,935,481,545
Class 4	36	\$30,298,285,136	\$26,761,744,663	\$149,968,154,940	\$70,948,331,043
Long-Term Ins./Reinsurers	112	\$19,859,022,973	\$19,859,022,973	\$150,872,922,638	\$32,273,760,235
Special Purpose Vehicle	34	\$1,132,311,420	\$1,038,018,474	\$6,411,277,778	\$1,786,734,767
Sub Totals	305	\$74,430,324,499	\$65,285,203,140	\$359,932,317,504	\$135,944,307,590
Totals: (in \$US)	1,046	\$120,492,283,062	\$98,130,216,812	\$505,502,353,288	\$193,036,908,940

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.
- Group Captive (Re) insurer with multiple owners, which include associations, agencies and/or more than one unrelated owner, writing the risks of such association, agency or owners and/or affiliates.
- Single-Parent Captive Single-parent captive writing only the risk of its owners and/or affiliates.
- Segregated Accounts Company Insurance Company providing captive facilities to others under a segregated account structure.
- Professional Insurers/Reinsurers Insurance Company writing unrelated risks as a direct writer and/or reinsurer.

Actively Writing Insurers by Company Type



Financials

30th April 2014

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 2013 together with the annual statement of accounts and the opinion of the Auditor General.

This document also contains the reports for the year 2013 which the Authority is required to make to you pursuant to:

- section 8(3) of the Banks & 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,

A stylized, handwritten signature in blue ink, appearing to read 'Craig Swan'.

Craig Swan
Managing Director, Supervision
on behalf of
Jeremy Cox, Chief Executive Officer

30th April 2014



BERMUDA MONETARY AUTHORITY

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 fulfils 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 herewith.



The Hon. Gerald Simms
Chairman



Craig Swan
Managing Director, Supervision
on behalf of
Jeremy Cox, Chief Executive Officer



Office of the Auditor General

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Hamilton HM 11, Bermuda

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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, 2013, and the statements of comprehensive 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, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Hamilton, Bermuda
April 29, 2014



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

BERMUDA MONETARY AUTHORITY

Statement of Financial Position As at December 31, 2013

(In thousands of Bermuda dollars)	Note	2013	2012
Assets			
Current assets			
Cash and cash equivalents	5	48,699	46,562
Accounts and other receivables	6	987	1,295
Prepayments		500	350
Stock of numismatic items	7	796	646
Stock of notes and coins for circulation	8	6,772	4,903
		57,754	53,756
Non-current assets			
Investments, held-to-maturity	3	104,788	95,031
Property and equipment	9	25,235	25,242
Intangible assets	10	2,904	3,353
		132,927	123,626
Total Assets		190,681	177,382
Liabilities			
Current liabilities			
Accounts and other payables	11	6,583	7,533
Notes and coins in circulation	12	145,293	129,515
		151,876	137,048
Equity			
Capital subscribed	13	20,000	20,000
General reserve	13	18,805	20,334
		38,805	40,334
Total Liabilities and Equity		190,681	177,382

Commitments (Note 19)


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 Loss For the year ended December 31, 2013

(In thousands of Bermuda dollars)	Note	2013	2012
Revenues			
Supervisory and licensing fees	14	36,203	36,229
Incorporation fees, vault commission and other income		1,248	1,214
Net sale of special coins		163	35
Operating revenue		37,614	37,478
Investment income	15	3,371	3,570
Total revenues		40,985	41,048
Expenses			
Salaries and employee benefits	16	31,608	31,140
General expenses	17	5,596	6,351
Professional fees		1,865	1,793
Amortisation of intangible assets	10	1,298	1,180
Depreciation of property and equipment	9	1,084	1,323
Circulation note and coin expenses	8	1,063	411
Total expenses		42,514	42,198
Total comprehensive loss for the year		(1,529)	(1,150)

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, 2013**

(In thousands of Bermuda dollars)	2013	2012
Capital	20,000	20,000
General Reserve		
Balance, beginning of year	20,334	21,484
Total comprehensive loss for the year	(1,529)	(1,150)
Balance, end of year	18,805	20,334
Equity	38,805	40,334

The accompanying notes are an integral part of these financial statements.

BERMUDA MONETARY AUTHORITY

Statement of Cash Flows

For the year ended December 31, 2013

(In thousands of Bermuda dollars)	Note	2013	2012
Cash flows (used in)/from operating activities			
Total comprehensive loss for the year		(1,529)	(1,150)
Adjustment for:			
Non-cash items included in total comprehensive loss for the year	18	2,810	3,343
Change in operating assets	18	(2,030)	(1,867)
Change in operating liabilities	18	(950)	(16)
Net cash (used in)/from operating activities		(1,699)	310
Cash flows used in investing activities			
Additions of intangible assets	10	(825)	(1,051)
Additions of property and equipment	9	(1,102)	(214)
Purchase of investments		(19,377)	(26,593)
Proceeds from maturity of investments		9,362	26,724
Net cash used in investing activities		(11,942)	(1,134)
Cash flows from/(used in) financing activities			
Net increase/(decrease) in notes and coins in circulation		15,778	(3,585)
Net cash from/(used in) financing activities		15,778	(3,585)
Net increase/(decrease) in cash and cash equivalents		2,137	(4,409)
Cash and cash equivalents at beginning of year		46,562	50,971
Cash and cash equivalents at end of year	5	48,699	46,562
Operational cash flows from interest			
Interest received	15	3,605	3,749

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, 2013
(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-Terrorists 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 28, 2014.

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 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. Additions are held at cost until subsequent revaluations.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2013
(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 loss in the year the asset is derecognised. All other repairs and maintenance are charged to the statement of comprehensive loss during the financial period in which they are incurred.

(c) Depreciation and impairment

Land is 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 asset's useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

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

2.4 Intangible assets

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

2.4 Intangible assets (continued)

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

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

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

Gains or losses arising from derecognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive 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, 2013
(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 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

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2013
(In thousands of Bermuda dollars)

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 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 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 loss.

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

The reversal of an impairment loss is recognised in the statement of comprehensive 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 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 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 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 earn interest at floating rates, based on daily bank deposits. Bank overdrafts that are repayable on demand are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

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

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2013
(In thousands of Bermuda dollars)

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 when material. 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.

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 2013 nor 2012.

2.13 Revenue recognition

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

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

Investment income is recognised using the effective interest method.

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

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

Vault commission is recorded as revenue when earned.

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

2.14 Going concern

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

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2013
(In thousands of Bermuda dollars)

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

The Authority did not adopt early the following standards and amendments that have been approved but are not yet effective until annual periods beginning after January 1, 2017:

- **IFRS 9 - Financial Instruments - Classification and Measurement (Amendment)**

- (a) **IFRS 9 Financial Instruments (2010), IFRS 9 Financial Instruments (2009)**

- IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

- IFRS 9 (2010 and 2009) are effective for annual periods beginning on or after January 1, 2017 with early adoption permitted. The adoption of IFRS 9 (2010) is not expected to have an impact on the Authority's financial assets and liabilities.

- (b) **Offsetting Financial Assets and Financial Liabilities**

- The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is considered to be equivalent to net settlement. The amendments are effective for annual periods beginning on or after January 1, 2014 and interim periods within those annual periods. Early application is permitted. Based on the initial assessment, the standard is not expected to have a material impact on the Authority.

The Authority expects no significant impact from the adoption of these new and amended standards on its financial position or performance.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2013
(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:

	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS				
Cash and cash equivalents	48,699	48,699	46,562	46,562
Accounts and other receivables	987	987	1,295	1,295
Investments, held-to-maturity	104,788	106,089	95,031	102,641
Total financial assets	154,474	155,775	142,888	150,498
FINANCIAL LIABILITIES				
Notes and coins in circulation	145,293	145,293	129,515	129,515
Accounts and other payables	6,583	6,583	7,533	7,533
Total financial liabilities	151,876	151,876	137,048	137,048

(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

Level 3 – no observable inputs

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2013
(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, 2013				
Investments, held-to-maturity	106,089	-	-	106,089
Total financial instruments	106,089	-	-	106,089
Financial instruments at fair value as at December 31, 2012				
Investments, held-to-maturity	102,641	-	-	102,641
Total financial instruments	102,641	-	-	102,641

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 64% (2012 – 51%) 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, 2013 and 2012. 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, 2013
(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:

	2013	2012
Investments, held-to-maturity		
AAA **	37,576	46,715
AA+ **	67,212	48,316
** Moody's equivalent grade is Aaa.	104,788	95,031
Cash and cash equivalents		
Cash at bank and in-hand		
AAA	36	30
AA+	300	290
A+	-	352
A	584	52
A-	-	545
BBB+	1,065	-
Not rated	14	193
	1,999	1,462
Overnight repurchase agreements		
AA+	46,700	45,100
	48,699	46,562

Investments, held-to-maturity

This account consists of:

	2013	2012
US Government and US Government Agencies	67,212	48,316
Supranational Bank	37,576	46,715
	104,788	95,031

Amortisation or accretion of the premiums/discounts on investments, held-to-maturity, is included in 'Investment income' (note 15) in the statement of comprehensive loss.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2013
(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 other 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 has 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 profit 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.

	2013		2012	
	+1%	-1%	+1%	-1%
Change in profit/equity due to movement of percentage point across yield curves				
US dollar overnight repurchase agreement with the US Federal Reserve	444	(24)	455	(69)
US dollar quoted securities	1,015	(1,015)	932	(932)
Total	1,459	(1,039)	1,387	(1,001)

An increase in interest rates of 1% would result in additional income of \$1,459 (2012 - \$1,387). A decrease in interest rates of 1% would result in decrease in income of \$1,039 (2012 - \$1,001). 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, 2013
(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, 2013 and 2012, the Authority did not hold a significant amount of foreign currency other than U.S. 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 equal 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, 2013
(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, 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	-	-	-	-
	<u>155,775</u>	<u>49,686</u>	<u>-</u>	<u>12,196</u>	<u>37,274</u>	<u>56,619</u>
FINANCIAL LIABILITIES						
Notes and coins in circulation	145,293	145,293	-	-	-	-
Accounts and other payables	6,583	-	6,583	-	-	-
	<u>151,876</u>	<u>145,293</u>	<u>6,583</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net maturity difference	<u>3,899</u>	<u>(95,607)</u>	<u>(6,583)</u>	<u>12,196</u>	<u>37,274</u>	<u>56,619</u>

As at December 31, 2012

	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	46,562	46,562	-	-	-	-
Investments (fair value)	102,641	-	-	9,137	39,278	54,226
Accounts and other receivables	1,295	1,295	-	-	-	-
	<u>150,498</u>	<u>47,857</u>	<u>-</u>	<u>9,137</u>	<u>39,278</u>	<u>54,226</u>
FINANCIAL LIABILITIES						
Notes and coins in circulation	129,515	129,515	-	-	-	-
Accounts and other payables	7,533	-	7,533	-	-	-
	<u>137,048</u>	<u>129,515</u>	<u>7,533</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net maturity difference	<u>13,450</u>	<u>(81,658)</u>	<u>(7,533)</u>	<u>9,137</u>	<u>39,278</u>	<u>54,226</u>

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.

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, 2013
(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:

	2013	2012
Cash at bank and in hand	1,999	1,462
Overnight repurchase agreement with the US Federal Reserve	46,700	45,100
Total	48,699	46,562

Cash at bank earns interest at the respective bank deposit rates.

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:

	2013	2012
Accounts receivable	834	1,257
Less: provision for impairment of receivables	(726)	(766)
Accounts receivable – net	108	491
Accrued interest	879	804
Current portion	987	1,295

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2013
(In thousands of Bermuda dollars)

6. Accounts and other receivables (continued)

The ageing analysis of these receivable is as follows:

	2013	2012
Up to 3 months	104	489
3 to 6 months	4	2
Total	108	491

As at December 31, 2013, accounts receivable of \$726 (2012 - \$766) 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:

	2013	2012
Up to 3 months	41	34
3 to 6 months	38	37
Over 6 months	647	695
Total	726	766

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

	2013	2012
Balance as at January 1	766	821
Provision for impairment of receivables	169	581
Receivables written off during the year as uncollectible	(209)	(636)
Balance as at December 31	726	766

The creation and release of provision for impairment of receivables have been included in 'general expenses' (note 17) in the statement of comprehensive 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, 2013
(In thousands of Bermuda dollars)

7. Stock of numismatic items

This account consists of:

	2013	2012
Commemorative notes and coins	603	362
Circulation notes and coins	25	21
Bullion for inventory production	201	295
Provisions	(33)	(32)
	<u>796</u>	<u>646</u>

8. Stock of notes and coins for circulation

This account consists of:

	2013	2012
Notes	5,982	4,068
Coins	790	835
	<u>6,772</u>	<u>4,903</u>

The cost of stocks recognised as expenses and included in 'circulation note and coin expenses' amounted to \$1,063 (2012 - \$411).

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2013
(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, 2013					
Cost	30,288	2,767	2,829	66	35,950
Reclass 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

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2013
(In thousands of Bermuda dollars)

9. Property and equipment (continued)

	Land, Building and Improvements	Computer equipment	Furniture and fixtures	Museum items	Total
At January 1, 2012					
Cost	30,260	2,684	2,777	65	35,786
Accumulated depreciation	(5,048)	(1,987)	(2,400)	-	(9,435)
Net book amount	25,212	697	377	65	26,351
Year ended December 31, 2012					
Additions	28	133	52	1	214
Disposals - cost	-	(50)	-	-	(50)
Disposals - accumulated depreciation	-	50	-	-	50
Depreciation charge	(725)	(387)	(211)	-	(1,323)
Closing net book amount	24,515	443	218	66	25,242
At December 31, 2012					
Cost	30,288	2,767	2,829	66	35,950
Accumulated depreciation	(5,773)	(2,324)	(2,611)	-	(10,708)
Net book amount	24,515	443	218	66	25,242

Depreciation of \$1,084 (2012 - \$1,323) has been charged in the statement of comprehensive loss.

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

	2013	2012
Furniture and fixtures	2,550	2,046
Computer equipment	1,262	1,732

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2013
(In thousands of Bermuda dollars)

10. Intangible assets

This account consists of:

	Computer Software					
	Internally developed	2013 Externally acquired	Total	Internally developed	2012 Externally acquired	Total
At January 1						
Cost	5,306	861	6,167	4,277	867	5,144
Reclass from computer equipment	24	230	254	-	-	-
Cost after reclassification	5,330	1,091	6,421	4,277	867	5,144
Accumulated amortisation	(2,154)	(660)	(2,814)	(1,159)	(492)	(1,651)
Amortisation reclassification	(22)	(208)	(230)	-	-	-
Net book amount	3,154	223	3,377	3,118	375	3,493
Year ended December 31						
Additions	493	332	825	1,040	11	1,051
Disposals - cost	-	-	-	(11)	(17)	(28)
Disposals - accumulated amortisation	-	-	-	9	8	17
Amortisation charge	(1,158)	(140)	(1,298)	(1,004)	(176)	(1,180)
Closing net book amount	2,489	415	2,904	3,152	201	3,353
At December 31						
Cost	5,823	1,423	7,246	5,306	861	6,167
Accumulated amortisation	(3,334)	(1,008)	(4,342)	(2,154)	(660)	(2,814)
Net book amount	2,489	415	2,904	3,152	201	3,353

Amortisation of \$1,298 (2012 - \$1,180) is included in the statement of comprehensive loss.

Gross carrying value for software fully depreciated and still in use in 2013 is \$127 (2012 - \$531).

There were no research and development costs charged to the statement of comprehensive loss in 2013 and 2012.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2013
(In thousands of Bermuda dollars)

11. Accounts and other payables

This account consists of:

	2013	2012
Accrued expenses	4,903	5,084
Accounts payable	409	796
Amounts due to related parties (note 20)	1,175	1,048
Customer deposits and annual business fees payable	59	153
Deferred income	37	452
	6,583	7,533

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, 2013, the Authority was required to hold a reserve of external assets of at least \$72,647 (2012 - \$64,757) and the actual external assets held totalled \$104,788 (2012 - \$95,031).

As indicated in Note 3. (d), at December 31, 2013, the fair value of the Authority's total financial assets exceeded its financial liabilities by \$3,899 (2012 - \$13,450).

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2013
(In thousands of Bermuda dollars)

13. 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, 2013 capital of \$20,000 (2012 - \$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 \$18,805 (2012 - \$20,334) has been established and maintained in accordance with Section 8 of the Act.

14. Supervisory and licensing fees

This account consists of:

	2013	2012
Insurance fees	28,911	28,689
Bank and deposit company fees	4,413	4,441
Investment funds	1,233	1,386
Investment business licence fees	660	702
Trust company fees	594	604
Anti-money laundering ("AML") fees	374	396
Insurance fines	18	11
	36,203	36,229

In accordance with Section 24 (5) of the Proceeds of Crime Regulations (Supervision and Enforcement) Act 2008, application fees in the amount of \$374 (2012 - \$396) were recognised as revenue and expenses in the amount of \$707 (2012 - \$448) were incurred. AML fees are included in supervisory and licencing fees and AML expenses are included in salaries and employee benefits (Note 16).

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2013
(In thousands of Bermuda dollars)

15. Investment income

This account consists of:

	2013	2012
Interest on investments, held-to-maturity	3,605	3,749
Interest earned on overnight repurchase agreement with the US Federal Reserve	24	68
Net amortisation/accretion of premiums/discounts on investments, held-to-maturity	(258)	(247)
	3,371	3,570

16. Salaries and employee benefits

This account consists of:

	2013	2012
Salaries and bonuses	26,529	25,771
Payroll tax	2,252	2,218
Pension costs	1,135	1,119
Health insurance	966	861
Directors' fees	300	342
Social insurance costs	289	280
Life insurance	96	54
Other benefits	41	495
	31,608	31,140

The Authority has 175 and 163 employees at December 31, 2013 and 2012, respectively.

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.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2013
(In thousands of Bermuda dollars)

16. Salaries and employee benefits (continued)

Employee contributions to the Plan are 5% of gross salary matched by the Authority. These contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The Authority's contributions to the Plan during the year were \$1,054 (2012 - \$1,007).

(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% (2012 - 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 \$120 (2012 - \$113).

(b) Other employee benefits

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

Maternity and sick 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 or 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, 2013 is \$464 (2012 - \$443) 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, no pre-retirement leave benefits were paid. The liability as at December 31, 2013 is \$281 (2012 - \$307) and is included in accounts and other payables.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2013
(In thousands of Bermuda dollars)

17. General expenses

This account consists of:

	2013	2012
Premises and office	3,263	3,234
Conferences, seminars, education and training	807	1,094
Recruitment and repatriation	509	580
Communication	389	362
Provision for impairment of receivables	169	581
Public relations	130	136
Net foreign exchange loss	62	75
Advertising	47	36
Provision for impairment on numismatic items	1	1
Loss on retirement of intangible assets	-	11
Other	219	241
	5,596	6,351

18. Cash generated from operations

	2013	2012
Non-cash items included in total comprehensive loss for the year		
Depreciation of property and equipment (note 9)	1,084	1,323
Amortisation of intangible assets (note 10)	1,298	1,180
Amortisation/accretion of premiums/discounts on investments, held-to-maturity	258	247
Provision for impairment of receivables	169	581
Provision for impairment on numismatic items	1	1
Loss on retirement of intangible assets	-	11
	2,810	3,343
Change in operating assets		
Stock of notes and coins in circulation	(1,869)	(2,261)
Stock of numismatic items	(150)	(6)
Accounts and other receivables	139	(607)
Prepayments	(150)	1,007
	(2,030)	(1,867)

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2013
(In thousands of Bermuda dollars)

18. Cash generated from operations (continued)

Change in operating liabilities		
Accounts and other payables	(950)	(16)
	(950)	(16)

19. 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:

	2013	2012
2013	-	1,104
2014	830	470
2015	597	380
2016	598	380
2017	599	-
Thereafter	1,608	1,902
	4,232	4,236

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:

	2013	2012
Property and equipment	627	-
Intangible assets	-	180
	627	180

20. 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.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2013
(In thousands of Bermuda dollars)

20. Related-party transactions (continued)

In the ordinary course of business, the Authority has transactions with the Government which consist of the following:

	2013	2012
Staff expenses:		
Payroll tax	2,252	2,218
Social insurance	289	280
Pension costs - PSSF	120	113
Premises expense - land tax	197	197
Other general expenses - immigration fees	123	58
Professional fees - audit	80	80
Office expense - postage	15	14
Insurance fines collected by the Authority	-	30

Key management compensation

Key management includes executive management. The compensation paid or payable to key management for employee services is shown below:

	2013	2012
Salaries, bonuses and other short-term employee benefits	2,811	3,320
Post-employment benefits	153	170

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