BMA

BERMUDA MONETARY AUTHORITY

Report and Accounts 2011

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.

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.

Statistical & Financial Highlights 2011

2011 saw the Authority continue its path towards evolving its regulatory regime to maintain consistency with the standards required in today's world.

Whilst the journey is not complete, substantial progress was made in moving forward the Authority's approach to regulation, its operational efficiency and its influence with peer regulators and international standard setting bodies. This progress was made possible through the continued support of Bermuda's financial services sector, allowing the Authority to further develop a strong base of professional resources to meet the demands of an evolving regime. The growth in resources experienced over the last few years is now expected to level off as the Authority turns its focus to completing implementation of the regime change developed over the past few years.

The prevailing weakness in the Bermuda economy once again led the Authority to decide to use some of its general reserves to finance its operations and planned growth in human resources. Accordingly, the Authority recorded a net deficit of $0.7 million in the year ended 31st December 2011 as compared to a deficit of $2.5 million in the year ended 31st December 2010. The financial health of the Authority remains strong allowing it to keep levies on industry flat going into 2012, thereby assisting in easing pressure on firms in these challenging economic times.

Revenues increased to $40.7 million in 2011, an increase of $2.1 million over 2010. The majority of the increase came from levies charged against Bermuda-based insurance groups and was used to develop the Authority's group supervision regime. The Groups regime is a key element of the Authority's regulatory oversight of Bermuda's top commercial insurers, while facilitating their continued success on the international stage.

Investment income was lower than previous years, solely a function of lower rates available on securities replacing maturing positions. The Authority's held to maturity investments remain of a very high quality with all securities maintaining a rating of AA+ or higher.

Expenditure was controlled tightly in 2011, up less than 1% on a like-for-like basis over 2010. As predicted in the last Annual Report, the positive contribution from the in-house expertise in policy, risk analytics, actuarial resources and front line supervision has allowed the Authority to become more self-sufficient and less reliant on specialist consultancy services. This factor alone helped reduce spending on professional fees by over $5 million from 2010.

Looking to the future, the Authority will continue to strive for excellence and responsibly maintaining a sustainable financial model whilst it plays its key role in Bermuda's economy.

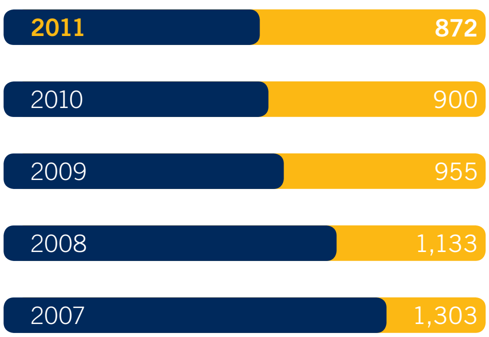
Bermuda Money Supply

(BD$ millions)	2011-Q4	2011-Q3	2011-Q2	2011-Q1	2010-Q4	2010-Q3
Notes & Coins in Circulation*	133	120	121	118	127	122
Deposit Liabilities	3,521	3,582	3,641	3,637	3,660	3,706
Total	3,654	3,702	3,762	3,755	3,787	3,828
Less: Cash at Banks & Deposit Companies	67	56	62	62	65	60
BD$ Money Supply	3,587	3,646	3,700	3,693	3,722	3,768
% Change on Previous Period	-1.60%	-1.46%	0.18%	-0.78%	-1.22%	-0.32%
% Change Year on Year	-3.62%	-3.25%	-2.13%	-3.17%	-4.73%	0.18%

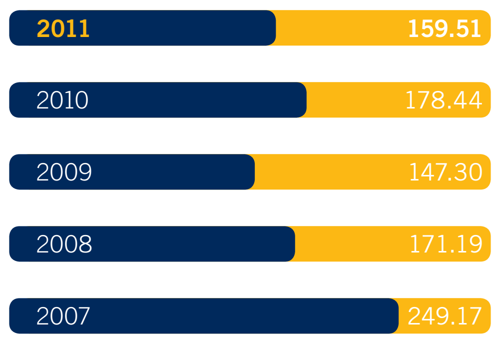
Totals may not add due to rounding.

** 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.*

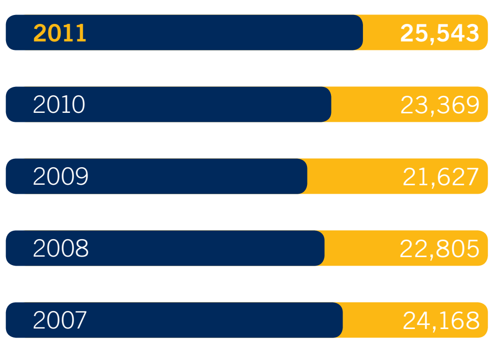
Investment Funds Total Number of Funds



Investment Funds Net Asset Value (BD$ billions)



Bermuda Banks and Deposit Companies (Consolidated) Total Assets (BD$ millions)



Currency Notes Issued & Redeemed (Bermuda Dollar)

Month	Notes Issued New	Notes Issued Re-issued	Notes Issued Total	Notes Redeemed	Notes Issued & O/S at End of Month	Net Issues During Month Change	Net Issues During Month % Change
January	837	3,500,000	3,500,837	14,551,100	100,344,460	(11,050,263)	-9.92%
February	50,257	7,850,000	7,900,257	5,730,000	102,514,717	2,170,257	2.16%
March	131,607	10,320,000	10,451,607	10,328,000	102,638,324	123,607	0.12%
April	257	10,740,000	10,740,257	7,740,960	105,637,621	2,999,297	2.92%
May	1,142	9,965,000	9,966,142	7,969,000	107,634,763	1,997,142	1.89%
June	468,257	7,990,000	8,458,257	10,137,000	105,956,020	(1,678,743)	-1.56%
July	1,718,187	12,969,000	14,687,187	5,900,000	114,743,207	8,787,187	8.29%
August	938,949	4,040,000	4,978,949	15,071,000	104,651,156	(10,092,051)	-8.81%
September	6,136,419	6,290,000	12,426,419	12,078,010	104,999,565	348,409	0.33%
October	130,374	5,785,000	5,915,374	8,068,985	102,845,954	(2,153,611)	-2.05%
November	188,374	8,188,000	8,376,374	7,199,700	104,022,628	1,176,674	1.14%
December	200,494	17,597,000	17,797,494	4,046,550	117,773,572	13,750,944	13.22%
Year							
2011	**9,965,154**	**105,234,000**	**115,199,154**	**108,820,305**	**117,773,572**	**6,378,849**	**5.73%**
2010*	11,107,172	110,080,000	121,187,172	133,694,195	111,394,723	(12,507,023)	-10.09%

** 2010 numbers have been restated.*

Currency Coins Issued & Redeemed (Bermuda Dollar)

Month	Coins Issued	Coins Issued & O/S at End of Month	Net Issues During Month Amount Change	Net Issues During Month % Change
January	6	15,326,614	6	0.00%
February	3	15,326,616	3	0.00%
March	20	15,326,636	20	0.00%
April	7	15,326,644	417	0.00%
May	11	15,326,656	11	0.00%
June	20	15,326,675	20	0.00%
July	14	15,326,689	14	0.39%
August	32	15,326,722	32	0.00%
September	17	15,326,739	17	0.00%
October	18	15,326,757	18	0.00%
November	3	15,326,761	4	0.00%
December	8	15,326,768	7	0.00%
Year				
2011	**159**	**15,326,768**	**159**	**0.00%**
2010	162,795	15,326,608	162,795	1.07%

Analysis of all Insurers Registered

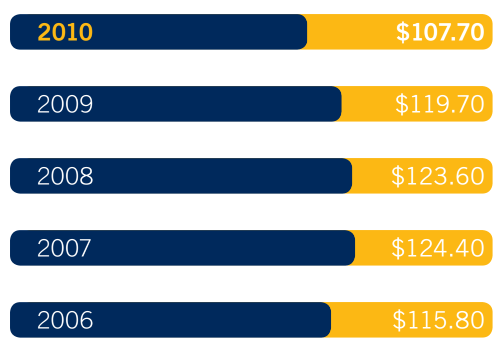
Class of Insurer	2011	%	2010 Restated	% of Restated 2010
Class 1	**272**	**22.1%**	269	22.8%
Class 2	**317**	**25.8%**	308	26.1%
Class 3	**273**	**22.2%**	264	22.4%
Class 3A	**109**	**8.9%**	104	8.8%
Class 3B	**15**	**1.2%**	15	1.3%
Class 4	**29**	**2.4%**	26	2.2%
Long-Term*	**7**	**0.6%**	97	8.2%
Class A	**3**	**0.2%**	–	0.0%
Class B	**0**	**0.0%**	–	0.0%
Class C	**70**	**5.7%**	–	0.0%
Class D	**7**	**0.6%**	–	0.0%
Class E	**13**	**1.1%**	–	0.0%
Special Purpose Insurers	**29**	**2.4%**	8	0.7%
Dual Licences	**86**	**7.0%**	87	7.4%
Totals:	**1,230**	**100%**	1,178	100%

** The Long-Term sector reclassification took effect in 2011. Therefore, data reported from that date will reflect the reclassified Long-Term company categories.*

Actively Writing International Insurers by Company Type (2010)**

- Captives of Insurer **4%**
- Captives writing 3rd Party **13%**
- Captives writing Connected Business **5%**
- Health Care Captives **5%**
- Group Captives **10%**
- Single-Parent Captives **24%**
- Segregated Accounts Companies **5%**
- Professional/ Ins. Reinsurers **25%**
- Class 4 Insurers **3%**
- Long-Term Insurers **7%**

Bermuda Insurance Market Statistics Gross Premium Written (BD$ billions)**



*** Underwriting statistics quoted are from insurance company Statutory Financial Returns (SFRs) for 2010. Companies submit SFRs on a phased basis throughout the year following the financial year-end. The initial submission deadline for 2010 SFRs was April 2011. Due to this schedule the most recent complete year-end figures for this overview are from 2010.*

Board of Directors

Pictured from left to right:

Ronald Simmons, CA, CPA
Partner,
Moore Stephens & Butterfield

The Hon. Gerald Simons
President,
The Argus Group

Jeremy Cox
Chief Executive Officer

Alan C. Cossar
Chairman

Walter Bell
Chairman,
Swiss Re America Holdings Corporation

Darren Q. Johnston
(Deputy Chairman)
Territory Senior Partner,
PricewaterhouseCoopers

Lynda Milligan-Whyte, Bed, MPA, LLB
Senior Partner,
Lynda Milligan-Whyte & Associates

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

Anthony Joaquin, FCA
Managing Partner,
Ernst & Young (retired)

Tracy Tepper
President & Chief Executive Officer,
Lombard Odier Darier Hentsch Trust (Bermuda) Limited
(not shown)

Chairman's Letter

Both the Board, in terms of on going strategic oversight, and management, with respect to moving the Authority's regulatory change strategy and business agenda forward, have had another challenging but productive year. Substantial progress has been achieved in terms of advancement on key initiatives and maximising the organisation's operational effectiveness.

The international arena for financial regulation remains ever-dynamic and increasingly demanding. Against this backdrop and in another year of intense activity the Authority's focus on delivering on its strategic objectives and operational goals has been unwavering. The regulatory equivalence agenda continued to dominate the Board's oversight of the Authority's programme during the year. The work supporting this effort has involved considerable energy, time and extensive collaboration across all areas of the Authority's team.

Preparations for the off- and on-site Solvency II equivalence evaluations of Bermuda that the European Insurance and Occupational Pensions Authority (EIOPA) conducted last year was a significant part of this work. The resulting conclusion in EIOPA's report that Bermuda's regime for commercial insurers is broadly equivalent to Solvency II is a testament to the strategic foresight and pragmatic approach the Authority has taken to regulatory development in Bermuda. The priority for the Board as it monitors developments on the equivalence programme, and also for management as it continues to conduct this work, is to ensure the Authority maintains balance in both policy changes and implementation of its enhanced regimes for insurers, recognising the diversity of the Bermuda market. From our perspective, the Authority has placed Bermuda in a very good position to face the European Commission's final decision on Solvency II equivalence. My fellow Board members and I congratulate Jeremy Cox and his team for achieving such a positive report from EIOPA.

As the team itself has grown, the Board has taken note of the continued deepening of technical resources at the Authority over the past year. Management has progressed positively the objective the Board set for them to target headcount growth towards technical teams within the organisation. The focus was also to build on existing skill sets that would help to move the Authority's equivalence programme forward. The addition during 2011 of another group of senior-level, experienced employees to the Authority's supervisory, policy and risk analytics areas bodes well for supporting regime implementation as we move into 2012.

The Board has also maintained emphasis on financial controls and budget oversight during the year, in keeping with the Authority's focus on operational efficiency. This is in recognition of the challenging economic realities that organisations continue to face in Bermuda and worldwide. However, importantly, as the Authority extends the rollout of its enhanced regimes, the Board recognises the current economic pressures and the negative impact any fee increases would have on the various sectors of Bermuda's economy. Therefore our direction to management has been to limit any required fee increases the Authority may require in 2012 through the continued controlled use of prior years' surpluses from its General Reserve. Overall, the Authority is meeting the Board's challenge to maintain operational cost-efficiencies while ensuring the effectiveness and quality of Bermuda's regulatory framework can be recognised as world-class.

Alan C. Cossar
Chairman

The Authority converted its annual reporting to International Financial Reporting Standards at the beginning of 2011. While the change did not lead to any material changes to the balance sheet and income statement, it has resulted in enhanced footnote disclosure, further ensuring the Authority meets appropriate international transparency standards.

The Board committees have had a productive year of active strategic oversight of the Authority's corporate governance systems, internal controls and risk management programme, human resource strategy and corporate policy development. The specifics of the work conducted by the committees are shown below, and they have contributed significantly to supporting the Authority's continued effectiveness as it conducts its responsibilities.

There was also further evolution in relation to the Board's Enforcement Committees during the year, whose activities had been limited to dealing with anti-money laundering (AML) deficiencies within regulated entities, which in 2011 included taking action in three cases.

Since 2008 the Authority has been working towards harmonising its enforcement powers across the Bermuda market; over the course of 2011 that initiative moved toward completion. During the year the Authority prepared and submitted to Parliament a number of draft Bills amending the various Acts that direct regulation of entities across all sectors of the market. These Bills introduce a uniform set of enforcement powers for application across the entire market. With this step the Authority will move forward with a coherent and consistent process addressing all of its enforcement powers for regulated entities. Further, for the commercial insurance industry this development will address indications from Bermuda's Solvency II equivalence review that a formally articulated policy and process on enforcement was necessary to demonstrate the full scope of the Authority's regulatory process. This initiative is also designed to ensure that efficiencies and clarity are enhanced for all parties concerned within the enforcement process.

The Authority also recognised that dealing with the wider issue of enforcement for regulatory breaches generally would place an impractical demand on individual Board member resources. Accordingly, the Authority has established an Enforcement Committee consisting of senior executive officers from management, with delegated powers to make decisions in respect of enforcement matters. Upon referral of a matter from the supervisory department, the Enforcement Committee will carry out a review of the matter and direct any action deemed necessary. The purpose of the review is primarily to determine whether enforcement action is warranted and, if so, which enforcement option is appropriate. The Committee will have responsibility for action initiated and will monitor the process to completion. The Board will retain an oversight role through reporting from the Enforcement Committee.

The Authority has also produced a Statement of Principles for Enforcement, which it has issued to the market, describing the Authority's enforcement process in detail. The Statement also conveys the principles of fairness, proportionality, transparency and consistency underpinning the Authority's approach to applying its enforcement powers.

The work of the Enforcement Committees during 2011 has helped to ensure that the ongoing enforcement framework outlined above is the most effective for the Bermuda market. The Board is satisfied that the Authority's approach to enforcement moving forward remains measured and appropriate, with such actions only being taken when there is fully sufficient cause, particularly in matters that if not addressed in a timely manner may pose significant risk to the interests of depositors, policyholders or investors.

Overall, the work of the Board and its various committees remains vital to ensuring proper strategic oversight is in place as the Authority fulfills its mandate. This has been particularly important given the pace of change and expanding responsibilities the Authority has experienced in recent years. In 2011, the Board and its committees addressed comprehensive agendas and a significant scope of work. The committees conducted a schedule of regular quarterly or monthly meetings during the year, in addition to the 13 full Board meetings that took place. I am once again highly appreciative of the deep commitment, expertise and considerable amount of time my fellow Directors dedicate to the Authority, and also for their support of me personally as Chairman. Their work, in addition to the results achieved by the Authority's staff, remains critical to reinforcing the organisation's ability to withstand the demands and scrutiny being placed on financial regulators globally, as it in turn seeks to support Bermuda's continued position as a credible, respected jurisdiction.

BOARD COMMITTEES

Audit and Risk Management Committee
Anthony Joaquin (Chairman)
Alan C. Cossar
Ronald Simmons

The purpose of the Audit and Risk Management Committee of the Board of Directors of the Bermuda Monetary Authority 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 it 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 2010 financials;
- Review the internal audit reports for any necessary action in 2011, and confirm the internal audit plan for 2011;
- Complete review of the Authority's risk management framework; provide on going oversight to enterprise risk management development within the Authority's operations; and
- Provide oversight of major information technology initiatives via review and analysis of the Authority's performance against strategic project milestones.

Corporate Governance and Ethics Committee
Ronald Simmons (Chairman)
Barclay Simmons
Gerald Simons
Jeremy Cox

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. During 2011 the Committee successfully completed the following major items on its agenda for the year:

- Reviewed the mandate of the Enforcement Committees of the Board, in conjunction with the Authority's Legal department, to support recommendations for policy and operational enhancements;
- Directed development and implementation of an electronic corporate policy management system to enhance operational support for the Authority's governance processes;
- Coordinated objective-setting for Board committees, and monitoring performance against objectives for the year; directed execution of 2011 Board and Board committee assessments;
- Oversaw implementation of the BMA Consumer Education Programme as part of monitoring the Authority's overall mandate in relation to consumer protection and promoting public awareness about the role of the BMA under its Transparency Initiative.

Human Capital Committee
Alan C. Cossar (Chairman)
Darren Johnston
Anthony Joaquin
Walter Bell

The Human Capital Committee 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 Committee continued to monitor management's progress in relation to succession planning to provide for the long-term growth and development of the Authority. The priority remained to ensure that the Committee provided strategic guidance and feedback on execution of the Authority's succession plans. Those plans are being implemented via a combination of key new hires and active development of existing staff, including the Executive team. Oversight and review of the Authority's performance against its balanced scorecard was also a priority; detailed review of 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 considering initial preparations and guiding principles for a compensation review. This review will help to ensure the Authority's compensation policies are appropriate and reflect current best practice.

Investment Committee
Barclay Simmons (Chairman)
Lynda Milligan-Whyte
Tracy Tepper
Jeremy Cox

The Investment Committee 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 2011 the Committee maintained its review of the quality of investments within the Authority's portfolio by monitoring ongoing compliance with the Investment Guidelines and 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 Act and Guidelines throughout 2011, thereby achieving the objectives of liquidity maintenance and avoidance of material capital risk.

Legislative and Policy Committee
Lynda Milligan-Whyte (Chairman)
Tracy Tepper
Alan C. Cossar
Shauna MacKenzie
Mary Frances Monroe

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 for issuing another round of policy papers in relation to the Authority's insurance equivalence programme. Proposals issued in 2011 for market consultation and within draft legislation, including amendments to the Insurance Act 1978, covered eligible capital requirements; new prudential standards across Bermuda's commercial General Business and Long-Term insurer classes; and finalising insurance group rules. Other matters reviewed during the year included: guidance issued to the market regarding regulation of Sharia-compliant funds in Bermuda; issuing of an Order to facilitate regulation of funds targeting retail Japanese investors; establishing legislation to introduce bank intervention powers and a Deposit Insurance Scheme for the banking sector; issuing draft legislation to establish a new Corporate Service Provider regime; and developing a Bill and Statement of Principles designed to apply uniform enforcement powers across all sectors of the Bermuda market.

Non-Executive Directors Committee
Alan C. Cossar (Chairman)
Darren Johnston (Deputy Chairman)
Walter Bell
Anthony Joaquin
Lynda Milligan-Whyte
Barclay Simmons
Ronald Simmons
Gerald Simons
Tracy Tepper

The Non-Executive Directors Committee comprises all non-executive members of the Board and is charged under section 4C of the 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 as required to keep under review the matters under its mandate, in support of the work of the Board. Liaison with, and review of matters related to, the Audit and Risk Management Committee and the Human Capital Committee on issues covering the Authority's budget and compensation policies took place throughout the year. Monitoring of the Authority's performance and progress on its strategic objectives also continued. This ensured the ongoing accountability of senior management in relation to successful delivery against the Authority's strategic plan and business commitments.

Enforcement Committee

Enforcement Committees were established by the Board as required during the year with the following purpose:

- To review and address the Authority's proposed enforcement actions related to alleged breaches of the Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing) Regulations 2008 (the Regulations);
- To provide, where appropriate, approval for the Authority to impose civil penalties, or revoke registration, or publish decisions to impose fines in relation to such breaches.

Enforcement Committees have been comprised of at least three non-executive members of the Board, appointed by the Chairman of the Board to avoid any potential conflicts. The Chairman has also had the ability to appoint outside counsel and other professionals to assist the Committees.

During 2011, action was taken in three matters that Enforcement Committees reviewed. The Authority also reached the final phase of harmonising its enforcement powers across the Bermuda market during the year. Accordingly, the Board approved the delegation of powers to an Enforcement Committee comprised of senior management to administer such matters moving forward. The Board will maintain strategic oversight of enforcement matters via reporting from the Enforcement Committee.

Executive Team

as at 31st December 2011

Pictured from left to right:

Shauna MacKenzie
Director, Legal Services & Enforcement

Marcia Woolridge-Allwood
Director, Banking Trust & Investment

Jeremy Cox
Chief Executive Officer

Craig Swan
Director, Risk Analytics

Shelby Weldon, CPA
Director, Insurance, Licensing & Authorisation

Mary Frances Monroe
Director, Policy, Research & International Affairs

Bradley Erickson
Chief Operating Officer

Pat Phillip-Bassett
Deputy Director, Corporate Governance & Communications

Shanna D. R. Lespere, BSc.H., CMA
Director, Insurance Supervision, Complex Institutions and Restoration, Run-off & Monitoring (Not shown)

John Dill
Director, Management Services (Not shown)

CEO's Report

The Authority's overall goals for 2011 were focused on enhancing supervisory resources and operational efficiency; progressing our insurance equivalence programme; and, in relation to the banking and investment sectors, building on our regimes with consumer protection in mind.

Through hard work and dedicated effort, our team has met key objectives in each of these areas over the past year. The environment in which we operate continues to evolve and present increasing demands for all financial regulators. However, we remain committed to ensuring Bermuda's regulatory framework remains robust, effective and consistent with global standards and that it is recognised as such internationally. In this way the Authority is focused on demonstrating regulatory leadership and supporting continued market stability for Bermuda.

Strategic Regulatory Development for a Leading Jurisdiction

By the end of 2011, we had completed a major phase of policy development to build on Bermuda's regulatory framework. We therefore began moving from policy development to implementation of our enhanced regimes, in particular for insurance regulation. Our goal with implementation is to deliver quality supervision - applying our enhanced regimes effectively in a balanced, risk-based manner that is workable for the Bermuda market.

Reaching this point is the culmination of a strategic decision taken several years ago to build an independent, pragmatic regulatory framework that works for Bermuda. Secondarily, we also saw the benefit of seeking regulatory equivalence both for the Authority as Bermuda's regulator and for the overall credibility of the jurisdiction. Those benefits include tangible advantages for Bermuda-based firms to derive easier access and less duplicative regulation in international markets. They also encompass gaining further recognition and confidence in Bermuda among key stakeholders, including fellow regulators, ratings agencies, investors, depositors and policyholders. We are poised to deliver on the next phase of this effort, based on the various significant regulatory initiatives completed during 2011, a summary of which is provided below.

Banking and Investment

By 2011, the Authority had completed much work that built further on Bermuda's robust capital and liquidity standards for the banking sector, in accordance with global standards set under Basel II. To prepare for anticipated changes to those standards under the upcoming Basel III Accord, we completed a review of the regulatory framework for banks during the year.

This work involved conducting a quantitative study of the impact of those new standards and rules on Bermuda's banks. The Authority subsequently issued for consultation initial proposals for further enhancements to our capital and liquidity policies, aligned with Basel III but appropriately adapted for the Bermuda market. Consultation on these proposals will continue into 2012.

As a further measure to protect consumers of financial services in Bermuda, we also finalised, published and completed consultation on proposals for a special resolution regime for banks. This regime will provide authorities in Bermuda with a broader range of powers to deal quickly and effectively with a failed or failing institution. We began developing draft legislation to introduce the regime - the Banking (Special Resolution Regime) Bill - at the end of 2011.

Preliminary work on a corporate governance code for Bermuda's banks and investment firms was also conducted during the year. This initiative focuses

Jeremy Cox
Chief Executive Officer

directly on the critical role of senior management and company boards in directing the affairs of licensed firms, and our ensuring their compliance with regulatory obligations. The code will build on current corporate governance obligations for licensed institutions under existing regulations and relevant legislation. The risk-based requirements the code will establish are designed to ensure enhanced risk management and corporate governance practices across the banking and investment sectors.

The Authority also completed the legislative developments required to implement a deposit insurance scheme for Bermuda. The DIS legislation was subsequently passed by Parliament, paving the way for establishing the administrative infrastructure to operate the Scheme. Work is underway to set up the independent body to be charged with that function, the Bermuda Deposit Insurance Corporation; it is still anticipated that the DIS will be operational in 2012.

Insurance

The outcome of EIOPA's Solvency II equivalence assessment last year represented a major milestone for Bermuda. Having had our framework deemed as being largely equivalent with the Directive, with certain caveats, we continued with our regime enhancements for the commercial market. In addition, indications from the EU Commission later in the year that they have the ability to grant bifurcated equivalence was further encouragement that the diversity of the Bermuda market – commercial insurers being distinct from captives given their vastly different risk profiles - can be appropriately recognised in this process.

Therefore, the EIOPA result did not alter the general direction and plans we had set for framework changes related to Class 4, 3B and 3A firms; Long-Term commercial classes C, D and E; and for our group supervision regime, which we advanced substantially. By the end of the year, we had also drafted proposals to address the caveats for market consultation, which began early in 2012. Similarly, we have generally maintained the timelines set for roll out of our framework changes. This means implementation of the enhanced commercial insurer regimes remain on track to be completed by 1st January 2013. We are however monitoring developments internationally, and particularly in Europe with Solvency II timelines, and are prepared to build in more flexibility if appropriate.

Examples of the comprehensive schedule of work completed in 2011 are shown below:

- Identified over 20 insurance groups for which the BMA will be the Group Wide Supervisor, and issued new Group Rules that will cover requirements for group solvency and financial reporting, as well as setting risk management and governance standards for Bermuda's insurance groups

- Established the Commercial Insurers' Solvency Self-Assessment (CISSA) and Group Self-Assessment (GSSA) requirements, our Bermuda-specific ORSA (Own Risk and Solvency Assessment), for commercial insurers and insurance groups

- Completed pilot reviews and pre-application procedures with selected insurers for the internal capital models evaluation process

- Advanced work to establish an Economic Balance Sheet policy and framework

- Refined the Bermuda Solvency Capital Requirement standard capital adequacy model for application to the Long-Term (life) insurance sector

- Extended our disclosure and transparency requirements to Class 3A and Class E Long-Term insurers by requiring submission of GAAP financial statements that the Authority will make publicly available

The Authority is now focused on ensuring our implementation plans remain on track. We are also taking into account EIOPA's plans to review their preliminary assessment in 2012. Our approach to equivalence also remains pragmatic, balancing framework developments that are appropriate for the unique nature of the Bermuda market while closely mapping Solvency II principles.

In addition to advancing the commercial framework, during the year we developed proposals for refining our captive sector regime. The proposals focus on enhancing reporting requirements for captives via a more detailed risk return, which will become part of one consolidated filing firms already submit to the Authority. The enhanced reporting will ensure that captives remain appropriately classified within our risk-based framework, while ensuring the regime remains effective and consistent with international standards. Our intention with eventual implementation of these refinements, scheduled for 2013, is to apply them in a proportionate manner that ensures Bermuda's captive regulations remain practical and suitable for this market.

Pragmatic Regulation, Responsive Supervision

There are many considerations that have to play into the regulatory change process, and market consultation is among the most critical. The Authority continues to recognise the immense value of ensuring that we receive stakeholder feedback as we evolve the regulatory landscape in Bermuda. Therefore we continued our extensive outreach and consultation activities during 2011.

This is part of the Authority's ongoing commitment to maintaining a responsive approach to regulation and supervision. Through the consultative process we have strived to demonstrate responsiveness to the useful feedback industry has provided to our proposals, making adjustments as deemed appropriate and in line with our supervisory objectives. Our priority is to maintain a risk-based, proportionate approach to regulation for firms in our market, to ensure Bermuda correctly balances workable supervisory regimes with international expectations and continued business development opportunities.

Quality Resources to Deliver Quality Supervision

As we build on our regulatory framework there is a corresponding need for us to have greater resources in order for the Authority to regulate and supervise firms effectively. We must continue to demonstrate the competency, accomplishments and technical strength of the Authority and our people, as well as the effectiveness of our risk-based supervisory regimes.

Over the past year we have successfully expanded our resources, targeting additional experienced supervisors and technical expertise to our existing supervisory, policy and risk analytics teams. Further increases in resources remain necessary if we are to achieve our objectives and continue to play our key role in Bermuda's economy. This means we will continue with our strategy to recruit top quality, seasoned technical staff. The Authority's desire is to create a collegiate environment with some of the top regulatory and supervisory talent globally.

We recognise and appreciate the support from the market that has facilitated the Authority's expansion in key areas. With that in mind, we also remain committed to running our affairs efficiently in order to keep the financial burden on regulated firms as low as possible, while also ensuring we remain effective as Bermuda's financial regulator. Overall, our focus is not just to build a top-tier risk-based regulatory and supervisory framework, but also to ensure we have the right people with the right skill sets and are operating and implementing effectively under those frameworks.

Conclusion

The Bermuda Monetary Authority is working to ensure Bermuda's enhanced supervisory framework remains first league and globally respected. We have made positive strides through our international advocacy work to build awareness and understanding among key stakeholders about Bermuda's advancements in financial regulation. We remain highly focused on building our technical resources and on the need to ensure we operate as efficiently and effectively as possible. We also intend to maintain our existing high level of engagement with the market as we work through the evolution of Bermuda's regulatory framework.

We appreciate the willingness of industry representatives and associations to provide the high degree of feedback we have requested across market sectors during the year. Our thanks also go to our colleagues in the Bermuda Government, in particular within the Ministry of Finance and the Ministry of Justice for their respective input and facilitation on key policy and legislative developments.

None of this work would of course be possible without the dedication and commitment of the Authority's team. Our people have again helped us to achieve significant results in another challenging year, and I extend our sincere appreciation to all our team members. They have stayed focused on effectively meeting the key regulatory and operational goals confronting us, while helping the Authority to promote and protect Bermuda's interests effectively.

2011 Business Plan Milestones Completed

Insurance

- Publish Rules for Class 4, Class 3B, Class 3A, Class E and Groups, for year-ended 2012 filings
- Implement BSCR standard capital model for Class 3A firms
- Long-Term assessment pilot completed
- Group Supervision
  - Conduct three Class 4 group on-site reviews
  - Issue the Insurance (Group Supervision) Rules 2011 and the Insurance (Prudential Standards) (Insurance Groups Solvency Requirement) Rules 2011

Long-Term Business Framework

- Complete Long-Term reclassifications
- Refined BSCR for application to Long-Term insurers

Banking

- Publish Consultation Paper on banking intervention powers
- Publish Discussion Paper on banking liquidity and capital setting out proposals for incorporating Basel III

Enforcement

- Issue draft legislation for the Authority's enhanced enforcement framework for insurance

Other milestones

- Publish Consultation Paper on Corporate Governance Code for Bermuda Licensed Entities - banks, investment firms
- Advanced development of the core e-filing platform, ERICA (Electronic Regulatory Information Compliance Application)

Regulation and Supervision

Banking, Trust & Investment

The Authority continued its risk-based approach to supervision of the banking, trust and investment sectors with the overall goal of maintaining financial stability while ensuring that Bermuda's regulatory framework remained aligned with relevant international standards.

Summary of Legislative Changes and Licensing Activity as of year-end 2011

Sector	Legislative Changes During 2011	Licensing Activity
Banking	None	New: 0 Total: 4 banks. The sole deposit company was amalgamated in 2011 with another licensee.
Trust	None	New: 1 Total Number: 33 (35 in 2010) Licences surrendered: 3
Private Trust	None	New: 6
Money Service Business	None	New: 0 Total: 2
Investment Business	None	New: 5 Total: 64 (61 in 2010) Licences surrendered: 2
Investment Funds	Investment Funds Amendment Act 2011	New: 83 (73 authorised, 10 exempted) (86 in 2010) Total Number of Funds: 872 Fund Administrators: New: 3 (0 in 2010) Total Number: 43 (42 in 2010) Licences surrendered: 2

BANKING SUPERVISION

Banks and Deposit Companies Act 1999

The following section (pages 20 to 27) comprises the report the Authority is required to make annually to the Minister of Finance on its activities, pursuant to section 8(3) of the Banks & Deposit Companies Act 1999 (the Act).

Policy and Guidance

Capital

At the end of the third quarter of 2011, the Authority provided minimum regulatory capital guidance to all the banks in Bermuda. The capital guidance indicates the minimum levels of capital that the Authority requires each bank to hold to support the risks inherent in their business as well as their perceived systemic importance to the Bermuda economy. The capital conservation buffers introduced in 2010 (on the back of the global financial crisis) were maintained in 2011 as a means of strengthening the capital position of the banking sector.

Stress Testing

Further to the publication of the Authority's "Guidelines on Stress Testing for the Bermuda Banking Sector" in 2010, the Authority continued its programme of stress testing the sector under the Basel II, Pillar 2 supervisory

Bermuda Money Supply

(BD$ millions)	2011-Q4	2011-Q3	2011-Q2	2011-Q1	2010-Q4	2010-Q3
Notes & Coins in Circulation*	133	120	121	118	127	122
Deposit Liabilities	3,521	3,582	3,641	3,637	3,660	3,706
Total	3,654	3,702	3,762	3,755	3,787	3,828
Less: Cash at Banks & Deposit Companies	67	56	62	62	65	60
BD$ Money Supply	3,587	3,646	3,700	3,693	3,722	3,768
% Change on Previous Period	-1.60%	-1.46%	0.18%	-0.78%	-1.22%	-0.32%
% Change Year on Year	-3.62%	-3.25%	-2.13%	-3.17%	-4.73%	0.18%

Totals may not add due to rounding.
** 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.*

review process. All banks provided the results of their stress tests during the Capital Assessment and Risk Profile (CARP) submissions at the end of Q2 2011. The stress tests covered, inter alia, the impact on the banks' loan portfolios (residential, commercial and personal) and investment portfolios of a significant downturn in the property market as well as adverse movement in interest rates. The Authority also conducted parallel stress tests on all banks to assist in the setting of the minimum capital requirements as well as to ensure that all banks were able to maintain regulatory capital ratios above international benchmarks and Tier 1 capital ratios in excess of 6% post stress scenarios.

Liquidity

The Authority continued its initiatives to strengthen its regulatory framework on the management of liquidity risk by banks. In this regard, the Authority collected data on banks' liquidity management processes via an industry-wide self-assessment process in an effort to assess banks' compliance with the liquidity risk management principles. These principles were previously published in a Consultation Paper "Principles for Sound Liquidity Risk Management and Supervision". The Authority's liquidity paper is in line with the core principles of liquidity management established by the Basel Committee. This framework addresses high-level principles which include the establishment of liquidity tolerance at the board level, processes for managing liquidity risk, funding diversification, contingency planning, stress testing and the implementation and maintenance of liquidity buffers.

The Authority will continue its reviews of liquidity risk management in the banks during the scheduled on-site supervisory programme in 2012. The aim is to ensure that all banks formulate and implement an action plan to ensure compliance with the new principles.

Corporate Governance

During 2011, the Authority issued a Consultation Paper which proposed a Corporate Governance Code (the Code) for banking entities in Bermuda. The Code is based on the Basel Committee on Banking Supervision's "Principles for Enhancing Corporate Governance", which emanate from responses to the recent global financial crisis and seek to raise the standard of governance practice internationally.

The Code consists of principles and underlying guidance which covers board practices, the role of senior management, risk management and internal controls, compensation, complex corporate structures and disclosure and transparency.

Supervisory Developments

Crisis Management Planning

As a result of the global financial crisis, governments and regulatory authorities worldwide have focused on implementing crisis management plans (CMPs) to address future potential financial crises locally, regionally and internationally. During the year, the Authority and the Ministry of Finance collaborated on the development of a draft national CMP for Bermuda. The Bermuda CMP seeks to preserve financial stability within the country by developing systems, policies and procedures that assist in (i) detecting and preventing a potential financial crisis; (ii) managing a financial crisis and mitigating its consequences; and (iii) easing contagion risks which may arise from distressed financial institutions during a crisis.

The Authority and the Ministry of Finance also collaborated with the Caribbean Group of Banking Supervisors, of which the BMA is a member, to develop a CMP for the Caribbean region. This plan outlines, inter alia, a framework for

Banking Sector Assets & Deposits

	2011-Q4	2011-Q3	2011-Q2	2011-Q1	2010-Q4	2010-Q3
Total Assets ($ millions)	25,543	24,104	24,334	23,091	23,369	22,275
Quarterly Change (%)	6.0	-0.9	5.4	-1.2	4.9	1.6
Total Deposits ($ millions)	22,023	20,531	20,694	19,531	19,631	18,632
Quarterly Change (%)	7.3	-0.8	6.0	-0.5	5.4	3.6

supervisory colleges, sharing information and coordination with other supervisory and regulatory authorities on issues of mutual interest.

Legislative Developments

Deposit Insurance

In 2011 the Bermuda Parliament passed into law the Deposit Insurance Act 2011, which has the primary objective of protecting depositors and supporting continued stability in Bermuda's financial system and overall economy. The legislation facilitates the operation of a deposit insurance scheme in Bermuda. This scheme will afford retail depositors a maximum coverage of $25,000 per customer / per institution for Bermuda dollar deposits. Funding for the deposit insurance system will be generated via mandatory contributions from all Bermuda licensed banking institutions. The proposals embedded in the deposit insurance legislation are based on the core principles for effective deposit insurance published by the International Association of Deposit Insurers. In 2012, the Authority will continue to assist the Ministry of Finance with the establishment of the Bermuda Deposit Insurance Corporation (BDIC) which will be the independent statutory body commissioned with administering and overseeing the deposit insurance scheme.

Bank Resolution Regime

In September 2011, the Authority issued a Consultation Paper on proposed banking intervention powers with the ultimate goal of having such powers enshrined in legislation under the Banking Special Resolution Regime. Initial feedback was received from licensed banking institutions in November 2011. During 2012 the Authority will continue to work and develop, along with industry stakeholders, the legislative framework with the goal of having draft legislation presented to Parliament by the end of 2012.

Overview of the Financial Position

At the beginning of the year, the operations of the sole deposit company in Bermuda, the First Bermuda Group were amalgamated with Capital G Bank. There was no further change in ownership of Bermuda's banks during 2011, in contrast to various changes in shareholder controllers which occurred during 2010. However, changes were noted in the ownership of subsidiaries owned by banks, reflecting both acquisitions and sales of investment businesses and trust companies.

Assets and Liabilities

There was growth of 9.3% in the consolidated assets of the banking sector during 2011, which slightly surpassed the growth of 8.1% experienced in 2010, up from $23.4 billion at the end of 2010 to $25.5 billion at the end of 2011. The overall growth in assets mainly reflected an increase in investments of 42.2%, a 6.8% rise in loans and advances and 2.6% rise in premises and other equipment. This was partly offset by a 12.5% decline in deposits placed with other financial institutions and a 41% drop in other assets.

Growth in the balance sheet was driven by a rise of 12.2% increase in deposit liabilities to $22 billion up over the year from $19.6 billion. This mainly reflected increases in demand deposits and savings deposits of 25.5% and 9.1%, respectively. Time deposits experienced a slight decrease of 1.8%.

Balance Sheet Structure

The overall allocation of assets changed notably during the year relative to 2010. Investment assets increased in relative size while deposits placed with other institutions declined. Loans and advances continued to account for the largest portion of assets, with investment assets becoming the second largest component followed by deposits with other financial institutions. The share of loans declined marginally from 36.9% to 36%, while the

Loans and Investments as a Proportion of Total Assets

share of investments rose from 27.3% to 35.6%, with a resultant decline in the share of deposits from 30.8% to 24.7%.

Earnings and Profitability

Total income for all banks improved during 2011 relative to the previous year. This mainly reflected a notable rise in net interest income, partly offset by a decline of 38.2% in fees and commissions from non-banking income. The rise in net interest income partly reflected the non-recurrence in 2011 of material provisions for credit losses on commercial loan exposures and reduction in the book value of investments.

As a portion of total income, net interest income slightly increased from 61.8% in 2010 to 62.8% in 2011 (see chart on page 24). The interest margin for the sector increased slightly to 86.1% of interest income in 2011 relative to 85.8% in 2010. Operating costs also declined by 13%, reflecting both cost management and changes in ownership of subsidiaries.

Capital Adequacy

Capital adequacy in the Bermuda banking sector, as measured by the risk assets ratio (RAR), remained strong in 2011. However, there was a slight reduction in the risk asset ratio (RAR) for the sector to 23.2%, relative to 25.7% at end 2010 (see chart on page 24). The decrease partly reflected the growth in assets, while equity remained relatively unchanged. Notwithstanding this decrease, capital ratios remained well in excess of international benchmarks.

Licensing

The total number of licensed institutions remained unchanged at four banks and one deposit company. During the year the operations of First Bermuda Group were merged with those of Capital G Bank; however, the bank has retained the deposit company as a subsidiary.

On going Supervision

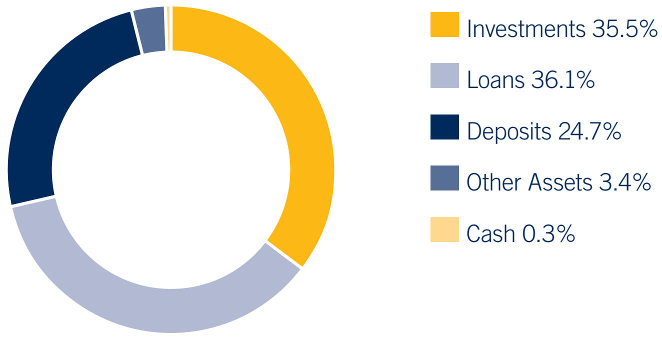
During the year, the Authority conducted Pillar II supervisory reviews of all licensed banks based on their submission of the Capital Assessment and Risk Profile reports. Individual capital guidance was issued to all the banks outlining the minimum regulatory capital that the banks should maintain going forward. The supervisory programme for Bermuda's banks during 2011 included on going surveillance and monitoring via the Authority's scheduled quarterly risk, compliance and internal audit meetings with licencees, in addition to several prudential and strategy meetings that were held with all of the banks and in some cases with boards of directors and external auditors. Under the risk-based consolidated supervisory framework for banks, the Authority conducted on-site reviews covering the operations of seven licensed entities, including a major commercial bank. The supervisory programme for 2011 also included overseas visits to the Cayman Islands, to meet with the regulator and hold discussions with senior management of the subsidiaries of two major banks (HSBC and Butterfield Bank) licensed in Bermuda. The Authority also participated in the supervisory college of HSBC in London during the year.

CREDIT UNION SUPERVISION

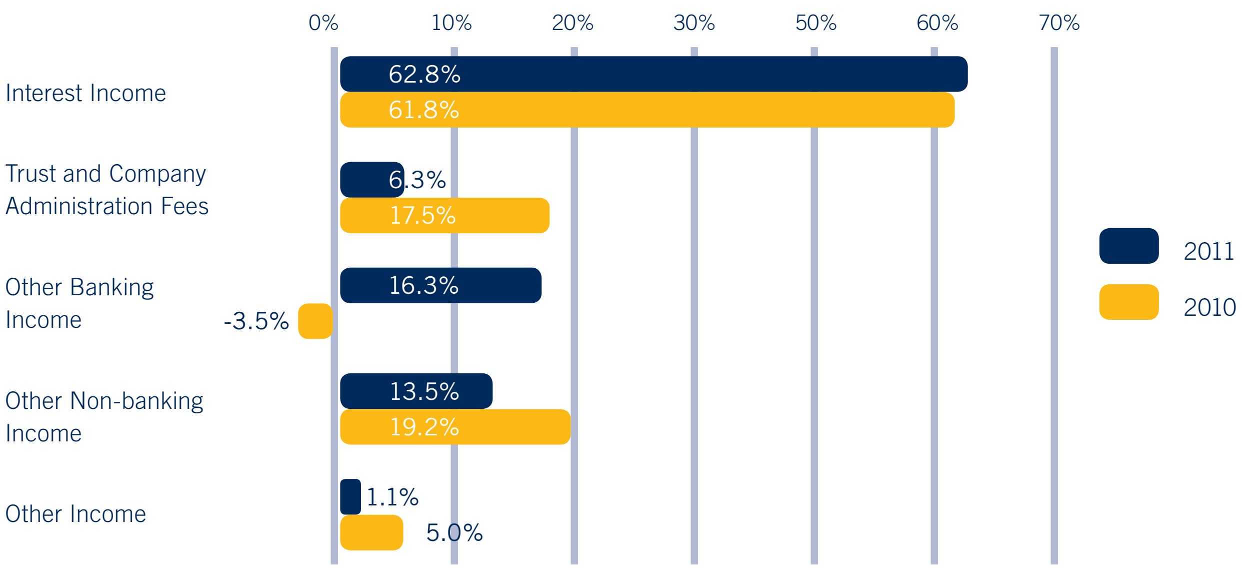
Effective 1st January 2011, the Authority assumed responsibility for the regulation and supervision of credit unions in Bermuda through the enactment of the Credit Unions Act 2010. The Bermuda Industrial Union Credit Union is currently the only credit union in Bermuda. The Authority conducted supervision of this entity in accordance with the provisions of the Act.

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 objective of the framework is to ensure that credit unions in Bermuda are subject to internationally-accepted supervisory standards, for the ultimate protection of their members.

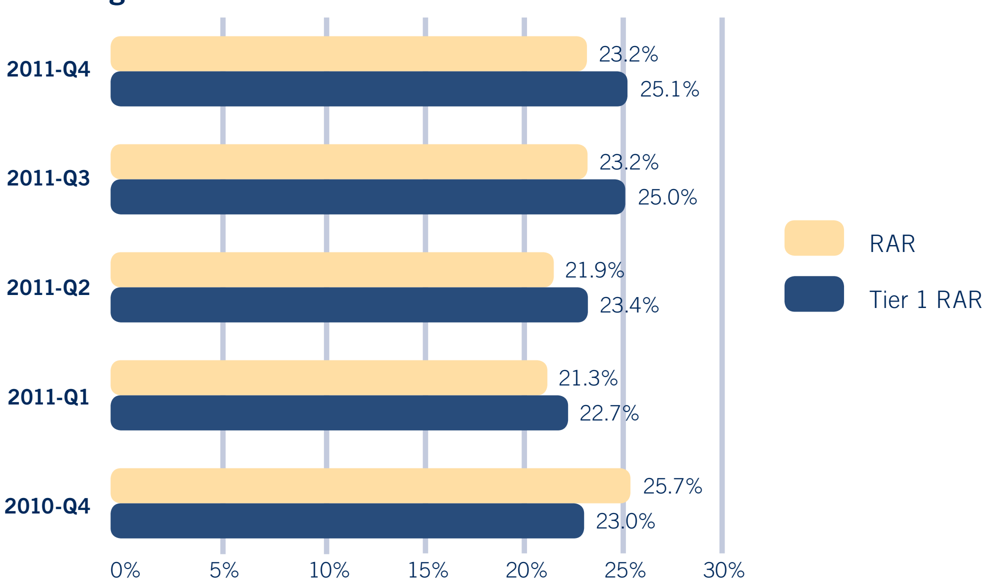
Composition of Banks' Assets as at 31st December 2011



Banks and Deposit Companies Revenues (Consolidated)



Banking Sector Consolidated Risk Asset Ratio



Combined Banks and Deposit Companies Foreign Currency Position (Consolidated)

Foreign currency assets grew by 11.2% over the year while total liabilities rose by 15.6%. As a result there was an expansion in net foreign currency liabilities over the year to $383 million from $166 million, which was a reverse of the contraction experienced in 2010. This mainly reflected developments in Q4 where the growth in foreign currency liabilities outpaced the growth in foreign currency assets.

(BD$ millions)	2011-Q4	2011-Q3	2011-Q2	2011-Q1	2010-Q4	2010-Q3
Total Foreign Currency Assets	19,672	18,334	18,606	17,324	17,693	16,616
Less: Other Assets	167	220	361	391	428	437
Less: Foreign Currency Loans to Residents	918	847	837	896	1,013	1,052
Net Foreign Currency Assets	18,587	17,267	17,408	16,036	16,251	15,127
Foreign Currency Liabilities	18,757	17,189	17,303	16,128	16,232	15,163
Add: BD$ Deposits of Non-Residents	214	198	200	194	185	192
Net Foreign Currency Liabilities	18,971	17,387	17,503	16,321	16,418	15,355
Net Foreign Currency Position	(383)	(120)	(95)	(285)	(166)	(228)

Totals may not add due to rounding.

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

The ratio of Bermuda dollar lending to Bermuda dollar deposits rose from 141.1% to 151.0%. Bermuda dollar loans and advances experienced growth of 2.9%, while Bermuda dollar deposits declined by 3.8%. The shortfall in Bermuda dollar deposits relative to Bermuda dollar loans and advances is financed through foreign currency-denominated customer deposits, mainly denominated in US dollars.

(BD$ millions)	2011-Q4	2011-Q3	2011-Q2	2011-Q1	2010-Q4	2010-Q3
Deposit Liabilities	3,521	3,582	3,641	3,637	3,660	3,706
Less: Loans, Advances and Mortgages	(5,316)	(5,267)	(5,213)	(5,230)	(5,165)	(5,146)
Surplus/(Deficit) Deposits	(1,795)	(1,685)	(1,572)	(1,593)	(1,505)	(1,440)
Percentage of Deposit Liabilities Loaned	151.0%	147.0%	143.2%	143.8%	141.1%	138.9%

Totals may not add up due to rounding.

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

(BD$ millions)	2011-Q4			2011-Q3			2011-Q2		
	Total	BD$	Other*	Total	BD$	Other*	Total	BD$	Other*
Assets									
Cash	88	53	36	74	39	36	90	41	49
Deposits	6,299	34	6,266	7,309	26	7,283	7,944	42	7,902
Investments	9,080	49	9,031	6,575	49	6,526	6,535	36	6,499
Loans & Advances	9,214	5,172	4,042	9,266	5,123	4,143	8,749	5,067	3,682
Premises & Equipment**	554	423	131	528	401	127	524	411	113
Other Assets**	308	141	167	352	132	220	492	131	361
Total Assets	**25,543**	**5,871**	**19,672**	**24,104**	**5,770**	**18,334**	**24,334**	**5,728**	**18,606**
Liabilities									
Demand Deposits	10,199	870	9,329	8,648	870	7,779	8,887	875	8,012
Savings	5,252	1,459	3,793	5,117	1,474	3,644	5,313	1,500	3,813
Time Deposits	6,572	1,130	5,442	6,765	1,170	5,595	6,493	1,193	5,300
Sub Total - Deposits	**22,023**	**3,459**	**18,564**	**20,531**	**3,514**	**17,017**	**20,694**	**3,568**	**17,125**
Other Liabilities	506	313	193	437	265	172	431	253	177
Sub Total - Liabilities	**22,529**	**3,772**	**18,757**	**20,968**	**3,779**	**17,189**	**21,124**	**3,822**	**17,303**
Equity & Subordinated Debt	3,014	1,973	1,041	3,136	2,063	1,073	3,210	2,055	1,155
Total Liabilities and Capital	**25,543**	**5,745**	**19,798**	**24,104**	**5,842**	**18,262**	**24,334**	**5,876**	**18,458**

(BD$ millions)	2011-Q1			2010-Q4			2010-Q3		
	Total	BD$	Other*	Total	BD$	Other*	Total	BD$	Other*
Assets									
Cash	85	41	45	88	47	41	80	40	39
Deposits	6,660	52	6,608	7,202	57	7,145	6,433	53	6,380
Investments	6,593	36	6,557	6,386	37	6,350	6,256	28	6,228
Loans & Advances	8,693	5,085	3,608	8,631	5,027	3,604	8,423	5,005	3,418
Premises & Equipment**	549	435	114	540	415	125	548	434	113
Other Assets**	511	120	391	522	93	428	536	99	437
Total Assets	**23,091**	**5,768**	**17,324**	**23,369**	**5,676**	**17,693**	**22,275**	**5,659**	**16,616**
Liabilities									
Demand Deposits	8,050	838	7,213	8,127	821	7,306	7,279	842	6,437
Savings	4,888	1,493	3,395	4,813	1,442	3,371	4,792	1,434	3,357
Time Deposits	6,593	1,249	5,344	6,690	1,335	5,355	6,561	1,367	5,194
Sub Total - Deposits	**19,531**	**3,580**	**15,951**	**19,631**	**3,599**	**16,032**	**18,632**	**3,644**	**14,988**
Other Liabilities	420	244	176	547	347	200	432	257	175
Sub Total - Liabilities	**19,951**	**3,823**	**16,128**	**20,178**	**3,946**	**16,232**	**19,064**	**3,901**	**15,163**
Equity & Subordinated Debt	3,141	2,016	1,125	3,191	2,109	1,082	3,211	2,065	1,146
Total Liabilities and Capital	**23,091**	**5,839**	**17,252**	**23,369**	**6,055**	**17,314**	**22,275**	**5,966**	**16,308**

Totals may not add due to rounding.

** Other includes USD and other currencies.*

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

Formal Use of Powers Under the Banks and Deposit Companies Act 1999

Section	Provisions	Use in 2011
17 and 18	To restrict or revoke a licence	Not required
25 and 26	To review the fitness of all proposed new controllers	Not required
27	To object when Authority concludes that an existing controller is no longer fit and proper	Not required
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
36	To object or not object to notifications of significant shareholder changes	One application received; "no objection" provided
39	To commission reports	Four reports commissioned
40, 41 and 42	To require the production of documents, to obtain entry to premises or to appoint persons to investigate an institution	Not required
43 and 44	To investigate suspicions of illegal deposit-taking activity	Not required

TRUST COMPANY SUPERVISION

Trusts (Regulation of Trust Business) Act 2001

The following table and information comprises the report the Authority is required to make annually to the Minister of Finance on the execution of its functions under the Trusts (Regulation of Trust Business) Act 2001, pursuant to Section 5 of this Act.

On going Supervision

The Authority's risk-based supervisory programme for the trust sector consists of on-site reviews of licensed trust companies and prudential meetings with senior management. During the year, five on-site reviews and 12 prudential meetings with licensed trust entities were conducted. A number of these took place under the Authority's consolidated supervisory framework.

Private Trust Companies

During the year, six new private trust companies were incorporated in Bermuda for which requests for trust exemptions were received by the Authority. Requests for exemptions are monitored by the Authority and the requisite approvals provided as appropriate.

INVESTMENT BUSINESS SUPERVISION

Investment Business Act 2003

The following section provides the report the Authority is required to make annually to the Minister of Finance regarding the execution of its function under the Investment Business Act 2003, pursuant to section 8(3) of this Act.

Developments in the Investment Sector

Overall, the aggregate total assets under management of licensed investment providers (excluding banks and overseas entities) amount to approximately $171 billion* compared to $175 billion the previous year. This change reflects the general decline in financial markets that was experienced in the last half of 2011 due to the Eurozone Debt Crisis. The aggregate capital of this sector was

** Numbers in this section are best estimates based on data available at the time of the Report.*

Formal Use of Powers under the Trusts (Regulation of Trust Business) Act 2001

Section	Provisions	Use in 2011
15, 16, 17, 20 and 23	To restrict a licence, to revoke a licence, to petition the Court to wind up a company, to give directions to protect the interests of clients and to petition the Court to transfer trusts to a new trustee	Not required
24	Notification of new or increased control	Five notifications received; "No objection" provided
25 and 26	Objection to new or increased control and objection to existing controller	Not required
29	To make appeals to the relevant tribunal	Not required
34	Notification of change of controller or officer	Notifications received; Authority conducted the appropriate vetting
36 and 37	To obtain information and reports and to require production of documents	Not required
38 and 39	To gain right of entry to premises and to carry out investigations, as well as for the appointment of inspectors	One report commissioned

approximately $13.9 billion as at the end of 2011.

On going Supervision

During the year, the Authority continued to supervise licensed entities in accordance with the framework established under the Act. This involved both on-site and off-site reviews. The Authority's on-site programme covers such matters such as high-level controls, including corporate governance; operational risk; new business take-on procedures and anti-money laundering/anti-terrorist financing controls; compliance with the General Business Conduct and Practice - Code of Conduct and the Advertising Code of Conduct; general compliance with the Act; and the financial viability of the investment provider. In addition, follow-up to remedial action plans in relation to earlier on-site visits are discussed. Off-site supervision includes a review of quarterly financial reporting, audited financial reports, additional periodic reporting and scheduled prudential meetings. Prudential meetings are held with investment providers senior management to discuss such matters as the company's past performance and future strategy.

The Authority conducted 10 prudential meetings, 10 strategy meetings, one post-licensing follow-up meeting with institutions or regulated groups and four on-site reviews during the year. Following each review, the Authority provided a written report on its findings, identifying any specific concerns or weaknesses, and made recommendations as to remedial action or areas in which policies or practices required enhancement.

MONEY SERVICE BUSINESS SUPERVISION

Money Service Business Regulations 2007

On going Supervision

The supervisory programme for money service business assists the Authority in assessing the on going financial viability of a firm; the fitness and propriety of its management; the prudent conduct of its business; and its compliance with relevant Regulations. It involves regular meetings with the senior management of licensed firms, together with scrutiny of financial and statistical information in connection with the institution's business activities and periodic on-site visits to the institution's premises. During 2011, the Authority continued to hold prudential or strategy meetings with money service business providers.

Formal Use of Powers under the Investment Business Act 2003

Section	Provisions	Use in 2011
17(4)	To vary or remove any limitation imposed on the scope of a licence	Not required
20, 21 and 23	To restrict or revoke a licence or restriction imposed in cases of urgency	Not required
28	Notification of new or increased control	Six notifications received; Authority's "no objection" provided
43	Notification of change of controller or officer	Notification received; Authority conducted the appropriate vetting
45, 46, 47 and 49	To obtain information and reports, to require the production of documents, to gain entry to premises, and to investigate licensed entities	Not required
50 and 51	Items pertaining to perimeter policing, power to obtain a warrant to enter and search premises	Not required
Chapters 6 and 7	To publish a statement of public censure and other protective measures	Not required
61	To petition the Court to wind up an investment provider	Not required
Part IV	Various powers relating to investment exchanges and clearing houses	Not required

Formal Use of Powers

During the year, the Authority received no notification of changes in director, senior executive and controller pursuant to Regulation 9 of the Regulations. Under Regulation 15, the Authority may give notice of direction or revocation of licence. Use of these powers was not required in 2011.

INVESTMENT FUND SUPERVISION

Investment Funds Act 2006

Policy & Legislation

Over the course of 2011 the Authority worked closely with industry to introduce policy and framework enhancements to ensure that Bermuda is able to attract the full range of global fund business. In April the Authority released Guidance Notes that facilitate establishing Islamic investment funds in Bermuda. The Guidance Notes are designed to help prospective applicants looking to establish such funds to comply with Bermuda's funds regulations, specifically the Investment Funds Act 2006. The Guidance Notes confirm that there is no impediment to establishing these types of funds under Bermuda's funds framework and complement the jurisdiction's efforts to promote itself as a domicile of choice for Islamic financial products.

The Investment Funds Amendment Act 2011 and the Investment Funds (Specified Jurisdiction Fund) (Japan) Order 2011 were also issued at the end of December. These legislative developments allow Bermuda to welcome funds targeting retail Japanese investors subject to the requirements of the regulatory framework for funds.

The Guidance Notes and Specified Jurisdiction legislation both support the Authority's efforts to ensure the jurisdiction upholds the highest standards in regulation, while at the same time maintaining a regulatory environment that supports business growth and development.

Investment Fund Statistics

	2011-Q4	2011-Q3	2011-Q2	2011-Q1	2010-Q4	2010-Q3
Mutual Funds	618	613	616	650	657	656
Umbrella Funds	48	47	47	49	58	59
Segregated Account Companies	68	68	69	70	76	78
Unit Trusts	39	39	40	41	40	43
Umbrella Trusts	99	95	87	74	69	102
Total Number of Funds	872	862	859	884	900	938
Sub-Funds	107	119	117	118	142	157
Sub-Trusts	155	155	154	150	150	166
Segregated Accounts	219	209	212	245	248	215
Total Number of Sub-Funds	481	483	483	513	540	538
Total Net Asset Value (In billions)	$159.51	$160.44	$170.36	$171.97	$178.44	$175.59

The calculation of the Bermuda net asset value data has been revised and restated for 2010.

Licensing

During 2011, 73 new investment funds were authorised and 10 were exempted, for a total of 83 new funds versus 86 recorded for 2010. Bermuda funds continue to be targeted primarily towards institutional/sophisticated investors. The total number of funds at the end of the year was 872, this compared with 900 funds at the end of 2010.

There were 43 fund administrator licences in issue at the end of 2011, compared to 42 at the end of 2010. Three new licences were issued in 2011 compared to none in 2010. Two fund administrators surrendered their licences during the year, the same number recorded for 2010.

On going Supervision

The Authority continued to supervise authorised investment funds in line with the relevant legislative framework, with the aim of protecting investors. The main focus of the Authority's supervision is the review of funds' periodic statistical reports and the content of prospectuses, as well as the vetting of fund service providers. During the year, the Authority reviewed and processed 196 notifications and 498 material changes in relation to investment funds.

A total of four on-site visits, one post-licensing visit and one prudential visit were conducted in 2011, bringing the total number of licensed fund administrators who have had an on-site visit since the programme began to 34.

Investment Funds Applications Approved 2011

Unit Trusts 36%

Mutual Funds 64%

Limited Partnerships 0%

BERMUDA STOCK EXCHANGE

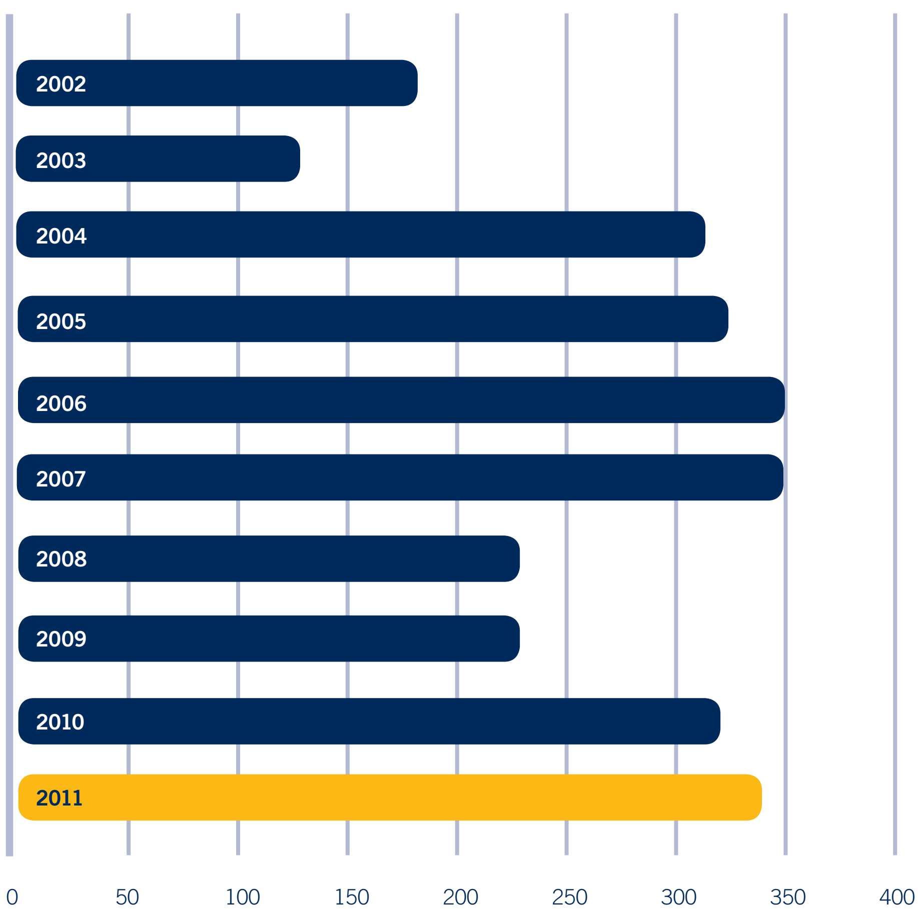
Despite challenging times in the domestic capital market, 2011 will be remembered as a milestone year for the Bermuda Stock Exchange (BSX) in which the Exchange celebrated its 40th anniversary of operation; hosted the General Assembly of the America's Central Securities Depository Association; brought the market capitalisation of listed insurance linked securities to over $3.3 billion; was granted designated status under Canada's Income Tax Act; and announced a strategic investment by the TMX Group.

Although the Bermuda domestic capital market continued to experience pressure as a result of global and domestic market conditions, the BSX's international listing business, and in particular the listing of insurance linked securities, continued to gain momentum for the BSX and Bermuda.

The total market capitalisation of the BSX as at 31st December 2011 (excluding fund listings) stood at over $341 billion of which approximately $1.4 billion represented the domestic market. Total trading volume for the period was 6.5 million shares with a corresponding value of $25.3 million compared to 64 million shares with a corresponding value of $112 million for 2010. The Royal Gazette/BSX Index closed the year at 1,044.65 which is 9.2% lower than 2010. The year-on-year decline in listed securities from 807 in 2010 to 613 in 2011 was mainly the result of the delisting of over 200 equity derivative warrants. The Exchange saw net growth in investment funds vehicles, international fixed income structures and insurance-related security listings.

As at 31st December 2011, 613 issuers were listed on the BSX, raising the number of insurance linked securities listed on the Exchange to 25 with an approximate market capitalisation of $3.73 billion. There were 38 new investment funds, four international equities and three fixed income securities listed and six subsequent issues from listed issuers. Also noteworthy in 2011 were the listings of international issuer Annuity and Life Re (Holdings), two notes issued by African Minerals (UK), the rights offering of West Hamilton and the delisting of KFC (Bermuda) Ltd. 2011 also saw Prime Management Limited join the BSX under the membership category of Listing Sponsor.

Bermuda Stock Exchange (BSX) - Market Capitalisation (US$ billions)



Assessment and Licensing Committee

The Assessment and Licensing Committee (ALC) reviewed a total of 80 applications during the year. 73 were insurance-related and seven were banking, trust and investment (BTI) related.

Insurance Applications

Out of the 73 insurance applications received, 69 were approved and two remain outstanding for further consideration; two were declined. Out of the successful applications 26 were for insurers ranging from Class 1 to Class 4. There were three applications for Long-Term Class C insurers; one dual licence (a Class 3A and Long-Term) and 33 Special Purpose Insurers (SPI). The remaining six insurance-related approvals were for insurance intermediaries, including insurance managers and brokers.

Banking, Trust & Investment Applications

All seven applications for BTI licensing applications reviewed by the ALC were approved; five of these were investment business applications and two were fund administrator applications.

In summary, the 2011 breakdown of applications approved by the ALC are as follows:

Class 1	5
Class 2	4
Class 3	6
Class 3A	8
Class 3A & Long-Term	1
Class 3B	1
Class 4	2
SPI	33
Long-Term – Class C	3
Insurance Manager	3
Insurance Broker	3
Investment Business	5
Fund Administrator	2
Total	**76**

Companies, Partnerships and Permits Statistics - Applications Approved

	2011-Q4	2011-Q3	2011-Q2	2011-Q1	2010-Q4	2010-Q3
Companies	**261**	**238**	**236**	**226**	256	188
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	**21**	**12**	**14**	**15**	24	5
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	**2**	**5**	**1**	**1**	2	1
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	**10**	**4**	**6**	**2**	15	7
Unit Trusts	**3**	**6**	**15**	**5**	2	6
Total Applications Approved *	**297**	**265**	**272**	**249**	299	207

** 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.

Insurance

The Authority maintained momentum with its framework enhancements as part of its regulatory change programme for the insurance sector. This work included final preparations for its on- and off-site regulatory equivalence assessment under Europe's Solvency II Directive, which took place during the year.

Developments in the Sector

The Bermuda insurance market remained resilient while managing the impact of on going challenging economic conditions, still achieving significant levels in gross premiums and maintaining healthy amounts of capital and surplus. However, profitability of large commercial (re)insurers (Class 4 and Class 3B) remained low by historical standards, due to a prevailing soft market, low interest rates, and above-average losses from natural catastrophes. Commercial insurers wrote gross premiums of $86.3 billion in 2010 compared to $87.1 billion the previous year. Total assets increased 16.5% from 2009 to 2010; from $375.8 billion to $438 billion. Capital and surplus for the sector was up 10.5% year-on-year, from $131.8 billion to $145 billion. Bermuda captives also maintained high business volumes. Captive insurers wrote a total of $21.4 billion in gross premiums in 2010, compared to $32.7 billion in 2009; a result that can be attributed to the Authority's on going reclassification of a number of companies to better reflect their risk profiles, as well as a decrease in premiums written by particular firms within the sector.

The market as a whole achieved gross premiums written of $107.7 billion for 2010, as compared to $119.7 billion written the previous year. In addition, the market recorded aggregate total capital and surplus of $185.2 billion, an increase of 1.7% over the previous year, and assets of $524.7 billion, up 5.8% for the period.

Incorporations & Registrations

Registrations for 2011 included a total of 54 new (re)insurers for the year, as compared to 36 in 2010, an increase of 50%. A large percentage of entrants to the commercial market for 2011 included Special Purpose Insurers (SPI) and Class 3A insurers. New companies covered various lines of business, with the majority writing property/property catastrophe business. The greatest portion of business continues to be derived from the United States, with respect to both the captive and commercial sectors.

Framework Enhancements

Following an encouraging result from the European Insurance and Occupational Pensions Authority's (EIOPA) preliminary assessment of the jurisdiction's insurance regulatory framework, in which it was deemed that Bermuda's commercial insurance regime generally was in alignment with key Solvency II principles, the Authority maintained the momentum with its framework developments throughout the year. The Authority continued pursuing its aggressive regulatory development agenda, building upon the work already completed in recent years. During 2011 a number of significant achievements were made in this regard.

Insurer Solvency

Further progress was made during the year on the phased roll out of the Authority's enhanced solvency regime for Bermuda's commercial insurance sector. A series of trial runs were held during the year on various components of the solvency regime, including the Bermuda Solvency Capital Requirement (BSCR), the Authority's standard risk-based capital model, the Catastrophe Risk Return, and the Commercial Insurers Solvency Self-Assessment (CISSA). These trials involved Class 4, 3B, 3A, and E (Long-Term) firms. Also, as part of its market outreach programme, the Authority produced a series of market reports and held a number of market meetings to discuss the results of the various trial runs throughout the year. Details of the progress made on the capital adequacy framework can be found in the table shown.

Long-Term Insurance Framework

The Authority completed its initiative to reclassify firms within the Long-Term sector into five new classes – Class A through E. This refinement of the

Insurance Capital Adequacy Framework Enhancements 2011

Component	Developments in 2011
Analytical Framework	• Enhanced Class 4 and 3B framework • Developed Group and Class E frameworks
Capital and Solvency Return	• Enhanced Class 4 and 3B returns to include new schedules on a trial run basis: CISSA; CAT Return; Loss Reconciliations/Loss triangles; and Eligible capital (see details below) • Introduced Class 3A,E and Group returns on a trial run basis • Developed groups return and instructions handbook • Updated Class 4, 3B, 3A and Class E instructions handbooks based on model and legislative amendments
Catastrophe Risk Return	• Received, reviewed and conducted analysis of the electronic trial runs for Class 4, 3B and 3A insurers (optional) • Developed guidance notes • Updated content in the Capital and Solvency Return for Class 4, 3B and 3A insurers
Eligible Capital	• Updated the related legislation • Received and reviewed electronic trial runs of Class 4, 3B, 3A, E and groups
Commercial Insurers Solvency Self-Assessment (CISSA)	• Updated the instructions handbook and content in the Capital and Solvency Return for all classes • Received, reviewed and conducted analysis of electronic trial runs for Class 4, 3B, 3A, E and groups
Reconciliation of Net Loss Reserves or Loss Triangles	• Received, reviewed and conducted analysis of electronic trial runs for Class 4 and 3B insurers
Disclosure and Transparency	• Commenced processing of GAAP filings for Class 3A, E and groups Insurers

Long-Term class structure is part of the Authority's work to enhance the regulatory framework for this sector, in line with international standards. These enhancements will ensure that the Authority continues to apply appropriate, proportionate supervision to Long-Term firms in accordance with their risk profiles. The Authority's enhanced Long-Term framework will mirror the framework being established for the overall insurance regime. The enhancements, which include revised capital requirements, CISSA, group supervision, eligible capital, and an economic balance sheet (for Classes C, D, and E), will be introduced to the Long-Term sector in a phased manner. As a precursor to this phased implementation a trial run of BSCR filings for Class E firms was conducted in 2011. Additional trial runs for Long-Term Classes D and C insurers are planned throughout 2012.

Internal Capital Models (ICM)

During 2011, the Authority made further progress in the phased development and implementation of its ICM framework. In April, the Authority issued revised Guidance Notes relating to the ICM application and review process, which included an enhanced pre-application process, detailed information requests and the expansion of the ICM framework to include Class 3B and Class 3A insurers. In addition, the Authority conducted a pilot review of a Long-Term insurer's ICM, developed related internal training materials and drafted additional criteria, information requests and scoring mechanisms, which will enable further expansion of the framework to the Long-Term sector in 2012.

Approach to Supervision

Group Wide Supervision

By the end of 2011 the Authority had issued the Insurance (Group Supervision) Rules 2011 and the Insurance (Prudential Standards) (Insurance Groups Solvency

Requirement) Rules 2011 which represent the final elements of the legislative framework for Bermuda's group supervision regime. The Authority also identified over 20 insurance groups for which it will be the Group Wide Supervisor (GWS). With these developments, preparation for full implementation as of 1st January 2013 is in progress. The Authority continued with its outreach to peer regulators internationally during the year by holding a series of bilateral meetings to discuss information pertinent to the supervision of Bermuda groups. In addition, a series of group on-site reviews were conducted initially on a pilot basis. The Authority received its first group statutory filing under the new Rules. Work also began on establishing guidance for holding supervisory colleges with fellow regulators, which remains an important element of the Authority's approach to group supervision. This work will continue throughout 2012.

Application of the Act

Timeliness of Reporting

The Insurance Act 1978 requires that insurance companies file an annual audited financial return with the Authority as part of their statutory responsibility. During the year, the Authority continued to ensure that companies filed such returns in a timely manner.

Solvency Margin Maintenance

Overall stability of the insurance sector continues to be supported by the jurisdiction's existing strict minimum solvency margin requirements coupled with the BSCR. The Authority introduced the BSCR for application to Class 4 insurers in 2008. Also, following the completion of a trial run in 2010, the BSCR was extended to Class 3B firms. In 2011 trial runs of the model were conducted with Class 3A and Class E Long-Term firms for 2010 year-end filings with the intent of extending this requirement to these firms for 2011 year-end filings. In 2012, the Authority intends to conduct trial runs for Class C and Class D Long-Term firms.

On going Supervision

The Authority continues to apply a risk-based approach to supervision. Having a risk-based approach allows the Authority to carry out its responsibilities in an effective and efficient manner by focusing greater levels of supervisory resources on firms and sectors within the industry that pose the greatest risk. Elements of the Authority's supervisory programme comprise on-site reviews, prudential meetings with insurers, bilateral and multi-lateral meetings with international regulators, as well as fundamental supervision, which includes the review of annual statutory filings. The on-site programme consists of a comprehensive review of a firm's operations to assess compliance with the relevant legislation. Prudential meetings with firms are held to address specific areas within an organisation and are conducted as deemed necessary.

In early 2011, the Authority conducted two pilot group on-site reviews with designated Class 4 groups. The result of this exercise was helpful when conducting the three on-site visits that took place later in the year. Four Codes of Conduct reviews were completed. In addition, follow-up visits were also conducted with all of the entities that underwent on-site reviews in 2010. The purpose of the follow-up visits was to resolve any outstanding issues that arose during the 2010 reviews.

Bilateral meetings with international counterparts are held to discuss intra-group risks that may arise for insurance groups under the Authority's remit. In November 2011, the Authority conducted bilateral meetings with two international regulators discussing several Bermuda insurance groups, and Class 4 and Class 3B insurers of common interest.

The Authority has units that monitor companies that are higher risk, in run-off or are out of compliance with the relevant Regulations. These units work with companies to maintain compliance, and will take appropriate remediation actions if required.

International Developments

International Association of Insurance Supervisors (IAIS) Participation

Involvement in the activities of international regulatory bodies, and in particular the IAIS, continues to be an important part of the Authority's commitment to promote high standards in regulation for all jurisdictions. In addition to participating in standing meetings of the IAIS's Executive Committee, Financial Stability Committee and Technical Committee, senior members of the Authority's team participated in various IAIS committees, subcommittees and working group meetings that addressed a range of global regulatory issues during the year. Highlights of this involvement are summarised in the following table.

Overview of BMA IAIS Participation in 2011

Committee	Activity
Macroprudential Policy and Surveillance Working Group	Assumed Chairmanship in November 2011
Insurance Group and Cross-Sectoral Issues Subcommittee Meetings in Basel, Switzerland, Amsterdam and Kansas City (Chairman)	Chaired three meetings
Insurance Core Principles Coordination Group meeting in Basel, Switzerland (Member)	Actively participated in the review and evaluation of the IAIS Core Principles - adopted October 2011
Solvency and Actuarial Issues Subcommittee meeting in Basel, Switzerland	Participation as Committee member
Working Party meetings in Kansas City	Participation as Committee member
Financial Stability Board - Data Gaps and Systemic Linkages Working Group	Authority representing IAIS on this working group Conducted training on Solvency II and the Insurance Solvency Standards

Market Statistics by Company Type* For the year ended 31st December 2010**

Company Type	No. of Co's	Gross Premiums	Net Premiums	Total Assets	Capital and Surplus
Captives					
Captives of Insurer	34	$1,910,651,268	$1,215,583,273	$6,800,384,649	$3,234,994,434
Captives writing 3rd Party	119	$9,118,006,420	$7,847,477,993	$32,234,917,277	$14,240,171,243
Captives writing Connected Business	48	$1,520,154,208	$1,035,064,082	$4,597,886,931	$1,756,940,312
Health Care Captives	46	$708,232,250	$655,375,230	$3,926,984,539	$985,880,137
Group Captives	95	$3,573,141,529	$2,009,133,882	$21,394,436,011	$9,803,652,311
Single-Parent Captives	229	$3,423,773,264	$2,622,374,833	$14,223,678,365	$8,542,251,751
Segregated Accounts Companies	45	$1,147,259,474	$1,085,015,291	$3,554,579,310	$997,512,437
Sub-totals:	**616**	**21,401,218,413**	**16,470,024,584**	**86,732,867,082**	**39,561,402,625**
Professional Insurers/Reinsurers					
Professional Ins./Reins.	235	$34,746,877,608	$29,524,084,441	$171,819,769,505	$59,716,091,405
Class 4 Insurers	32	$31,383,960,497	$28,078,881,857	$154,477,199,711	$73,422,869,550
Long-Term Insurers	67	$20,154,205,698	$20,154,205,698	$111,662,220,428	$12,506,695,186
Sub-totals:	**334**	**$86,285,043,803**	**$77,757,171,996**	**$437,959,189,644**	**$145,645,656,141**
Totals:	**950**	**$107,686,262,216**	**$94,227,196,580**	**$524,692,056,726**	**$185,207,058,766**

Explanatory Notes:

a) Captive of Insurer	Captive owned by a professional insurer and/or reinsurer.
b) Captive writing 3rd 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.
c) Captive writing Connected Business	(Re) insurer writing the risks related to or arising out of the business or operations of its owners and/or affiliates.
d) Health Care Captive	(Re) insurer owned by a hospital or health maintenance organisation and writing the risks of its owners and/or affiliates.
e) 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.
f) Single-Parent Captive	Single-parent captive writing only the risk of its owners and/or affiliates.
g) Segregated Accounts Company	Insurance Company providing captive facilities to others under a segregated account structure.
h) Professional Insurers/Reinsurers	Insurance Company writing unrelated risks as a direct writer and/or reinsurer.
i) Class 4 Insurer	Insurers and reinsurers capitalised at a minimum of $100 million underwriting direct excess liability and/or property catastrophe reinsurance risk.
j) Long-Term Insurer	Insurers writing Long-Term (or life) business.

** Company types have been reclassified to more accurately reflect our current market.*

- *Association Captives have been integrated into Group Captives*
- *Captives writing Connected Business have been segregated from Group Captives*
- *Captives of Insurers have been segregated from Affiliated Reinsurer*
- *Affiliate Reinsurers have been integrated into Profess. Ins. /Reinsurer*
- *Long-Term Insurers have been segregated from Profess. Ins. /Reinsurer*
- *Rent-a-Captives have been renamed as Segregated Accounts Companies*

*** Underwriting statistics quoted are from insurance company Statutory Financial Returns (SFRs) for 2010. Companies submit SFRs on a phased basis throughout the year following the financial year-end. The initial submission deadline for 2010 SFRs was April 2011. Due to this schedule the most recent complete year-end figures for this overview are from 2010.*

Market Statistics by Region of Beneficial Owner/s For the year ended 31st December 2010*

Domicile of Owners	No. of Co's	Gross Premiums	Net Premiums	Total Assets	Capital and Surplus
Captives					
Africa/Middle East	8	$57,402,453	$24,104,874	$130,303,610	$65,123,051
Asia	27	$535,090,755	$555,219,401	$2,202,429,051	$926,348,214
Australia/New Zealand	9	$36,844,809	$30,375,383	$315,215,228	$207,565,388
Bermuda	47	$1,107,901,508	($275,446,133)**	$4,610,544,948	$1,861,999,052
Caribbean/Latin America	24	$645,863,087	$331,717,651	$1,285,582,467	$602,002,863
Europe	83	$3,459,619,439	$3,140,543,008	$12,829,863,084	$7,245,700,837
North America	418	$15,558,496,363	$12,663,510,400	$65,358,928,693	$28,652,663,221
Sub-Totals:	**616**	**$21,401,218,413**	**$16,470,024,584**	**$86,732,867,082**	**$39,561,402,625**
Professional Ins./Reinsurers					
Africa/Middle East	3	$9,535,032	$9,535,062	$6,806,463,866	$658,403,051
Asia	8	$697,927,850	$596,640,950	$2,738,117,952	$2,166,394,966
Australia/New Zealand	2	$2,508,744,191	$2,424,149,663	$5,574,733,001	$1,731,457,092
Bermuda	79	$24,370,952,943	$22,401,427,412	$137,647,827,314	$48,745,780,393
Caribbean/Latin America	17	$2,690,854,917	$2,493,069,403	$21,085,860,298	$7,472,916,130
Europe	60	$13,392,864,841	$10,540,552,594	$79,750,742,467	$28,907,698,988
North America	165	$42,614,164,029	$39,291,796,912	$184,355,444,746	$55,963,005,521
Sub-Totals:	**334**	**$86,285,043,803**	**$77,757,171,996**	**$437,959,189,644**	**$145,645,656,141**
Totals:	**950**	**$107,686,262,216**	**$94,227,196,580**	**$524,692,056,726**	**$185,207,058,766**

** Underwriting statistics quoted are from insurance company Statutory Financial Returns (SFRs) for 2010. Companies submit SFRs on a phased basis throughout the year following the financial year-end. The initial submission deadline for 2010 SFRs was April 2011. Due to this schedule the most recent complete year-end figures for this overview are from 2010.*

*** Net Premiums Written balance was impacted by a large single loan portfolio transfer transaction (i.e. premiums ceded to accepting insurer) in connection with one entity.*

Market Statistics by Class of Insurer For the year ended 31st December 2010*

Class of Insurer	No. of Co's	Gross Premiums	Net Premiums	Total Assets	Capital and Surplus
Class 1	237	$3,407,490,047	$2,658,948,229	$15,062,847,479	$9,233,673,847
Class 2	254	$9,254,057,849	$6,312,452,365	$43,687,239,803	$20,897,826,787
Class 3	223	$8,814,191,514	$6,695,295,707	$30,251,588,433	$13,250,245,184
Class 3A	112	$12,270,948,853	$10,549,084,396	$46,289,500,668	$17,791,449,778
Class 3B	16	$10,173,782,414	$7,592,254,395	$30,239,989,125	$15,332,313,167
Class 4	32	$31,383,960,497	$28,078,881,857	$154,477,199,711	$73,422,869,550
Long-Term	67	$32,219,880,879	$32,219,880,879	$203,221,851,516	$35,179,645,970
Special Purpose Insurer	9	$161,950,163	$120,398,752	$1,461,839,991	$99,034,483
Totals:	**950**	**$107,686,262,216**	**$94,227,196,580**	**$524,692,056,726**	**$185,207,058,766**

Explanatory Notes:

a) Class 1 — Single-parent captive insuring the risks of its owners or affiliates of the owners.

b) 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.

c) Class 3 — Captive insurers underwriting more than 20% and less than 50% unrelated business.

d) 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.

e) 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.

f) Class 4 — Insurers and reinsurers capitalised at a minimum of $100 million underwriting direct excess liability and/or property catastrophe reinsurance risk.

g) Long-Term — Insurers writing Long-Term (or life) business.

h) Special Purpose Insurers — Insurers that conduct special purpose business.

** Underwriting statistics quoted are from insurance company Statutory Financial Returns (SFRs) for 2010. Companies submit SFRs on a phased basis throughout the year following the financial year-end. The initial submission deadline for 2010 SFRs was April 2011. Due to this schedule the most recent complete year-end figures for this overview are from 2010.*

Class of Insurer Registered*

Class of Insurer	2011 Registrations	%	2010 Registrations	%
Class 1	**5**	**9.3**	6	16.7
Class 2	**4**	**7.4**	4	11.1
Class 3	**6**	**11.1**	4	11.1
Class 3A	**9**	**16.7**	2	5.6
Class 3B	**1**	**1.9**	1	2.8
Class 4	**2**	**3.7**	2	5.6
Long-Term	**3**	**5.6**	7	19.4
Special Purpose Insurers	**23**	**42.6**	8	22.2
Dual Licences	**1**	**1.9**	2	5.6
Totals:	**54**	**100**	36	100

**Previously 'Class of Insurer Incorporated' - Effective Q1 2010, the presentation of this statistical data has been revised to provide details of those companies added to the Insurance Register during each quarter, i.e. those that have been granted an insurance licence by the Bermuda Monetary Authority. Previously, statistics for company incorporations were provided in this publication. Company incorporations are completed by the Bermuda Registrar of Companies (ROC) office; statistics on insurance company incorporations will now be available from the ROC.*

Analysis of all Insurers Registered

Class of Insurer	2011	%	2010 Restated	% of Restated 2010
Class 1	**272**	**22.1%**	269	22.8%
Class 2	**317**	**25.8%**	308	26.1%
Class 3	**273**	**22.2%**	264	22.4%
Class 3A	**109**	**8.9%**	104	8.8%
Class 3B	**15**	**1.2%**	15	1.3%
Class 4	**29**	**2.4%**	26	2.2%
Long-Term**	**7**	**0.6%**	97	8.2%
Class A	**3**	**0.2%**	–	0.0%
Class B	**0**	**0.0%**	–	0.0%
Class C	**70**	**5.7%**	–	0.0%
Class D	**7**	**0.6%**	–	0.0%
Class E	**13**	**1.1%**	–	0.0%
Special Purpose Insurers	**29**	**2.4%**	8	0.7%
Dual Licences	**86**	**7.0%**	87	7.4%
Totals:	**1,230**	**100%**	1,178	100%

*** The Long-Term sector reclassification took effect in 2011. Therefore, data reported from that date will reflect the reclassified Long-Term company categories.*

Policy, Research, International Affairs & Risk Assessment

During the year, the Authority progressed its policy development framework agenda, completing a number of initiatives designed to ensure that its regulatory framework maintains alignment with emerging international standards and remains effective for the Bermuda market.

Policy Development

Insurance

During the year, supporting legislative changes included enactment of a series of secondary legislation for the insurance market. These included the Insurance (Prudential Standards) (Class 4 and Class 3B Solvency Requirement) Amendment Rules 2011; the Insurance (Prudential Standards) (Class 3A Solvency Requirement) Rules 2011; and the Insurance (Prudential Standards (Class E Requirement) Rules 2011. A summary of the resulting framework enhancements from on going policy development is shown in the Insurance section of this Report on page 35.

The Authority also published two sets of Rules that established the basis for applying its enhanced solvency regime and risk management standards to Bermuda's insurance groups. These included the Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules, and the Insurance (Group Supervision) Rules 2011, which came into effect 16th January 2012. Highlights of the provisions of the Rules can be found in the Legal Services & Enforcement section of this Report on pages 51 to 52. In 2012, with most of the insurance policy framework in place for the commercial market (i.e. Class 4, Class 3B and Class 3A firms), the Authority will shift its focus to implementation of the framework components.

Banking

During the second half of the year, the Authority began industry consultation on a number of banking sector initiatives. Consultation on proposals to establish a special resolution regime for the sector began in September 2011, when the Authority published the Consultation Paper entitled "Special Resolution Regime for Deposit-taking Institutions in Bermuda". In December, the Authority issued the Consultation Paper "Corporate Governance Code". The Code seeks to build on corporate governance practices for Bermuda's banks. Highlights of this initiative can be found in the Banking, Trust and Investment section of this Report on page 21. The Authority also published the Discussion Paper "Implementation of Basel III in Bermuda". This Paper sets forth thoughts on applying Basel III principles in Bermuda.

International Participation

On the international front, the Authority continued to participate actively in major initiatives within the International Association of Insurance Supervisors (IAIS), including assuming the Chairmanship of the IAIS Macroprudential Policy and Surveillance Working Group (MPSWG). The MPSWG was created by the IAIS Executive Committee in 2011 to address issues relating to, among other matters, systemic risk in the insurance sector.

Research

Annual Market Survey on Captives

The Authority presented the findings of its fifth annual market survey on Bermuda's captive sector at the Bermuda Captives Conference held in June 2011. The survey, which the Authority completed in conjunction with the Bermuda Insurance Managers Association, provides a thorough analysis of the captive market at the jurisdictional level. Data in the survey include such details as premium configuration by geographical location of risk, lines of business and balance sheet, as well as invested asset mixes.

International Association of Insurance Supervisors (IAIS) Global Reinsurance Market Reports (GRMR) 2011

The Authority assisted in producing the IAIS Reinsurance Transparency Sub-group's annual Global Reinsurance Market Report in 2011. The annual report, released in December 2011, provides a global perspective of the reinsurance market based on data provided by 45 reinsurers from Bermuda, France, Germany, Japan, Switzerland, UK, USA, Spain and Luxembourg. The Authority facilitated the provision of the Bermuda data and contributed to the drafting and production of the Report. A copy of the Report is available on the IAIS website: www.iaisweb.org.

IMF Coordinated Portfolio Investments Survey

The annual Coordinated Portfolio Investment Survey (CPIS), led by the International Monetary Fund (IMF), aims to measure cross-border investment in equities and debt securities by participating jurisdictions. Data for 2010, the latest available, shows that total cross-border investments held by Bermuda entities totaled $551.04 billion, an increase of 17% from the figure of $471.5 billion recorded in 2009.

The International Locational Banking Statistics

Originally introduced by the Bank of International Settlements (BIS) in 1964, the locational statistics gather quarterly data on the gross international financial claims and liabilities of banks. Bermuda is one of 43 reporting jurisdictions providing data to this study. Data for 2011 shows that at the end of the year Bermuda's banks had aggregate cross-border claims

Sample of BMA Contributions to International Publications / Events for 2011

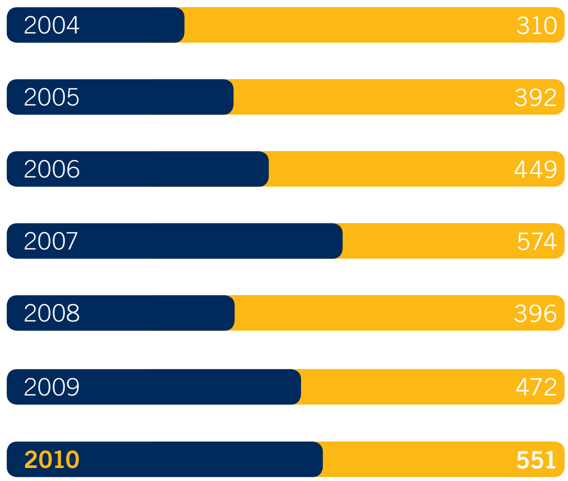
Publication/Event	Contribution
EVENTS	
Alpha Hedge Conference, Bermuda	Panel presentation on "Macro Implications of Rising Sovereign Debt"
American Bankers Association's Operational Risk Modeling Forum, Charlotte, North Carolina	Presentation on "Stress Testing for Operational Risk"
Aon Benfield Analytics Conference London, United Kingdom	Regulatory and Rating Agency Panel
Asset-Liability Management Conference (RISK Magazine), London	Presentation on "Systemic Liquidity Risk and Macroprudential Stress Testing"
Third Annual Bermuda Briefing, Toronto, Canada	Panel presentation on the macroeconomic situation in Bermuda and the recent policy efforts in the area of Islamic finance
6th Annual Marcus Evans Stress Testing Conference, London, United Kingdom	Panel presentation on "Building an Enterprise-wide Stress Test"
16th Annual Super Bowl of Indexing conference, Phoenix, Arizona	Panel presentation on macroeconomic implications for investor strategies
PUBLICATIONS	
Fact Book 2011 published by the European Covered Bond Council	Co-authored article on "Covered Bonds and Asset Encumbrance"
'Managing Risk in the Financial System' published by Edward Elgar (London).	Co-authored chapter on "Systemic Contingent Claims Analysis – A Model Approach to Systemic Risk"
Sveriges Riksbank Economic Review	Co-authored article on "Modelling Systemic Financial Sector and Sovereign Risk"
Journal of International Economics	Co-authored article on "Market Response to Policy Initiatives during the Global Financial Crisis"

of US $14.9 billion (2010: US $12.6 billion) and total cross-border liabilities of US $14.8 billion (2010: US $12.0 billion). Comprehensive coverage of locational statistics dating back to 1977 is available from the BIS website: www.bis.org

Risk Assessment – BMA Quarterly Banking Digest

Four editions of the Quarterly Banking Digest were published during the year. The publication, which provides analysis and reporting of key trends in Bermuda's banking sector, supports the Authority's strategic goal of enhancing transparency across its operations. The publication's intent is to present information generated from the Authority's analysis of prudential returns received from Bermuda's banks that is useful to readers from the perspective of market analysis, research and news. Copies of the Digest are available on the Authority's website: www.bma.bm.

CPIS: Bermuda Cross-Border Portfolio Investments, 2004-2010 (US$ billion)



International Participation & Supervisory Cooperation

The importance of effective supervisory cooperation among regulators was further highlighted during 2011. Based on lessons learned from the financial crisis, supervisors now place an increased emphasis on colleges and information sharing in general with their counterparts to share ideas, trends and pertinent data.

This emphasis on greater supervisory cooperation is also reflected in recent standards from several international bodies, including but not limited to, the International Association of Insurance Supervisors (IAIS). Communication, building the necessary working relationships, and seeking consensus between regulators in advance of any systemic problems developing with regulated entities is also vital.

In 2011 the Authority continued its commitment to supervisory cooperation. This included maintaining a key role in the work of international standard setting bodies such as the IAIS and, where appropriate, contributing significantly to various initiatives under development.

Overall, the Authority remained proactive in the international arena, while at the same time, doing what is right for Bermuda.

Memoranda of Understanding
The Authority remained committed to fostering effective supervisory cooperation via on going relationships with its overseas counterparts and signing Memoranda of Understanding (MOU) with other regulatory bodies. Since 1997 the BMA has signed 17 MOUs designed to formalise information exchange and to establish a basis for consultation, cooperation and coordination between the Authority and its regulatory counterparts across the globe. During 2011, the Authority added to its list of MOUs by signing a Multilateral Memorandum of Understanding (MMOU) with the Caribbean Group of Banking Supervisors (CGBS).

Highlights of International Participation for 2011

Active Participation	
Insurance	
IAIS Participation	• Macroprudential Policy & Surveillance Working Group • Reinsurance and Other Forms of Risk Transfer Subcommittee / Reinsurance Transparency Group (RTG) • Financial Stability Committee • Insurance Groups Subcommittee • Technical Committee • Executive Committee • Tri-annual Meetings • Presented at annual conference • Attended IAIS workshop on the IAIS Multilateral Memorandum of Understanding (MMOU) • Attended Joint Meeting of the IAIS Supervisory Working Group and Supervisory Coordination Subcommittee
Financial Stability Institute (FSI)	• Regional Seminar for supervisors from Africa • Delivered training at FSI Seminar on Reinsurance and Other Forms of Risk Transfer in Basel, Switzerland
Banking	
	• Group of International Finance Centre Supervisors • Caribbean Group of Banking Supervisors
Investment	
	• International Organisation of Securities Commissions (IOSCO) • Caribbean Group of Securities Regulators • Offshore Group of Collective Investment Scheme Supervisors

Supporting Effective Regulation

Corporate Communications

One of the Authority's main objectives for the year was to continue developing its progressive regulatory framework. The Authority conducted an active corporate communications programme to support this effort, both locally and overseas.

To support the goal of achieving equivalence with Europe's Solvency II Directive, the Authority continued to engage both industry and the media, particularly overseas publications, to promote its progress with its framework enhancements. This work included proactive advocacy activities in order to increase awareness and understanding among key international stakeholders about Bermuda's risk-based supervisory framework.

A highlight of this advocacy work included the second annual BMA International Regulatory Forum held in Bermuda in December 2011. Key overseas participants included the chief architect of Solvency II, Mr. Karel Van Hulle, Head of Unit for Insurance and Pensions at the European Commission. The Authority facilitated direct and frank discussion about equivalency which was well-received by the local insurance market. The Forum also featured panels of local and international speakers addressing topical issues related to the banking and asset management industries relevant to the Bermuda market.

The Authority also conducted numerous presentations and speaking engagements alongside key regulators, representatives from international standard setting bodies and market participants throughout the year. Senior members of the Authority's staff continued to represent Bermuda and raise awareness of its regulatory environment at a number of significant conferences and seminars, including:

- IAIS Annual Conference, Seoul, South Korea
- National Association of Insurance Commissioners' International Insurance Forum, Washington DC
- Caribbean Group of Banking Supervisors Annual Conference, San Pedro, Belize
- IOSCO Annual Conference, Cape Town, South Africa
- Captive Insurance Companies Association 2011 International Conference, Tucson, Arizona
- Risk and Insurance Management Society (RIMS) Conference, Vancouver
- Bermuda Captives Conference 2011
- Business Bermuda Financial Services Conference, New York and London

The Authority also continued its industry outreach activities by hosting several market briefings in 2011, particularly regarding the on going developments to Bermuda's insurance framework. These market briefings provided the opportunity for industry representatives to receive progressive updates on those developments, beginning with outlining the Authority's regulatory plans and agenda for the year, the implications of the EIOPA equivalence assessment and proposed follow up actions resulting from the assessment. There were also a series of technical workshops and trial run post-mortems held with the market that served to support companies' transition towards compliance with the framework enhancements that Authority is implementing. With a view to providing information that would result in accurate and comprehensive media coverage, the Authority also continued to build on its media outreach programme during the year. This included disseminating press releases about significant milestones achieved against the 2011 Business Plan, and further developments of Bermuda's supervisory framework. International publications in which the Authority received favourable media coverage included: Business Insurance, Captive Review, Insurance Journal, Insurance Day, IFC Review and AM Best. Additionally, the Authority also published numerous articles in industry journals.

Community Education

As part of its mandate to act in the public interest, the Authority launched a Consumer Education Programme (CEP) in 2011.

The CEP is designed to support consumers in making informed decisions when dealing with financial institutions. It also seeks to ensure consumers gain an understanding of the Authority's role and responsibilities as Bermuda's financial services regulator. A new section of the BMA website entitled: 'Know Before You Go' was created. Highlights of the new CEP website include a list of market Codes of Conduct and required best practices for Bermuda's banks, investment businesses, insurers, trust companies and fund administrators, and tips on how consumers can protect themselves when dealing with financial institutions and file complaints with relevant authorities.

Information Technology

In 2011, the Authority further emphasised its ability to leverage technology for operational as well as regulatory and supervisory efficiencies. Implementation of our on going information technology strategy continued. Activities over the past year included focus on streamlining the regulatory compliance process, and supporting the timeliness, accuracy, and completeness of supervisory data.

The BMA was among the first regulators in the world to use eXtensible Business Reporting Language (XBRL) for electronic filing of insurance regulatory submissions. This began with Bermuda Capital and Solvency Requirement (BSCR) filings for Class 4 insurers in 2010, and was extended to Class 3B firms in 2011. A pilot of the BSCR, modified for Class 3A insurers also took place during the year. This work has laid the foundation for eventually extending e-filing and embedding XBRL technology for submissions from Bermuda's regulated insurance entities. As a result, both the Authority and the market will benefit from greater efficiencies in the regulatory filing process.

Overall, the BMA is using XBRL to enhance the manner in which it collects, analyses, measures, and shares information by automating its corporate reporting, and regulatory oversight business processes in support of its enhanced risk-based supervisory framework. The vision is to increase the use of electronic processes to achieve greater efficiencies, richer data analysis, and improved reporting capability for supervisory oversight and review, as well as enhanced service levels, and seamless regulatory reporting for Bermuda's licensed entities.

Streamlining the Regulatory Compliance Process

Central to the enhanced technological infrastructure and operating environment the Authority is establishing is an Electronic Regulatory Information Compliance Application (ERICA). In 2011, in addition to supporting internal data management and analysis processes ERICA was launched to a select group of investment fund managers. ERICA is an automated workflow and records management system that receives, tracks, and processes regulatory filings, including XBRL filings, material changes and other types of submissions licensed entities submit to the Authority. ERICA automates and consolidates a number of legacy systems and manual processes into a single filing portal supported by one information repository. This will streamline the regulatory compliance process in a number of ways, including reducing both potential duplication of information requests to licensed entities and required response times.

Timely, Accurate, and Complete Data

The Authority also launched several initiatives aimed at enhancing the timeliness, accuracy, and completeness of supervisory data during the year. These included implementing enhancements to the XBRL taxonomy, and related supporting filing processes, for insurance sector solvency reporting to the Authority. This initiative will help insurers - initially Class 4, 3B, Long-Term E firms and insurance groups – to complete their BSCR returns more quickly, and minimise errors in their filings. In 2011, work on this initiative, together with the Authority's wider accomplishment in developing a Solvency II XBRL taxonomy and an insurance extension to the International Financial Reporting Standards (IFRS) XBRL taxonomy, resulted in the BMA being recognised internationally for the innovative use of technology in the insurance sector reporting. The Authority has been acknowledged in particular for its contributions to the expanded use of XBRL for insurance reporting in the European Union. In Bermuda, the Authority received the 2011 technology innovation award for best business solution. The technology awards recognise the initiatives of companies and individuals that inspire others to leverage technology; the Authority's award recognises the added value of its efforts to use technology innovatively to support effective supervision of Bermuda's financial services sector.

Legal Services & Enforcement

Driven by, among other matters, requirements for the development and implementation of Bermuda's regulatory equivalence programme, the Authority's legislative agenda was substantive in 2011.

Other legislative efforts centered on developing a corporate service providers' regime; a special regime for Japanese funds; enhancements to the BMA's enforcement powers and required housekeeping measures. The Authority continued to roll out changes to its enforcement powers and further its efforts in relation to Bermuda's anti-money laundering and anti-terrorist financing (AML/ATF) regime.

AML Highlights

After assessing the needs and requirements of the financial services community in the first half of 2011, the Authority redirected its efforts in order to promote AML/ATF objectives. The Authority focused on educating the financial services sector on the importance of compliance with Bermuda's Proceeds of Crime legislation by establishing proper procedures and appointing appropriate personnel in order to combat the efforts of persons intent on committing such crimes.

During the year, the Authority's AML on-site programme focused on institutions holding trust or investment business licences. In this regard, the Authority conducted 21 on-site visits at various trust companies, investment businesses, banks and money service businesses. As originally planned, the Authority commenced with desk-based reviews in 2011 and has developed operational procedures and a statistical reporting database to facilitate such reviews. To cover all AML regulations for the trust sector, including the Bermuda Association of Licensed Trustees, sector-specific AML guidance was proposed in 2011. The Authority has reviewed comments received from the industry and will issue a Guidance Note in 2012.

Draft sector specific AML Guidance Notes for the Trust industry were prepared in the second half of 2011, and circulated to industry for consultation. Comments have been recieved and it is anticipated for the Guidance Notes to be issued in 2012.

The Authority conducted various outreach seminars with local banks and the trust and investment industries in 2011. The purpose of these seminars was to improve AML awareness in the market, focusing on themes that arose out of previous on-site visits. The Authority anticipates holding a series of similar seminars for the fund and fund administration industry in 2012.

Enforcement highlights

Over the course of 2011, the Authority's enforcement processes were reviewed with the aim of developing a clear and uniform enforcement policy. As a result, the Authority developed a uniform process – with suitable executive oversight – under which its enforcement activities will be pursued.

While the Authority has maintained its policy of utilising enforcement powers only in the most serious instances of regulatory failure, there were circumstances where enforcement powers were used in support of the Authority's objectives over the course of the year. Those included requiring reports from individual institutions on their conduct and governance, the application to the Supreme Court for the winding up of an active insurer, the imposition of conditions and restrictions on licences in the insurance sector and the use of enforcement powers in respect of breaches of AML obligations.

The Authority has also progressed the development of a range of enforcement options which are equivalent to those available to other regulators internationally. Draft bills have been prepared which propose amendments to the Regulations and Acts for which the Authority has responsibility. Extensive consultation with industry occurred throughout 2011 on these proposals and it is expected for a re-draft of the Bills to move forward in 2012.

Highlights of Legislative Initiatives During 2011

Legislation	Overview
Insurance	
Insurance Appeal Tribunal Regulations 2011 (the "Regulations")	• The Regulations make provision for, amongst other matters, the time and manner for bringing appeals and establish procedures by which the appeal tribunal will be conducted. The Regulations also prescribe matters relating to preliminary hearings; costs, grounds for appeal and documents to be submitted to the Secretary by the Authority and the applicant.
The Insurance Amendment Act 2011 (the "Act")	• The Act was amended to, among other matters, extend enhanced solvency reporting requirements to Class 3A and Class E insurers, in line with the enhanced reporting requirements imposed on Class 4, Class 3B and Class 3A insurers in Bermuda and to address various housekeeping matters.
The Insurance (Prudential Standards) (Class 4 and Class 3B Solvency Requirement) Amendment Rules 2011 ("Class 4 and 3B Rules")	• The Class 4 and 3B Rules were amended to, among other matters, make provision for the Authority to revoke its approval for use of an internal capital model by an insurer when it is deemed no longer appropriate; and • To provide for Class 4 and 3B insurers that are not members of an insurance group for which the Authority is the appointed Group Wide Supervisor, to submit quarterly financial returns (in addition to an annual financial return).
Insurance (Prudential Standards) (Class 3A Solvency Requirement) Rules 2011 ("Class 3A Rules")	• The Class 3A Rules make provision for the calculation of applicable eligible capital requirements for Class 3A insurers by application of the Bermuda Solvency Capital Requirement-Small and Medium Entities (BSCR-SME) model. Class 3A insurers may also apply to the Authority to use an internal capital model instead of the BSCR-SME and provision is also made for requiring Class 3A insurers to submit a capital and solvency return to the Authority each year.
Insurance (Prudential Standards) (Class E Solvency Requirement) Rules 2011 (the "Class E Rules").	• The Class E Rules make provision for enhanced solvency requirements and risk management reporting to apply to Class E insurers. The Class E Rules also establish and apply the Class E Bermuda Solvency Capital Requirement, and provides for Class E insurers to make an application to the BMA for the approval of an internal capital model if required. The Class E Rules also provide authority for the BMA to withdraw such approval where an approved internal capital model is no longer deemed appropriate, and imposes corporate governance requirements and eligible capital requirements to Class E insurers as of 31st December 2011.
The Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules 2011 ("Group Prudential Rules") and the Insurance (Group Supervision) Rules 2011 ("Group Supervision Rules")	• The Group Prudential Rules were enacted to prescribe the method for determining the BSCR for all relevant insurance groups, and other statutory filing requirements related to solvency which the groups must file annually with the Authority. • The Group Supervision Rules establish principles to be observed and implemented by insurance groups in Bermuda in relation to among other matters: corporate governance, risk management and controls, internal audit function, group solvency self-assessment, minimum margin of solvency and group enhanced capital requirements

Highlights of Legislative Initiatives During 2011

Legislation	Overview
Deposit Insurance Scheme	
The Deposit Insurance Act 2011	• For implementing an effective and appropriate Deposit Insurance Scheme (DIS) for the Bermuda market. The DIS has three main objectives in Bermuda: - to protect small depositors - to promote stability in the economy and financial system by providing prompt reimbursement to insured depositors' funds and - to promote competition between financial institutions • For establishing a fund, to be built up from monies provided by all licensed banks and credit unions, which would be available to insured depositors in the event a bank or credit union experienced financial difficulties. • For the incorporation of the Bermuda Deposit Insurance Corporation which will manage the DIS. Such efforts are intended to move forward in 2012.

AML/ATF On-site Examinations	
Banks and Deposit Taking Companies	2
Fund Administrators	1
Investment Business	5
Money Service Business	3
Non-Licensed Person	1
Trust Business	9
Total	**21**

A Professional Team

Human Resources

Recognising critical resourcing and staff development as on going priorities, the Authority's continued focus on its people was clearly evident in 2011.

The Authority's multi-year resourcing strategy continued in 2011. Considerable progress was achieved towards filling several senior-level posts necessary to support key strategic initiatives, such as gaining regulatory equivalence and the implementation of group wide supervision for the insurance sector.

The Authority's efforts in these areas also include a commitment to ensuring that our people continue to develop in critical technical and operational areas. Where necessary, the Authority's learning and development framework has also been enhanced and redesigned to ensure that our framework aligns with our performance management, recruitment and training functions, and is also consistent with global best practices.

Developing our people

The Authority continues its commitment to the development of its employees and overall intellectual capital to the highest possible standards. Among several strategic initiatives in that regard is the introduction of technical competencies for insurance, risk and financial services supervisory staff. Beginning in 2010, the Authority began a two-phase process to enhance technical competencies throughout the organisation under its learning and development framework.

This work has involved articulating enhancing and standardising technical competency levels across all supervisory teams. This process has also included an increase in formal technical training offered in the classroom, mentoring, manager coaching and on-the-job training. The Authority has also continued its on going development of subject matter experts on core topics related to its supervisory function. It is proposed that this approach will be extended across all areas of the Authority, once it is fully embedded within the supervisory departments.

An element of the Authority's long-term human resource strategy, with an emphasis on succession planning, reached a milestone during the year. The Graduate Training Programme (GTP) was formed four years ago to provide young Bermudians with an opportunity to develop a career in financial regulation. In 2011, two graduate trainees were preparing for the final stage of their rotations through the Programme, four-month secondments at the International Association of Insurance Supervisors in Basel, Switzerland and the insurer Hiscox in London. After successfully completing the GTP, the trainees will be offered a permanent position within the Authority.

Resourcing and staffing

The Authority's recruitment efforts during 2011 yielded new managerial-level recruits with specialised skills and experience in the areas of policy, risk management and assessment, as well as banking and insurance supervision. These additional team members complemented the existing technical skills and resources currently available within the organisation.

As we move forward and embed our technical competency framework into our recruitment process, we anticipate being better positioned to identify the competencies and skill sets required to ensure the Authority is successful in meeting its objectives.

Looking forward to 2012, the focus of our recruitment efforts will be on sourcing additional senior supervisory staff to assist with the delivery of group wide supervision for insurers. The Authority will continue its work to embed its technical competency framework into its recruitment efforts, further refining the process to acquire the skill sets required to support delivering quality supervision.

BMA Management Team as at 31st December 2011

Jeremy Cox	**Chief Executive Officer**
Brad Erickson	**Chief Operating Officer**

Banking, Trust and Investment (BT&I)

Marcia Woolridge-Allwood	**Director**
Tamara Anfossi	Assistant Director, BT&I Financial Institutions and Investment Funds
Courtney Christie-Veitch	Assistant Director, BT&I Financial Groups

Corporate Finance

Terry Pitcher	**Head of Finance**

Corporate Governance and Communications

Pat Phillip-Bassett	**Deputy Director**

Human Resources

Mesheiah Crockwell	**Head of Human Resources**
Verna Hollis Smith	Assistant Director, Organisation Management

Insurance, Licensing & Authorisation

Shelby Weldon	**Director**
Leslie Robinson	Assistant Director, Licensing

Insurance Supervision, Complex Institutions

Shanna Lespere	**Director**
Niall Farrell	**Deputy Director, Run-off & Monitoring**
Diana Nedvidek	**Deputy Director, Insurance Supervision, Complex Institutions**
Laila Burke	Assistant Director, Insurance Supervision, Complex Institutions
Gerald Gakundi	Assistant Director, Insurance Supervision, Complex Institutions
Susan Molineux	Assistant Director, Insurance Supervision, Complex Institutions
Sonja Nauta	Assistant Director, Insurance Supervision, Complex Institutions
Suzanne Williams	Assistant Director, Insurance Supervision, Complex Institutions

Legal Services and Enforcement

Shauna MacKenzie	**Director**
Thomas Galloway	Senior Legal Counsel
Dina Wilson	Assistant Director, Legal Services & Enforcement

Management Services

John Dill	**Director**
Howard Ho	Assistant Director, IT
Austin Culmer-Smith	Assistant Director, Corporate Operations

Policy, Research and International Affairs

Mary Frances Monroe	**Director**
Marcelo Ramella	**Deputy Director, Research & International Affairs**
Arhat Virdi	Assistant Director, Policy

Risk Analytics

Craig Swan	**Director**
David Theaker	**Deputy Director, Actuarial Services**
Andreas Jobst	Assistant Director, Chief Economist
David Kaniaru	Assistant Director, Analytics, Insurance
Richard May	Assistant Director, Actuarial Services, Long-Term
Gina Smith	Assistant Director, Actuarial Services, Property & Casualty
Gary Thomas	Assistant Director, Actuarial Services, Long-Term
Navid Zarinejad	Assistant Director, Actuarial Services, Property & Casualty

Senior Advisors

Graeme Dargie	Senior Advisor, BT&I
William Kattan	Senior Advisor, Legal Services & Enforcement
Roger Scotton	Senior Advisor, International Affairs

Financials

BMA
BERMUDA MONETARY AUTHORITY

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27th April 2012

The Hon. Paula A. Cox, JP MP
Minister of Finance
Ministry of Finance
Hamilton

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 2011 together with the annual statement of accounts and the opinion of the Auditor General.

This document also contains the reports for the year 2011 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,

Jeremy Cox
Chief Executive Officer

BMA
BERMUDA MONETARY AUTHORITY

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43 Victoria Street
Hamilton HM 12 Bermuda

P.O. Box 2447
Hamilton HM JX Bermuda

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email: enquiries@bma.bm website: www.bma.bm

27th April 2012

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

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

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

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

Alan C. Cossar
Chairman

Jeremy Cox
Chief Executive Officer

Office of the Auditor General
Reid Hall, Penthouse
3 Reid Street
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 statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and 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 audits. I conducted my audits 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 in my audits 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, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Hamilton, Bermuda
April 16, 2012

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

BERMUDA MONETARY AUTHORITY

Statement of Financial Position
As at December 31, 2011, December 31, 2010 and January 1, 2010

(In thousands of Bermuda dollars)	Note	As at December 31 2011	2010	As at January 1 2010
Assets				
Current assets				
Cash and cash equivalents	5	50,971	44,201	52,945
Term deposits	6	-	5,000	10,975
Accounts and other receivables	7	1,269	2,378	4,816
Prepayments		1,357	239	361
Stock of numismatic items	8	640	551	674
Stock of notes and coins for circulation	9	2,642	3,188	3,556
		56,879	55,557	73,327
Non-current assets				
Term deposits	6	-	-	5,000
Investments, held-to-maturity	10	95,410	91,523	79,279
Property and equipment	11	26,351	27,794	28,925
Intangible assets	12	3,493	2,064	934
		125,254	121,381	114,138
Total Assets		182,133	176,938	187,465
Liabilities				
Current liabilities				
Accounts and other payables	13	7,549	8,045	3,684
Notes and coins in circulation	14	133,100	126,721	139,066
		140,649	134,766	142,750
Equity				
Capital subscribed	15	20,000	20,000	20,000
General reserve	15	21,484	22,172	24,715
		41,484	42,172	44,715
Total Liabilities and Equity		182,133	176,938	187,465

Commitments (note 21)

Alan C. Cossar
Chairman

Jeremy Cox
Chief Executive Officer

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

BERMUDA MONETARY AUTHORITY

Statement of Comprehensive Income
For the years ended December 31, 2011 and 2010

(In thousands of Bermuda dollars)	Note	2011	2010
Revenues			
Supervisory and licensing fees	16	35,760	33,965
Incorporation fees, vault commission and other income		1,237	739
Net sale of special coins		118	64
Operating revenue		37,115	34,768
Investment income	17	3,627	3,826
Total revenues		40,742	38,594
Expenses			
Salaries and employee benefits	18	28,739	24,015
General expenses	19	5,790	5,928
Professional fees		3,582	8,728
Depreciation of property and equipment	11	1,816	1,730
Amortisation of intangible assets	12	759	363
Circulation note and coin expenses		744	373
Total expenses		41,430	41,137
Total comprehensive loss for the year		(688)	(2,543)

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

BERMUDA MONETARY AUTHORITY

Statement of Changes in Equity
For the years ended December 31, 2011 and 2010

(In thousands of Bermuda dollars)	2011	2010
Capital	20,000	20,000
General Reserve		
Balance, beginning of year	22,172	24,715
Total comprehensive loss for the year	(688)	(2,543)
Balance, end of year	21,484	22,172
Equity	41,484	42,172

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

BERMUDA MONETARY AUTHORITY

Statement of Cash Flows
For the years ended December 31, 2011 and 2010

(In thousands of Bermuda dollars)	Note	2011	2010
Cash flows from operating activities			
Total comprehensive loss for the year		(688)	(2,543)
Adjustment for:			
Non-cash items included in total comprehensive loss for the year	20	2,929	2,418
Change in operating assets	20	448	3,051
Change in operating liabilities	20	(496)	4,361
Net cash from operating activities		2,193	7,287
Cash flows from investing activities			
Purchase of intangible assets		(2,188)	(1,493)
Purchase of property and equipment		(381)	(600)
Purchase of investments		(16,000)	(13,339)
Proceeds from maturity of investments and term deposits		16,767	11,745
Net cash used in investing activities		(1,802)	(3,687)
Cash flows from financing activity			
Net increase/(decrease) in notes and coins in circulation		6,379	(12,344)
Net cash from/(used in) financing activity		6,379	(12,344)
Net increase/(decrease) in cash and cash equivalents		6,770	(8,744)
Cash and cash equivalents at beginning of year		44,201	52,945
Cash and cash equivalents at end of year	5	50,971	44,201
Operational cash flows from interest			
Interest received		3,993	5,618

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, 2011
(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; and
- the provision of advice and assistance to the Government and public bodies on banking and other financial and monetary matters.

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

These financial statements were authorised for issue by the Board of Directors on April 16, 2012 and the statement of financial position was signed on the Board's behalf by Alan C. Cossar, Chairman and Jeremy Cox, Chief Executive Officer.

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

The Authority has adopted International Financial Reporting Standards ("IFRS") in its financial reporting with effect from January 1, 2011 in accordance with the transitional provisions set out in *IFRS 1, First-time adoption of International Financial Reporting Standards* with January 1, 2010 as the date of transition. The Authority applied the accounting policies to all years presented. Comparative presentation and disclosures have been amended as required by the standards. Adoption of these standards did not impact the Authority's equity as at January 1, 2010.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the Year Ended December 31, 2011
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2.1 Basis of preparation (continued)

Upon transition, IFRS 1 permits certain exemptions from full retrospective application. The Authority has applied the mandatory exemption of using estimates under IFRS that are consistent with those applied under previous GAAP (with adjustment for accounting policy differences) unless there is objective evidence those estimates were in error.

The Authority's financial statements for the year ended December 31, 2011 are the first financial statements in compliance with IFRS. These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Authority's accounting policies. The areas involving a higher degree of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

2.2 Foreign currency translation

(a) Functional and presentation currency

The Authority's financial statements are presented in Bermuda dollars, which is the Authority's functional and presentation currency. All values are 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 and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2.3 Property and equipment

(a) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses, except for land and museum items. Museum items have been capitalised, but not amortised, and are included in property and equipment.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the Year Ended December 31, 2011
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2.3 Property and equipment (continued)

The Authority recognises land and buildings as office space. Change in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates (note 11). 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 de-recognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the statement of comprehensive income in the year the asset is de-recognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

(c) Depreciation
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 assets' residual values and 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.

2.4 Intangible assets

Intangible assets are identified non-monetary assets without physical substance. The Authority's intangible assets comprise internally developed and 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:

- 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;

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the Year Ended December 31, 2011
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2.4 Intangible assets (continued)

- 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 by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

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

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.

The intangible assets' residual value and 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.

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Notes to the Financial Statements
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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 rate 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, term deposits, 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 rate method.

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

(b) Financial Liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other 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.

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Notes to the Financial Statements
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2.5.3 De-recognition of financial assets and liabilities

(a) Financial assets

A financial asset is de-recognised when:

- The rights to receive cash flows from the asset have expired.
- 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:
    - the Authority has transferred substantially all the risks and rewards of the asset, or
    - 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 de-recognised 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 de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the statement of comprehensive income, if any.

2.5.4 Impairment of financial assets

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

The 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
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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.

The Authority first assesses whether objective evidence of impairment exists.

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

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

Impairment testing of accounts and other receivables is described in note 7. The difference between the carrying amount and realised balance is taken to the statement of comprehensive income.

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

2.6 Impairment of property and equipment and intangible assets

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

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

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

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the Year Ended December 31, 2011
(In thousands of Bermuda Dollars)

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

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

2.7 Stock of notes, coins and numismatic items
2.7.1 Stock of notes and coins for/in circulation

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

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

2.7.2 Stock of numismatic items

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

2.8 Accounts and other receivables

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

2.9 Cash and cash equivalents

Cash and cash equivalents includes cash and deposits, repurchase agreements and demand deposits with maturity of ninety days or less. 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.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
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2.10 Accounts and other payables

Accounts and other payables, are non-interest bearing and usually settled on a 30-day term. These are recognised at invoice amount, which is the fair value and subsequently measured at amortised cost using the effective interest method when material. The carrying value at statement of financial position date presents fair value considering its short-term nature, thus discounting is deemed immaterial.

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, annual leave earned but not yet taken at the statement of financial position date, and sick leave.

A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at the statement of financial position date, to the extent that it will be used by staff to cover those future absences.

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 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.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
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2.12 Provisions

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. The Authority has not recorded a provision in 2011 nor 2010.

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 less a charge for bad and doubtful debts.

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 means when the applications for incorporations are completed and approved.

Vault commission is recorded as revenue when earned.

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

2.14 Going concern

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

2.15 Events after the year-end reporting period

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

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
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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, 2012:

- *IAS 1 - Presentation of Financial Statements*, amendments regarding the presentation of items of other comprehensive income
- *IAS 19 - Employee Benefits* (Amended 2011)
- *IFRS 7 - Financial Instruments:* Disclosures, amendments regarding disclosure on transfer of financial assets
- *IFRS 9 - Financial Instruments* (New standard to replace IAS 39 and IFRIC 9)
- *IFRS 13 - Fair Value Measurement* (New standard to replace fair value measurement guidance in other IFRSs)

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

3. Financial risk management

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.

(a) 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, and US Government Agency and Supranational Banks' debt securities. 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 45% (2010 – 62.5%) 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, 2011 and 2010.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the Year Ended December 31, 2011
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3. Financial risk management (continued)

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

	2011	2010
Investments, held-to-maturity		
AAA	51,275	91,523
AA+	44,135	-
	95,410	91,523
Term deposits		
Not rated	-	5,000
Cash and cash equivalents		
Cash at bank and in-hand		
AAA	47	425
AA+	335	-
A+	(278)	459
A	45	146
A-	624	384
Not rated	198	187
	971	1,601
Repurchase agreements		
AAA	-	42,600
AA+	50,000	-
	50,971	44,201

(b) Market risk

Market risk is the risk that the fair value or 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.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
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3. Financial risk management (continued)

The interest rate risk table below is based on the Authority's contracted portfolio (including term deposits) as reported in the Authority's statement of financial positions. 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.

		2011		2010
	+1	-1	+1	-1
Change in profit/equity due to movement of percentage point across yield curves				
US dollar federal reserve bank deposits	466	(28)	493	(82)
Bermuda dollar term deposits	72	(28)	235	(25)
US dollar quoted securities	899	(898)	842	(828)
Total	1,437	(954)	1,570	(935)

An increase in interest rates of 1% would result in additional income of $1,437 (2010 - $1,570). A decrease in interest rates of 1% would result in decrease in income of $954 (2010 - $935). As rates on US dollar federal reserve bank deposits and Bermuda dollar term deposits are below 1%, the valuation effect of a negative 1% shift in interest rates would be to take interest income to $nil for these deposits.

(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, 2011, 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.

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3. Financial risk management (continued)

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

(c) 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.

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

As at December 31, 2011

	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	50,971	50,971	-	-	-	-
Term deposits	-	-	-	-	-	-
Investments (market value)	103,434	-	-	10,157	33,576	59,701
Accounts and other receivables	1,269	1,269	-	-	-	-
	155,674	52,240	-	10,157	33,576	59,701
FINANCIAL LIABILITIES						
Notes and coins in circulation	133,100	133,100	-	-	-	-
Accounts and other payables	7,549	-	7,549	-	-	-
	140,649	133,100	7,549	-	-	-
Net maturity difference	15,025	(80,860)	(7,549)	10,157	33,576	59,701

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3. Financial risk management (continued)

As at December 31, 2010

	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	44,201	44,201	-	-	-	-
Term deposits	5,000	-	-	5,000	-	-
Investments (market value)	96,633	-	-	-	43,425	53,208
Accounts and other receivables	2,378	2,378	-	-	-	-
	148,212	46,579	-	5,000	43,425	53,208
FINANCIAL LIABILITIES						
Notes and coins in circulation	126,721	126,721	-	-	-	-
Accounts and other payables	8,045	-	8,045	-	-	-
	134,766	126,721	8,045	-	-	-
Net maturity difference	13,446	(80,142)	(8,045)	5,000	43,425	53,208

(d) 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.

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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, term deposits, 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 this set of 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.

Actual results could differ from these estimates.

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

- 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:

	2011	2010
Cash at bank and in hand	971	1,601
Repurchase agreements	50,000	42,600
Total	50,971	44,201

Cash at bank earns interest at the respective bank deposit rates. Repurchase agreements earn overnight rates as set by the U.S. Federal Reserve.

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6. Term deposits

This account consists of:

	2011	2010
Deposits held with a Bermuda bank	-	5,000
Weighted average effective yield	0.00%	5.25%

Weighted average effective yield is based on book values and contractual interest rates.

7. Accounts and other receivables

This account consists of:

	2011	2010
Accounts receivable	1,355	2,893
Less: provision for impairment of receivables	(821)	(1,265)
Accounts receivable – net	534	1,628
Accrued interest	735	750
Current portion	1,269	2,378

The ageing analysis of these receivables are as follows:

	2011	2010
Up to 3 months	371	1,614
3 to 6 months	3	6
Over 6 months	160	8
Total	534	1,628

As at December 31, 2011, accounts receivable of $821 (2010 - $1,265) were impaired and fully provided for. The individually impaired receivables mainly relate to fees charged to regulated entities. It is believed that a portion of these receivables is expected to be recovered. The ageing of these receivables is as follows:

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7. Accounts and other receivables (continued)

	2011	2010
3 to 6 months	78	6
Over 6 months	743	1,259
Total	821	1,265

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

	2011	2010
Balance as at January 1	1,265	796
Provision for impairment of receivables	214	554
Receivables written off during the year as uncollectible	(658)	(85)
Balance as at December 31	821	1,265

The creation and release of provision for impairment of receivables have been included in 'general expenses' (note 19) in the statement of comprehensive income. The Authority provides 100% for all trade balances that are greater than 90 days past due. Amounts charged to the provision for impairment receivables are generally written off, when there is no expectation of recovering additional cash.

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.

8. Stock of numismatic items

This account consists of:

	2011	2010
Commemorative notes and coins	464	512
Circulation notes and coins	22	25
Bullion for inventory production	184	184
Other miscellaneous inventory	-	13
Provisions	(30)	(183)
	640	551

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9. Stock of notes and coins for circulation

This account consists of:

	2011	2010
Notes	1,796	2,342
Coins	846	846
	2,642	3,188

The cost of stocks recognised as expenses and included in 'Circulation note and coin expenses' amounted to $744 (2010 - $373). Included in this figure was the destruction of $404 of legacy notes in preparation for future demonetisation.

10. Investments, held-to-maturity

This account consists of:

	2011	2010
US Government and US Government Agencies	44,135	45,043
Supranational Bank	51,275	46,480
	95,410	91,523

Amortisation or accretion of the premiums/discounts on investments, held-to-maturity, is included in 'Investment income' (note 17) in the statement of comprehensive income.

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11. Property and equipment

This account consists of:

	Land and building	Computer equipment	Furniture and fixtures	Museum items	Total
At January 1, 2011					
Cost	30,092	2,738	2,720	65	35,615
Accumulated depreciation	(4,125)	(1,641)	(2,055)	-	(7,821)
Net book amount	25,967	1,097	665	65	27,794
Year ended December 31, 2011					
Additions	168	156	57	-	381
Disposals – cost	-	(210)	-	-	(210)
Disposals – accumulated depreciation	-	202	-	-	202
Depreciation	(923)	(548)	(345)	-	(1,816)
Closing net book amount	25,212	697	377	65	26,351
At December 31, 2011					
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

	Land and building	Computer equipment	Furniture and fixtures	Museum items	Total
At January 1, 2010					
Cost	30,062	2,339	2,549	65	35,015
Accumulated depreciation	(3,472)	(1,071)	(1,548)	-	(6,091)
Net book amount	26,590	1,268	1,001	65	28,924
Year ended December 31, 2010					
Fixed asset deposit	-	80	52	-	132
Additions	30	319	119	-	468
Depreciation	(653)	(570)	(507)	-	(1,730)
Closing net book amount	25,967	1,097	665	65	27,794
At December 31, 2010					
Cost	30,092	2,738	2,720	65	35,615
Accumulated depreciation	(4,125)	(1,641)	(2,055)	-	(7,821)
Net book amount	25,967	1,097	665	65	27,794

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11. Property and equipment (continued)

Depreciation expense of $1,816 (2010 - $1,730) has been charged in the statement of comprehensive income.

Change in estimates
During the year ended December 31, 2011 the Authority conducted a review of its property and equipment's operational efficiency. As a result the expected useful life of building improvements decreased. The effect on depreciation expense, in current and future periods is as follows:

	2011	2012	2013	2014	2015	Later
Increase (decrease) in depreciation expense	269	70	70	70	70	(549)

Gross carrying value of property and equipment fully depreciated and still in use are:

	2011	2010
Furniture and fixtures	1,887	878
Computer equipment	598	98

12. Intangible assets

This account consists of:

	Computer Software	
	2011	2010
At January 1		
Cost	2,956	1,463
Accumulated amortisation	(892)	(529)
Net book amount	2,064	934
Year ended December 31		
Additions	2,188	1,493
Amortisation	(759)	(363)
Closing net book amount	3,493	2,064
At December 31		
Cost	5,144	2,956
Accumulated amortisation	(1,651)	(892)
Net book amount	3,493	2,064

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12. Intangible assets (continued)

Amortisation of $759 (2010 - $363) is included in the statement of comprehensive income.

Gross carrying value for software fully depreciated and still in use in 2011 is $532 (2010 - $532).

There was no impairment recognised in 2011 and 2010.

There were no research and development costs in 2011 and 2010.

13. Accounts and other payables

This account consists of:

	2011	2010
Accrued expenses	5,660	7,062
Accounts payable	782	2
Amounts due to related parties (note 22)	775	942
Customer deposits and annual business fees payable	295	2
Deferred income	37	37
	7,549	8,045

14. 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.

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 in circulation as defined in that section. The 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, 2011, the Authority was required to hold a reserve of external assets of at least $66,550 (2010 - $63,360) and the actual external assets held totalled $95,410 (2010 - $91,523).

As indicated in Note 3. (c), at December 31, 2011, the Authority's total financial assets exceeded its financial liabilities by $15,025 (2010 - $13,446).

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15. 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.

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 $21,484 (2010 - $22,172) has been established and maintained in accordance with Section 8 of the Act.

16. Supervisory and licensing fees

This account consists of:

	2011	2010
Insurance fees	28,186	26,730
Bank and deposit company fees	4,338	4,133
Investment funds	1,417	1,403
Investment business licence fees	700	618
Trust company fees	682	638
Anti-money laundering (AML) fees	387	343
AML enforcement fines	50	100
	35,760	33,965

In accordance with Section 24 (5) of the Proceeds of Crime Regulations (Supervision and Enforcement) Act 2008, application fees in the amount of $387 (2010 - $343) were recognised as revenue and expenses in the amount of $563 (2010 - $509) were incurred. AML fees are included in supervisory and licencing fees and AML expenses are included in salaries and employee benefits.

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17. Investment income

This account consists of:

	2011	2010
Interest on investments, held-to-maturity	3,703	3,465
Interest on term deposits	247	610
Interest on cash and cash equivalents	28	82
Net foreign exchange loss	(5)	(6)
Net amortisation/accretion of premiums/discounts on investments, held-to-maturity	(346)	(325)
	3,627	3,826

18. Salaries and employee benefits

This account consists of:

	2011	2010
Salaries and bonuses	24,041	19,697
Payroll tax	2,107	2,002
Pension costs	1,010	925
Health insurance	725	614
Directors' fees	303	272
Social insurance costs	246	178
Life insurance	46	37
Other benefits	261	290
	28,739	24,015

The Authority has 155 and 145 employees at December 31, 2011 and 2010, 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.

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18. 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 $878 (2010 - $1,008).

(ii) Public Service Superannuation Fund

The Public Service Superannuation Fund (the "PSSF"), which is a defined benefit plan, is 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% (2010 – 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 PSSF with respect to the quantified actuarial deficiencies. As a result, the current year contributions to the PSSF represent the total liability of the Authority. The Authority's contributions to the PSSF during the year were $132 (2010 - $133).

(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 accounts.

Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation liability as at December 31, 2011 is $500 (2010 - $422) 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, 2011 is $203 (2010 - $241) and is included in accounts and other payables.

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19. General expenses

This account consists of:

	2011	2010
Premises and office	3,340	2,352
Conferences, seminars, education and training	1,005	1,133
Recruitment and repatriation	727	1,258
Communication	328	320
Other	227	189
Provision for impairment of receivables	214	554
Public relations	74	94
Advertising	20	28
Loss on retirement of property and equipment	8	-
Write-back of impairment on numismatic inventory	(153)	-
	5,790	5,928

20. Cash generated from operations

	2011	2010
Non-cash items included in total comprehensive loss for the year		
Depreciation of property and equipment (note 11)	1,816	1,730
Amortisation of intangible assets (note 12)	759	363
Amortisation/accretion of premiums/discounts on investments, held-to-maturity	346	325
Loss on retirement of property and equipment	8	-
	2,929	2,418
Change in operating assets		
Stock of notes and coins in circulations	546	368
Stock of numismatic items	(89)	123
Accounts and other receivables	1,109	2,438
Prepayments	(1,118)	122
	448	3,051
Change in operating liabilities		
Accounts and other payables	(496)	4,361
	(496)	4,361

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21. 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.

Contractual commitments

	2011	2010
2011	-	1,099
2012	754	519
2013	346	250
2014	346	250
2015	346	250
Thereafter	1,731	1,251
	3,523	3,619

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

	2011	2010
Property and equipment	-	-
Intangible assets	408	1,118
	408	1,118

22. 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.

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22. Related-party transactions (continued)

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

	2011	2010
Net sales of special coins	-	1
Staff expenses:		
Payroll tax	2,107	2,002
Pension – PSSF	132	133
Social insurance	246	220
Premises expense – land tax	214	180
Professional fees – audit	80	69
Insurance fines collected by the Authority	78	113
Other general expenses – immigration fees	43	85
Office expense – postage	19	21

Key management compensation

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

	2011	2010
Salaries, bonuses and other short-term employee benefits	3,297	3,092
Post-employment benefits	171	160

23. Comparative figures

Certain presentation differences between previous GAAP and IFRS have no impact on reported profit or total equity.

IAS 1, Presentation of Financial Statements, requires a current/non-current distinction to present the statement of financial position. Thus, term deposits have been reclassified as to current/non-current assets.

Also, IAS 1 requires the inclusion of separate line items in the statement of financial position for property and equipment and intangible assets. Prior year financial statements presented these as capital assets.

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23. Comparative figures (continued)

Some line items are described differently (renamed) under IFRS compared to previous GAAP, although the assets and liabilities included in these line items are unaffected. These line items are as follows (with previous GAAP descriptions in brackets):

- Investments, held-to-maturity (Investments)
- Property and equipment (Capital assets)
- Intangible assets (Capital assets)
- Equity (Capital and Reserve)

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