2017 | ANNUAL REPORT

BMA

BERMUDA MONETARY AUTHORITY

2017

A R

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

The BMA develops risk-based financial regulations that it applies to the supervision of Bermuda's (re)insurers, banks, trust companies, investment businesses, investment funds, fund administrators, money service businesses and corporate service providers. The BMA also regulates the Bermuda Stock Exchange and the Bermuda Credit Union.

In addition, the BMA 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 Bermuda Government and other public bodies on banking and other financial and monetary matters.

OUR MISSION

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

Our Value Proposition

STABILITY
A stable environment in which financial services can flourish.

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

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

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

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

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

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CEO'S REPORT

JEREMY COX, CEO

It has been a pivotal year for the Bermuda Monetary Authority; more evolution than revolution, but nevertheless ground-breaking in its way.

Right from the start of the year we knew we had some major tasks ahead of us, and even with the best laid plans, it's fair to assume that we can always expect the unexpected at the BMA.

The heftiest 'elephant in the room' on 1 January, 2017 was the ground we had to cover in readiness for the 2018 assessment of Bermuda's ability to prevent money laundering and terrorism financing: the Caribbean Financial Action Task Force (CFATF) review. An immense amount of work would be required to ready the BMA, as regulator of Bermuda's financial services, for the assessment.

After conducting a review of exactly what was needed, we engaged colleagues throughout the organisation to join the working team so that all would be accomplished in time. Once we approached the task as a full BMA team, we knew we could do it.

The assessment score will not be perfect. Many countries have already been evaluated, and not even the wealthiest or most diligent nations received a perfect score. In fact, they didn't even come close. The insidious nature of money laundering and terrorist financing presents immense challenges to the forces of law and order. What we have to show is that we have a rigorous regulatory framework fully compliant with international standards, are applying it, and when it is not adhered to we take firm enforcement action.

We faced this challenge and adapted to the need. In my book, that demonstrates the resilience that has characterised 2017 for the BMA.

One project we had not anticipated tackling in 2017 was the upgrade to the Beneficial Ownership Register. This information has been held by the BMA for many decades, but following a 2016 agreement between the British and Bermuda governments, the BMA agreed to streamline the process by creating an electronic platform for the revamped register. The deadline was tight, and again, resources were stretched. But thanks to the commitment of a dedicated BMA team – we did it.

An independent review of the BMA concluded in 2017, and provided us with valuable information about our organisation. In summary, it concluded that we should consider adjustments to our organisational and governance structure for maximum effectiveness. This is being acted upon, and we have been discussing the findings and the action plan with industry. Changes will require adjustments to funding, and we will be launching a plan to re-engineer supervisory fees, one which will involve aligning fees with the actual cost of supervision. More on that in 2018.

Earlier I mentioned that we must always expect the unexpected. Well, in 2017 we got the so-called Paradise Papers. Thanks to the collaboration of Bermuda's financial agencies, we did have a heads up but still could do little to prevent the ensuing tsunami of media coverage.

In summary, there was a great deal of media coverage about overseas territories. At the BMA, we set up an internal task force to examine what occurred and what we could learn from the experience.

Another word for 2017: changes. Change is a given these days but still the year seemed exceptional:

- New US President sought tax reform designed to benefit the US and impact other jurisdictions
- Major mergers and acquisitions accelerated in the (re)insurance sector
- Bermuda was not a jurisdiction that was added to the EU black list, and underwent a rigorous OECD review
- Insurance Linked Securities (ILS) competition was launched as the British Parliament approved "Risk Transformation Regulations" to pave the way for a competitive ILS regime in the UK
- Brexit: we continued to study the potential impact on Bermuda around the scatter action of companies setting up offices in Dublin, Brussels and Luxemburg

At the BMA we have been vigilant, adaptive and responsive as appropriate to this fast-moving landscape. It will continue.

One of the topics that will increasingly preoccupy us is the rise of fintech, a subject which was much in the forefront in 2017. The BMA is affected in two primary ways: the need to create a regulatory framework for fintech, and consideration of how technology can help us execute our strategy more effectively.

It's still early days and we are not yet clear where this will lead but we are examining the use of Artificial Intelligence to become a more forward-looking supervisor. Not so long ago, supervisors spent an enormous amount of time calculating ratios, and other metrics to benchmark companies and perform risk assessments. Much of this work is now automated, freeing up supervisory resources to spend more time adding value rather than long hours in the back office. Some time-consuming manual analysis of qualitative information will still be required to evaluate risk. Overall, the work product will improve with better technology.

Like the industry we regulate, the BMA prides itself on being innovative. Using technology, we aim to expand our ability to detect issues as they are beginning to develop so that appropriate supervisory measures can be taken before major problems arise.

Finally, I'd like to note that Bermuda successfully hosted a major conference of the Group of International Financial Centre Supervisors. Organised by Marcia Woolridge-Allwood and her BTCSI team, the conference was attended by supervisors from around the globe.

The timing coincided with the release of the Paradise Papers, providing opportunity to discuss related issues with our peer regulators. This sort of high calibre event places us at the forefront of global regulation standards and continues our reputation as a quality jurisdiction within which to do business.

Every year as I prepare for the annual report, I mull what has characterised the year in review. For 2017 it has been a year of collaboration and cooperation, resulting in increased strength and resilience. That's a good result!

JEREMY COX, CEO
30th April 2018

2017 MILESTONES

2017 BUSINESS PLAN MILESTONES COMPLETED

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

- Preparations for AML/ATF Caribbean Financial Action Task Force (CFATF) assessment of Bermuda continued
- AML/ATF Sectoral Guidance Notes Finalised for Investment Managers and Money Service Businesses
- Work on the Corporate Service Providers Guidance Note progressed

Banking, Trust, Corporate Services and Investment

- Basel III implementation for Bermuda's banks continued on a phased basis
- First CSP licence applications received and processed
- Issued Further Guidance on Gatekeeper Role of CSPs

Insurance

- Issued Consultation Paper on Policyholder Protection
- Issued Consultation Paper on proposed update to Bermuda Solvency Capital Return (BSCR) including draft Prudential Rules and associated BSCR models
- Issued Guidance Note – Actuary's Opinion on EBS Technical Provisions
- Introduced Insurance Managers Annual Return Template

Other

- Assisted Government with consultation on Beneficial Ownership
- Upgraded Bermuda's beneficial owners' registry by 30th June 2017
- Continued working with partners to develop and implement a financial stability framework for Bermuda, including new legislation for banking intervention powers

EXECUTIVE TEAM

(as at 31st December 2017)

SHAUNA MACKENZIE
Director, Legal, Policy & Enforcement

CRAIG SWAN
Managing Director, Supervision (Insurance)

JEREMY COX
Chief Executive Officer

GEORGE PICKERING
Senior Advisor, Financial Stability & AML

SHANNA LESPERE
Chief Operating Officer

MARCIA WOOLRIDGE-ALLWOOD
Senior Advisor, Banking, Trust, Corporate Services & Investment

CHAIRMAN'S REPORT

When I was appointed Chairman of the BMA Board of Directors in 2013, a major national initiative was at the forefront of all our minds. It was the journey to Solvency II equivalence and BMA resources were firmly focused on efforts to get Bermuda to the finish line. As a board we knew how crucial this was for Bermuda's insurance industry.

It was not smooth going and there were serious setbacks along the way, but we did attain equivalence for Bermuda, and celebrated its effectiveness date of 1st January, 2016.

After the intensity of that project, we expected to rest on our laurels for a moment, catch up and plan for the future. Unfortunately, it was not to be.

The pace never slowed and the 'new normal' became: the more things change, the more things change. And the pattern continues; just when one goal has been achieved another emerges.

My own journey has involved serving on the BMA Board of Directors since 2010. This has given me deep appreciation for this organisation and the crucial nature of its work. The BMA is, without any exaggeration, "too big to fail". Of course I mean too big in terms of its impact on our community. If we get it wrong, if we drop the ball, the standard of living in Bermuda is affected. That is the correlation that keeps us focused.

In this context, the selection of Board members becomes a significant responsibility. It is as important for the Board as it is for employees to be appropriately qualified.

What do I mean? Board members need to have a broad understanding of all sectors of the financial services industry in Bermuda – and the wider world within which we operate. If we are to understand banking operations in Bermuda, we need to be familiar with standards around the world. Bermuda can no longer afford to be "another world".

In 2017/18, we have a Board with considerable international experience. Directors' backgrounds range from insurance regulation to investments and the law. This must continue because to perform well the BMA needs Board members with the relevant range of skills, attributes and competencies. The process to ensure this continues is under review.

Throughout 2017, the Board was kept abreast of developments at the BMA by CEO Jeremy Cox and his executive team. On the internal side, we've overseen the refining the Beneficial Ownership Register, development of a new external-facing IT platform to streamline regulatory processes and initial implementation of the external review of our operating model. Externally, we have looked at the impact of tax reforms in the US, ongoing Brexit talks in Europe, the threats of EU blacklisting (unrealised) and OECD assessment. We have had the complexities of the Paradise Papers in relation to the BMA.

Did I say we thought we would have had a quieter time post the drive to Solvency II equivalence? If anything, the speed has picked up and there's no sign of a slowdown.

To all Board members, thank you for your service to the BMA – and Bermuda – in 2017. I would also like to express gratitude to departing Board member Fiona Luck. She has provided the Authority with the benefit of her impressive experience and expertise, as well as considerable wisdom during her more than four years as a Director of the BMA Board. We wish her well in her future endeavours.

We also wish departing Board member Anne Kast all the very best. Anne's resignation was effective 31st March 2018.

I would also like to thank all executives and staff at the BMA. Your professionalism is valued and appreciated.

THE HON. GERALD SIMONS, OBE
CHAIRMAN
30th April 2018

BOARD OF DIRECTORS

(as at 31st December 2017)

Pictured from left:

ANNE KAST
Director, Capital G Investments Ltd. (retired)

PETER HARDY, OBE
Group Corporate Secretary, Colonial Group (retired)

SHARON BEESLEY
CEO, BeesMont Law Limited

THE HON. GERALD SIMONS, OBE
Chairman

JEREMY COX
Chief Executive Officer, Bermuda Monetary Authority

ALLAN MARSHALL
Deputy Chairman

TRACY TEPPER
Director, Lombard Odier Trust (Bermuda) Limited (retired)

MICHAEL LEVEROCK
President, Leverock Advisors & Associates

ROBIN MASTERS
Treasurer & Chief Investment Officer, ACE Limited (retired)

Not pictured:

KAREL VAN HULLE
Professor at KU Leuven and Goethe University Frankfurt

WALTER A. BELL
Chairman, Swiss Re America Holdings Corporation (retired)

FIONA LUCK
Executive Vice President & Chief of Staff, XL Capital Ltd. (retired)

BOARD COMMITTEES

(as at 31st December 2017)

Non-Executive Directors

Gerald Simons (Chairman)
Allan Marshall (Deputy Chairman)
Sharon Beesley
Walter Bell
Peter Hardy
Anne Kast
Michael Leverock
Fiona Luck
Robin Masters
Tracy Tepper
Karel Van Hulle

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

Audit & Risk Management

Fiona Luck (Chair)
Michael Leverock
Allan Marshall

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

Corporate Governance & Ethics

Michael Leverock (Chair)
Peter Hardy
Gerald Simons
Jeremy Cox

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

Investment

Allan Marshall (Chair)
Anne Kast
Robin Masters
Jeremy Cox

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

Legislative & Policy

Tracy Tepper (Chair)
Sharon Beesley
Peter Hardy
Shauna MacKenzie

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

Human Capital

Gerald Simons (Chair)
Walter Bell
Fiona Luck
Tracy Tepper

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

SECTION ONE

REGULATORY DEVELOPMENT

1. REGULATORY DEVELOPMENT

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

Legislative Amendments and Guidance Notes

Over the course of 2017 the Authority worked closely with Bermuda's National Anti-Money Laundering Committee (NAMLC) to strengthen the domicile's AML/ATF legislative framework. A number of legislative amendments were introduced to align the national AML/ATF legislative framework with Financial Action Task Force (FATF) standards and international best practices in 2017. Further amendments to Bermuda's AML/ATF legislative framework will be required and this work will continue into 2018. For regulated financial institutions the key changes were technical amendments relating to the Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing) Regulations 2008.

The Authority also revised and published its AML/ATF Sector Guidance Notes for Investment Managers and Money Service Businesses in 2017. Work on the Corporate Service Providers Guidance Note progressed.

National Risk Assessment and Self-Assessment Exercise

As a member of NAMLC, the Authority assisted with the completion of the 2016 National Risk Assessment (NRA) on Terrorist Financing with the finalisation of an internal report submitted to Cabinet in 2017. In addition, the Authority played a key role in assisting NAMLC in its conclusion of the 2017 NRA of Money Laundering. This latter report provided a comprehensive update to the 2013 NRA on Money Laundering. It is expected that NAMLC will publish the results of the 2016 and 2017 assessments in the first half of 2018.

Stakeholder Engagement

In addition to cooperating on NAMLC's supervisory and operational working group committees, the Authority increased its collaboration with other competent domestic authorities and agencies by continuing its quarterly meetings with the Financial Intelligence Agency, Bermuda Police Force and the AML/ATF supervisor for Bermuda's Barristers and Accountants. These relationships were formalised in 2017 with the finalisation of Memorandums of Understanding (MoUs) between the organisations. Additional MoUs with the Registrar of Companies and Registrar General are planned for completion in early 2018.

Banking, Trust, Corporate Services & Investment Developments

Banking

2017 saw the continued transitional implementation of the Basel III capital and liquidity standards for the sector. The Authority continued with the annual increase in the Capital Conservation Buffer (CCB) of 0.625%, which resulted in a revised minimum requirement for Common Equity Tier 1 (CET1) plus CCB of 5.75% (5.13% in 2016). On the liquidity front, the Liquidity Coverage Ratio (LCR) requirement increased to 80% from 70% in 2016.

1. REGULATORY DEVELOPMENT

During the year, consultation with industry was completed on the proposed changes to the Authority's regulatory framework in response to new international standards promulgated by the Basel Committee. The resulting changes will see the introduction of the following over the course of 2018 (and into 2019):

- Net Stable Funding Ratio (NSFR) as a new component to our liquidity requirements
- Revisions to our stress testing guidance to include new standards around Interest Rate Risk in the Banking Book (IRRBB)
- New required forms and templates for the Pillar 3 Disclosure requirement
- Transitional arrangements for the regulatory treatment of new accounting standards around provisions

The expected amendments to the standardised approach to credit risk were issued by the Basel Committee in December 2017 and as such, no work on these new standards were conducted in 2017 as was originally envisioned.

Trust and Corporate Service Providers (TCSP)

The Authority continued to participate on the Group of International Finance Centre Supervisor's (GIFCS) working group which focuses on Trust and Corporate Service Providers (TCSP) initiatives. A Multilateral Memorandum of Understanding (MMOU) between GIFCS members for the exchange of information and cooperation was developed in 2016. The MMOU was finalised and signed in 2017. During the year, the working group also focused on developing a framework for TCSP Colleges, the first of which was held in November in Bermuda. It also worked to develop an evaluation process that tests member jurisdictions for compliance with the new Standard on the Regulation of TCSPs which was introduced in 2014.

Corporate Service Providers

The Authority launched the Corporate Service Provider (CSP) regime in July 2016 with an application deadline of 1st October 2016 for those entities already conducting CSP business. The Authority continued to review the applications submitted for compliance with the posted legislation, code and guidance and began to licence qualified applicants throughout 2017. Over 60 CSP licences were issued in 2017. On the legislative front, the Corporate Service Provider Business (Beneficial Ownership) Regulations 2017 were introduced in June 2017 to ensure Bermuda's compliance with the OECD and UK beneficial ownership disclosure thresholds. Also in June, the Authority hosted a meeting for all prospective CSP licensees at which an update was provided regarding readiness for, and matters pertaining to, commencement of the CSP licensing regime. Many questions were asked at this well-attended session and tentative licensing timelines were outlined.

Investment

Alternative Investment Fund Managers Directive (AIFMD)

During 2017, the European Securities and Markets Authority (ESMA) did not progress work on AIFM third country passporting, and their Regulatory Work Programme for 2018 did not detail any work being undertaken in this regard. The Authority continues to monitor this area closely and will provide updates when necessary.

1. REGULATORY DEVELOPMENT

Investment Funds Act/Investment Business Act

Following on from efforts noted in the Authority's 2016 Annual Report, BMA and other stakeholders completed a review of the existing investment funds, fund administration and investment business regimes and developed a draft Discussion Paper in 2017. A finalised Discussion Paper will be issued for comment in 2018.

Money Service Business (MSB)

Money Service Business Act 2016

The Money Service Business Act 2016 (the Act) was passed in both the House and the Senate in 2016 and came into force on 31st January 2017. The new Act removes the regulation of MSBs from the Bermuda Monetary Authority Act 1969 and created a stand-alone licensing Act for this sector.

Insurance

Continued Implementation of Enhanced Commercial Regime

The Authority continued to monitor the robustness, risk-sensitivity, sophistication and comparability of Bermuda's capital requirements in 2017. BMA also continued to proactively ensure that Bermuda's capital requirements are in line with best practice in terms of similar solvency regimes. As such, the Authority proposed restructuring certain aspects of the Bermuda Solvency Capital Requirement (BSCR) standard formula and conducted market consultation and field testing throughout 2017.

The Authority took a number of steps during 2017 in respect of the BSCR model. These included:

- Clarifying the requirements in respect of year-end reporting on stress scenarios related to inflation risk and mortgage loan shock, highlighting information to be provided with regard to cyber risk and clarifying the information to be provided in the Catastrophe Risk Return
- Publishing a Consultation Paper which proposed restructuring certain aspects of the BSCR standard formula
- Issuing modified versions of the Group, 3A, 3B, 4, C, D and E BSCR market trial run models
- Publishing a summary of frequently asked questions related to year-end BSCR filings
- Consulting on additional technical measures and related requirements, including proposed changes to the Insurance Prudential Standard Rules

Ultimately, an updated consultation document, draft rules and templates were released in November 2017 and these will continue to be field-tested in 2018. The changes are expected to enter into force on 1st January 2019.

Insurance Managers and Intermediaries

Implementation of the Insurance Manager Code of Conduct (Code) continued in 2017 as part of the Authority's risk-based supervisory framework for Insurance Managers. The Code establishes duties, requirements and standards for insurance managers. In 2017, the first Annual Return was filed for Insurance Managers and the commencement of risk-based on-site inspections of insurance managers with two onsite inspections completed in Q4-2017. The Authority also focused on the supervision and regulation of insurance brokers and agents with a pre-consultation of a draft Insurance Brokers and Insurance Agents Code of Practice.

Electronic Statutory Financial Return (E-SFR)

The Authority saw the first full year in 2017 of receiving electronic submissions for limited purpose insurers via the Electronic Statutory Financial Return (E-SFR) system. With E-SFR filings, the Authority has access to more granular statistical data, which was aggregated and published for the first time as the BMA Captive/SPI Report 2017. The Report included commentary on items such as the lines of business written, breakdown of industry utilisation, geography of risk assumption, and profitability indicators across the captive market. In addition, there was separate commentary on Bermuda's Special Purpose Insurers (SPIs). Throughout 2017, the Authority was in contact with E-SFR users to provide guidance on functionality. In the latter part of the year, the Authority undertook two maintenance windows, which among other features, included an enhanced rollover functionality to initiate a return that was now partially populated with details from the prior year.

Regulatory Sandbox and Innovation Hub

The Authority recognises the growing importance of disruptive technological innovation in the (re)insurance and wider financial services industry and the critical role that innovation plays in promoting efficiency and enhancing competitiveness in the market.

As such, the Authority is committed to the viability of the Bermuda (re)insurance market and, given it is a recognised centre of excellence in the area of innovation, providing a regulatory environment that both appropriately protects policyholders, and promotes and is conducive to the use of technology.

To this end, in 2017 the Authority started the process of launching two parallel innovation tracks: a regulatory sandbox (sandbox) and an Innovation Hub, targeted at insurance technology (insurtech) companies. A Consultation Paper on the sandbox was released in Q2-2018 with the sandbox expected to be up and running in the second half of the year.

Special Purpose Insurers On-site Regime

A range of supervisory activities in relation to Special Purpose Insurers took place during 2017. The Authority conducted eight on-site reviews which contributed to furthering our knowledge of this sector.

Workshops Conducted on Head Office Requirements

In January 2016, amendments to the Insurance Act 1978 went into effect which included new requirements relating to commercial (re)insurers maintaining head offices in Bermuda. Following this, the Authority held a series of market briefings in late 2016 to early 2017 to provide additional guidance and training regarding the application of these 'head office requirements'.

1. REGULATORY DEVELOPMENT

Head office requirements and the Insurance Code of Conduct are complementary. While the Code focuses on "what" an insurer needs to have in place to be considered as conducting business in a prudent manner, head office requirements focus on 'where' the 'what' needs to be located and more specifically, exactly 'what' needs to be resident in Bermuda. The overarching principle is whether the business is directed and managed from Bermuda and the BMA's ability to appropriately supervise the insurer, relative to the nature, scale and complexity of its business.

A series of case studies were provided to assist with practical application of the material. The trainings were well-attended by approximately 50 representatives from the market. Feedback was overwhelmingly positive.

Public Disclosure

To increase transparency, the Authority began publishing GAAP Financial Statements and Statutory Declarations of Compliance for commercial (re)insurers on its website in 2017. The Financial Condition Report (FCR) (introduced for the first time in 2017) provides policyholders, beneficiaries, counterparties and the public at large disclosures about a Bermuda registrant's business, performance, governance structure, risks, solvency and capital management. The FCR is required to be published on the registrants' website within 14 days of its filing with the Authority or made available upon ten days of a written request.

BMA College Data Room

An online data room was launched in December 2017 to form a virtual community designed to upload and share supervisory college files in a protected environment. The Data Room facilitates secure exchange information with other regulators and aligns the Authority with other reputable international regulators.

Policyholder Protection

In June 2017, the Authority issued a Consultation Paper, along with draft legislation, on policyholder protection. The Consultation Paper, which follows a Discussion Paper published in 2014, proposed that policyholders' liabilities would receive preferential treatment in the event of liquidation or winding up of a Bermuda (re)insurer. It was proposed that preferential treatment would include a simple priority in the payment of policyholders' claims.

Financial Stability

During 2017, the Authority's work on financial stability developed under four areas. The first area, macroprudential surveillance, focused on monitoring developments in the various financial sectors under the BMA's mandate, undertaking surveillance of Bermuda's financial economy and real economy, and putting outcomes of the surveillance activities in the public domain. As such, the Authority continued to report about Bermuda's banking sector (Quarterly Banking Digest), the Insurance Linked Securities sector (Bermuda ILS Market Report) as well as contributing data and analysis to the BMA's Quarterly Regulatory Update. In addition, surveillance analysis was published in respect to catastrophe risks exposures (BMA Catastrophe Risk in Bermuda Report), portfolio investments of Bermuda's financial sector (Bermuda Coordinated Portfolio Investment Survey Report), and the Bermuda International Insurance Sector (Macroprudential Risk – Annual Statutory Filings Report).

1. REGULATORY DEVELOPMENT

The second financial stability area focussed on international engagement. The Authority continued with its active participation in the Financial Stability Board's (FSB) Regional Consultative Group Americas (RGCA), and in the FSB RCGA Shadow Banking Working Group. As has been the case in previous years, comprehensive information on Bermuda's shadow banking sector was contributed to and published by the FSB. Moreover, the Authority continued to be actively engaged in macroprudential work carried out by the International Association of Insurance Supervisors (IAIS). An example of this work includes the detailed contribution made by the Authority to the 2017 IAIS Global Insurance Market Report in respect to catastrophe insurance and reinsurance risks and exposures. Last but by no means least, the Authority continued with its dialogue with credit rating agencies in respect of financial firms' sovereign ratings developments.

A third area involved the continued development of Bermuda's recovery and resolution framework. The Authority continued with the development and operationalisation of a special resolution regime for Bermuda banks. A key milestone has been the creation and activation of the Banking Liaison Panel (BLP) which had its first meeting in late 2017. The BLP is a statutory body contemplated in the Banking (Special Resolution Regime) Act 2016. In addition, the Authority joined the IAIS Resolution Working Group with a view to commencing work on a special resolution regime for large international insurers.

The fourth area covered the Secretariat role provided by the Authority to the Financial Policy Council (FPC) and the Financial Stability Committee (FSC). The Authority not only arranged and coordinated all the FPC and FSC meetings in 2017 but also provided several papers to the committees and contributed to the committee's discussion on Bermuda's systemic risks.

International Participation

In order to stay ahead of regulatory developments and maintain good relations with key stakeholders the BMA continued its efforts on the international stage during 2017. It is essential that the BMA undertakes this work to remain a reliable regulatory counterpart and ensure the Bermuda regime stays current and compliant with international standards. The BMA directly participated in the work of many international standard-setting bodies and welcomed fellow regulators to Bermuda several times in 2017 to discuss issues at a grass roots level. Amongst which, in November the BMA hosted the annual meeting of the Group of International Finance Centre Supervisors (GIFCS) which was attended by 19 jurisdictions and two observers.

Highlights of International Participation for 2017

Insurance

International Association of Insurance Supervisors (IAIS) Participation

- 15th – 16th January: IAIS Executive Committee meeting, La Jolla, US
- 17th – 18th January: IAIS Financial Stability & Technical Committee, La Jolla, US
- 24th – 25th January: IAIS Financial Crime Task Force, Basel, Switzerland
- 9th – 10th February IAIS Macroprudential Policy and Surveillance Working Group (MPSWG) Rio de Janeiro, Brazil.
- 6th – 10th February: IAIS Capital Solvency & Field Test Working Group, Basel, Switzerland
- 27th February: IAIS Financial Stability and Technical Committee (FSTC) meeting, Basel, Switzerland
- 27th February: IAIS Working Party Chairs meeting, Basel, Switzerland

1. REGULATORY DEVELOPMENT

- 27th February: IAIS Core Curriculum Task Force, Basel, Switzerland
- 1st March: IAIS Accounting & Auditing Working Group, Basel, Switzerland
- 6th – 10th March: IAIS Capital Solvency & Field Test Working Group, New York, US
- 22nd – 23rd March: IAIS Reinsurance Task Force (ReTF) meeting, Rio de Janeiro.
- 23rd – 24th March: Insurance Groups Working Group, Rome, Italy
- 3rd – 7th April: IAIS Capital Solvency & Field Testing Working Group, Frankfurt, Germany
- 24th – 25th April: IAIS Financial Stability and Technical Committee, Basel, Switzerland
- 25th – 26th April: IAIS Supervisory Forum, Paris, France
- 8th – 12th May: IAIS Capital Solvency & Field Testing Working Group, Seoul, South Korea
- 23rd – 24th May: IAIS Financial Crime Task Force, Paris, France
- 29th – 31rd May: IAIS Capital Solvency & Field Testing Working Group, Basel, Switzerland
- 5th – 9th June: IAIS Capital Solvency & Field Testing Working Group, Rome, Italy
- 7th – 8th June: IAIS Accounting & Auditing Working Group, Toronto, Canada
- 22rd – 23rd June: IAIS Macroprudential Policy & Surveillance Working Group, Chicago, US
- 27th June: IAIS Financial Stability and Technical Committee, Windsor, UK
- 24th July: IAIS Financial Stability & Technical Committee Teleconference
- 17th – 18th July: IAIS Insurance Groups Working Group meeting, Hamilton, Bermuda
- 6th – 7th September: IAIS Accounting & Auditing Working Group meeting, Washington DC, US
- 6th – 7th September: IAIS Financial Crime Task Force meeting, Montreal, Canada
- 11th – 15th September: IAIS Capital Solvency & Field Testing Working Group meeting, Ottawa, Canada
- 13th – 14th September: IAIS Insurance Groups Working Group meeting, London, UK
- 14th September: IAIS Financial Stability & Technical Committee meeting, Basel, Switzerland
- 14th – 15th September: IAIS Macroprudential Policy & Surveillance Working Group meeting, Basel, Switzerland
- 27th – 28th September: IAIS Reinsurance Task Force meeting, Dubai, UAE
- 16th – 18th October: IAIS Capital and Solvency Field Testing Working Group, Basel, Switzerland
- 31st October: IAIS Financial Stability and Technical Committee, Kuala Lumpur, Malaysia
- 2nd – 3rd November: IAIS Annual Conference, Kuala Lumpur, Malaysia
- 5th – 6th November: IAIS Supervisory Forum, New York
- 13th – 14th November: IAIS Macroprudential Policy & Surveillance Working Group, Rome, Italy
- 6th – 7th December: IAIS Accounting & Auditing Working Group, Paris, France
- 11th – 15th December: IAIS Capital and Solvency Field Testing Working Group, Paris, France
- 12th – 13th December: IAIS Insurance Groups Working Group, Basel, Switzerland
- 12th – 14th December: IAIS Financial Crime Task Force, Singapore

National Association of Insurance Commissioners (NAIC)

- 6th – 11th April: NAIC Spring Meeting, Denver, Colorado
- 6th – 9th August: NAIC Summer Meetings, Philadelphia, US
- 1st – 4th December: NAIC Fall Meetings, Honolulu, Hawaii

Other Insurance

- 17th – 18th January: BMA met with Reinsurance Supervision Department of Central Bank of Ireland (CBI), Dublin and attended CBI hosted conference entitled, "Mapping, Risk Assessment and Supervision of Non-Bank Financial Intermediation"
- On 20th April: BMA spoke about its experience with reinsurance supervision at the first high level meeting organised by the Financial Stability Institute, Bank of International Settlements (BIS) and the International Association of Insurance Supervisors (IAIS) in Santiago de Chile

1. REGULATORY DEVELOPMENT

Financial Stability Board (FSB)

- 30th May: FSB Regional Consultative Group (RCG) for the Americas, Santiago de Chile
- 25th – 26th October: FSB RCG for the Americas, Hamilton, Bermuda (hosted by BMA)
- 13th December: FSB RCGA, Nassau, Bahamas

Financial Action Task Force (FATF)

- 18th – 24th February: FATF plenary meeting, Paris, France
- 25th – 26th May: FATF fintech meeting, San Jose, California
- 29th May: Caribbean Financial Action Task Force (CFATF) Plenary and Working Group meeting, Port of Spain, Trinidad and Tobago
- 15th – 24th June: FATF Meeting in Valencia, Spain

Banking

- 24th – 26th January: attended meeting about Bank of International Settlements' (BIS) international banking and financial statistics in Basel, Switzerland
- 28th November: attended licensee review/regulatory meetings, Cayman Islands
- 30th October – 3rd November: attended seminar for Senior Banking Supervisors from Emerging Economies, Washington DC

Trust and Company Service Provider (TCSP)

- 25th – 27th April: attended GIFCS meetings, London
- 28th April: attended GIFCS TCPS working group meetings, London
- 17th November: participated in a TCSP Regulatory College, Bermuda

Investment

- 3rd – 5th May: attended IOSCO conference 'Protecting Investors through Supervision, Inspection and Examination', Madrid Spain
- 14th – 18th May: International Organisation of Securities Commissions (IOSCO) Annual Conference, Montego Bay, Jamaica. Topic area: The Capital Market Structure and the Regulatory effective of addressing misconduct in the Capital Markets Building Securities Market Resilience in the Post-Crisis World
- 10th – 14th July: attended US Securities and Exchange Commission (SEC): Thomas A. Biolsi International Institute for Compliance Inspections and Examinations

Other

- 21st April: BMA/ European Commission bilateral meeting in Brussels, Belgium
- 11th – 12th May: second annual European Central Bank macroprudential policy and research conference, Frankfurt, Germany
- 8th November: The Authority hosted a Regulatory Panel presentation for GIFCS members and Bermuda's financial services sector entitled 'Ten years after the financial upheaval: where does financial stability now stand?' Distinguished panellists included Sir Andrew Large, Dame Amelia Fawcett, Mr Karel Van Hulle and Mr John Aspden, Chairman, GIFCS. The four speakers presented their views on the topic from their respective areas of expertise – financial stability and the banking sector, securities and funds, insurance and the impact from an IFC perspective.

LEGISLATIVE DEVELOPMENTS

SECTION TWO

2. LEGISLATIVE DEVELOPMENTS

The Authority focused on legislative amendments which balanced international credibility with domestic requirements.

- Corporate Service Provider Business Amendment Act 2017: The amendment proposed to clarify the services to be provided by corporate service business providers under a limited and unlimited license came into force on 17th October 2017.
- Amendment to Proceeds of Crime Laws: Amendments were proposed to Bermuda's National Anti-Money Laundering Committee (NAMLC) by the BMA to close gaps identified in the Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing) Regulations 2008 after technical assessments conducted by the Authority noted that relevant criteria were set out in Guidance and instead needed to be embedded in legislation. Key changes proposed pertain to trustees and to Customer Due Diligence requirements including retention of records and identification of persons associated with a trust including protectors and any persons who may otherwise have control over the trust.
- Amendment to Beneficial Ownership (Omnibus) Laws was approved in October 2017. The latest Organisation for Economic Cooperation and Development (OECD) review required Bermuda to demonstrate that all companies hold 100% beneficial ownership information. In this connection, the Ministries of Finance and Economic Development of Bermuda dually proposed for the introduction of a beneficial ownership registry obligation under the Companies Act 1981 and the Limited Liability Companies Act 2016 to meet the new OECD requirements. The legislation was passed in October 2017, however, with a beneficial ownership registry threshold requirement of 25% which is in line with international best practices.
- Exchange Control Amendment Act 2017: The Exchange Control Act 1972 is proposed to be amended by the Minister of Finance to enable the Minister to make regulations dealing with sanctions and to increase the enforcement powers of the Controller of Foreign Exchange.
- Exchange Control Amendment Regulations 2017: The Policy on the vetting requirements under the Exchange control regulations has been under review with the Minister of Finance to support the Beneficial Ownership registry being proposed. As part of this policy review, the Government concluded that on the grounds of national interests, not only should beneficial ownership information be filed with the Controller which is accurate, current and timely with the powers to ensure the information is up to date but the threshold be 10% which has been applied for initial vetting of specific security holders being shareholders. This will ensure that Bermuda continues to have information held by a public authority on the beneficial ownership of foreign owners of shares of entities formed in Bermuda at the threshold of 10% which will further address gaps identified by international assessors. A joint Ministry of Finance/BMA Consultation Paper entitled 'Proposed Amendments to the Exchange Control Act 1972 and Exchange Control Regulations 1973' was released on 1st February 2018.

SECTION THREE

SUPERVISION & LICENSING

3. SUPERVISION & LICENSING

Banking Supervision

Enhanced Reporting and Monitoring

The Authority issued new monthly and quarterly reporting standards to the banking industry in 2017 collectively known as the Regulatory Requested Information (RRI). Quarterly RRIs replaced the previous monthly enhanced monitoring regime which was primarily focused on credit, liquidity, investment and operational risk. A revamped monthly exceptions report based on various quantitative thresholds of predetermined balance sheet and income statement metrics has also been introduced as an early warning indicator ahead of the quarterly report.

Asset Quality

2017 saw the industry's non-performing loans (NPLs) fall by approximately 3% to a year-end total of roughly $698 million representing 8% of gross loans. Banks have also continued to maintain a risk adverse strategy towards credit expansion as evidenced in the 5% decline in gross loan balances for the year.

Balance Sheet

On a consolidated basis, total industry assets decreased 4%, or approximately $1 billion, for a 2017 year end total of $21.8 billion. Driving this change were loans, investments, cash and deposits, and other assets which registered declines of 5%, 3%, 9% and 19% respectively.

In terms of balance sheet structure, investments retained the biggest share of total assets at 43% (42% in 2016) followed by loans at 39% (39% in 2016) with the remaining comprised of cash and deposits at 15% (16% in 2016) and other assets at 3% (3% in 2016).

Deposit liabilities fell approximately $1.1 billion or 5% between the 2016 and 2017 year-ends for a final total of $19.2 billion ($202 billion in 2016). Demand deposits recorded a $0.9 billion or 9% decline in 2017 followed by a $0.2 billion or 3% fall in savings deposits. Time deposits remained relatively flat with a $0.02 billion or 1% increase for 2017. At the end of 2017 the largest component of deposit liabilities was demand deposits at 51% (52% in 2016) followed by savings deposits at 34% (33% in 2016) and time deposits at 15% (15% in 2016).

Other liabilities of $580 million for 2017 represents a $17 million or 3% increase for the year.

3. SUPERVISION & LICENSING

Earnings and Profitability

2017 total income for the sector of $818 million represents a $45 million or 6% increase from the 2016 year-end results. Over the same 12 month period, non-interest operating expenses registered a $41 million or 8% decline, for a total 2017 figure of $496 million with staffing-related expenses comprising 44% of the total amount.

Net-Interest Income (NII) continues to be the largest component of the sector's income streams with a 2017 NII of $535 million comprising 65% (65% in 2016) of total income for the year. This is followed by banking income at 20% (17% in 2016), non-banking income at 14% (17% in 2016) and dividends/other income accounting for the remaining 1% (1% in 2016).

As a result of these movements, 2017 saw the sector's overall profitability improve by $87 million or 37%, to $321M million when compared to the 2016 results.

Capital Adequacy

Capital adequacy in the Bermuda banking sector, as measured by the Risk Asset Ratio (RAR) consistently exceeded minimum requirements as prescribed by the Authority on an annual basis. RAR for the sector was 21.04% at the end of the year compared to 20.4% at the end of 2016. Aggregated Common Equity Tier 1 (CET 1) capital was 19.89% (18.6% in 2016) which exceeds the current minimum requirements. For the Basel III leverage ratio, the industry aggregate is 7.8% versus the 5% minimum standard.

Risk-weighted assets for the 2017 year-end of $8.8 billion represent a $0.1 billion or 1% decline.

Credit Union Supervision

The Bermuda Credit Union remains the sole credit union in Bermuda. The Authority continued its ongoing supervision of this entity throughout 2017 in accordance with the provision of the Credit Union Act 2010.

Bermuda Stock Exchange (BSX)

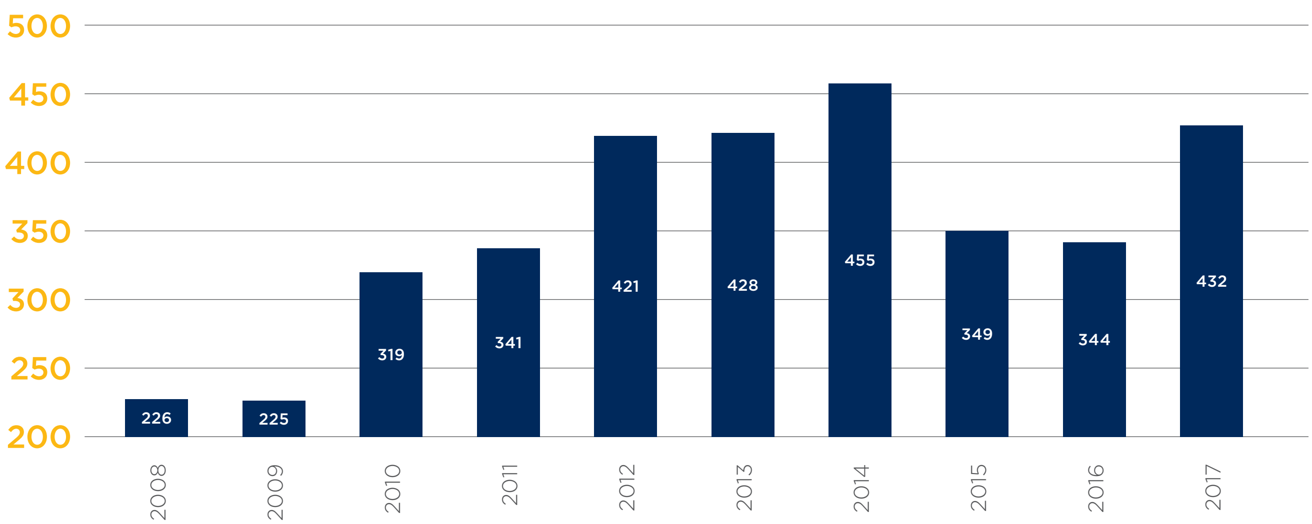
The BSX ended the year with a total market capitalisation of $432.1 billion, of which approximately $2.7 billion represented the domestic market. Total trading volume for 2017 was 3.8 million shares with a corresponding value of $40.1 million, compared to 8.2 million shares and a corresponding value of $48.6 million for 2016.

The RG/BSX Index closed the year at 2,202.19 for an increase of 14.47% over 2016.

2017 saw continued growth in Insurance Linked Securities (ILS) listings; there were 103 new listings with a combined nominal value of $11.5 billion. In terms of the number of new securities listed in the year, this represented growth of 69% and an 87% growth in nominal value. At year end the total number of ILS securities listed stood at 227 with a nominal value of $25.99 billion. International debt listing activity grew to 180 securities in 2017, up 55% from 116 the previous year with their nominal value growing from $2.0 billion to $4.6 billion for 2017. De-listings in the year followed a normal pattern and were mainly comprised of time-listed securities which matured as part of the normal course of business.

3. SUPERVISION & LICENSING

CHART: Bermuda Stock Exchange – Market Capitalisation (US$ billions)



Insurance Supervision

Overview – Market Results

The Authority's reputation as a leading risk-based regulator continues to positively influence companies when selecting their jurisdiction of choice, with two new (re)insurance groups registering in 2017. The Authority acts as group supervisor when the primary operations of a (re)insurance group structure are controlled and managed from Bermuda. A total of 68 new insurance entities registered in 2017, 58 new (re)insurers and ten new intermediaries. Special Purpose Insurers (SPIs) comprised around 41% (24 companies) of the new (re)insurers. General business captives accounted for a further 29% of the new (re)insurers (17 new Class 1, Class 2 and Class 3 firms). The Long-Term (life) sector also recorded five new Class E companies.

Group Supervision

A range of supervisory activities in relation to insurance groups took place during 2017. The Authority conducted 14 group on-site reviews and 22 supervisory colleges covering groups for which the Authority is group supervisor. In addition, the Authority was host supervisor for a further 20 colleges. During the colleges, the Authority presented and received detailed analyses, and coordinated supervisory plans with overseas regulators for insurance groups with Bermuda-related operations. Work continued to establish Memoranda of Understanding (MOUs) with relevant jurisdictions in relation to group supervisory colleges.

3. SUPERVISION & LICENSING

Insurance-Linked Securities

Bermuda remained the leading jurisdiction for the issuance of catastrophe (cat) bonds in 2017 with Insurance-Linked Securities (ILS) issued from Bermuda representing 74.8% ($23.3 billion of $31.2 billion) of global outstanding ILS capacity.

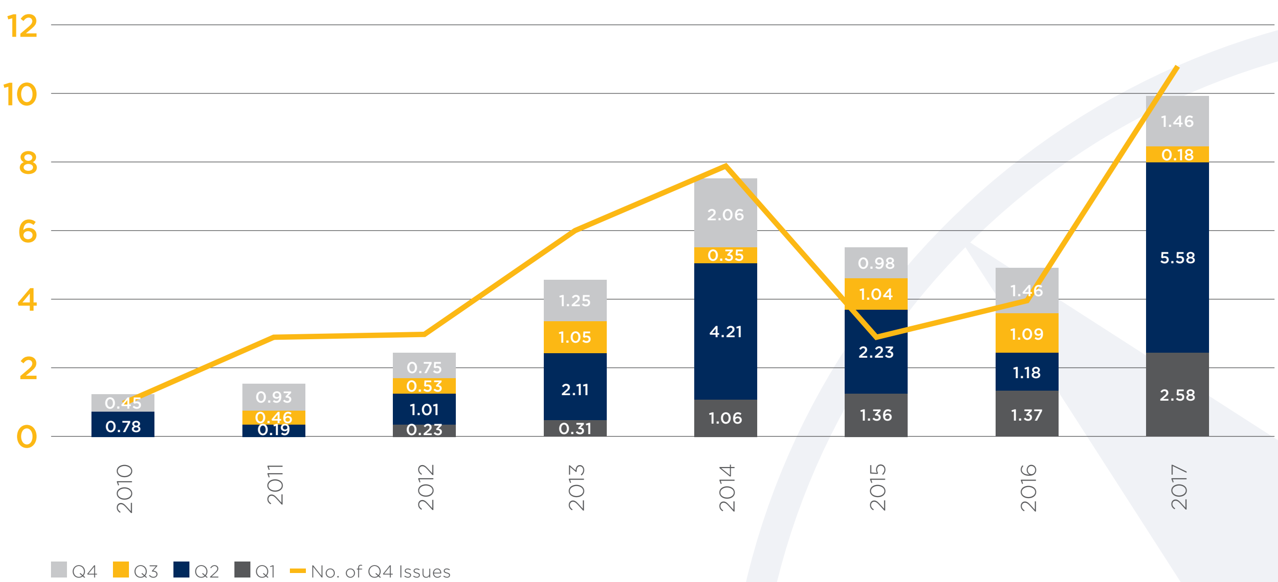
Since 2010, Bermuda-based Special Purpose Insurers (SPIs) have issued 198 ILS bonds while 203 SPIs have been registered. Bermuda is also host to foreign ILS listings which augment the depth of the secondary market. At the end of 2017, there were 99 ILS deals (168 tranches) listed on the BSX with an aggregate nominal value of $24.2 billion.

Annual ILS issuance grew in 2017. Global ILS issuance increased 78% to $12.6 billion ($7.0 billion in 2016) for the year while the number of deals was also up. There were 62 transactions during the year (compared with 38 in 2016) with an average deal size of $203.0 million ($185.5 million in 2016).

Indemnity triggers continued to account for the majority of outstanding volume of ILS deals. ILS with an indemnity trigger represented 46.5% ($18.2 billion of $31.2 billion) of the total outstanding volume of the ILS market at the end of the year. This was followed by the industry loss index trigger type which accounted for 26.2% ($8.8 billion) of the outstanding volume. In 2017, 51.6% of the issued deal volume ($7.5 billion of $12.6.0 billion) used indemnity triggers, while 16.1% used an industry loss index trigger type.

Domestic ILS issuance rose 98% to $10.1 billion ($5.1 billion in 2016) from 52 ILS deals completed during the year (30 in 2016). The average Bermuda issued deal size during 2017 was $195.0 million (compared to $170.0 million in 2016).

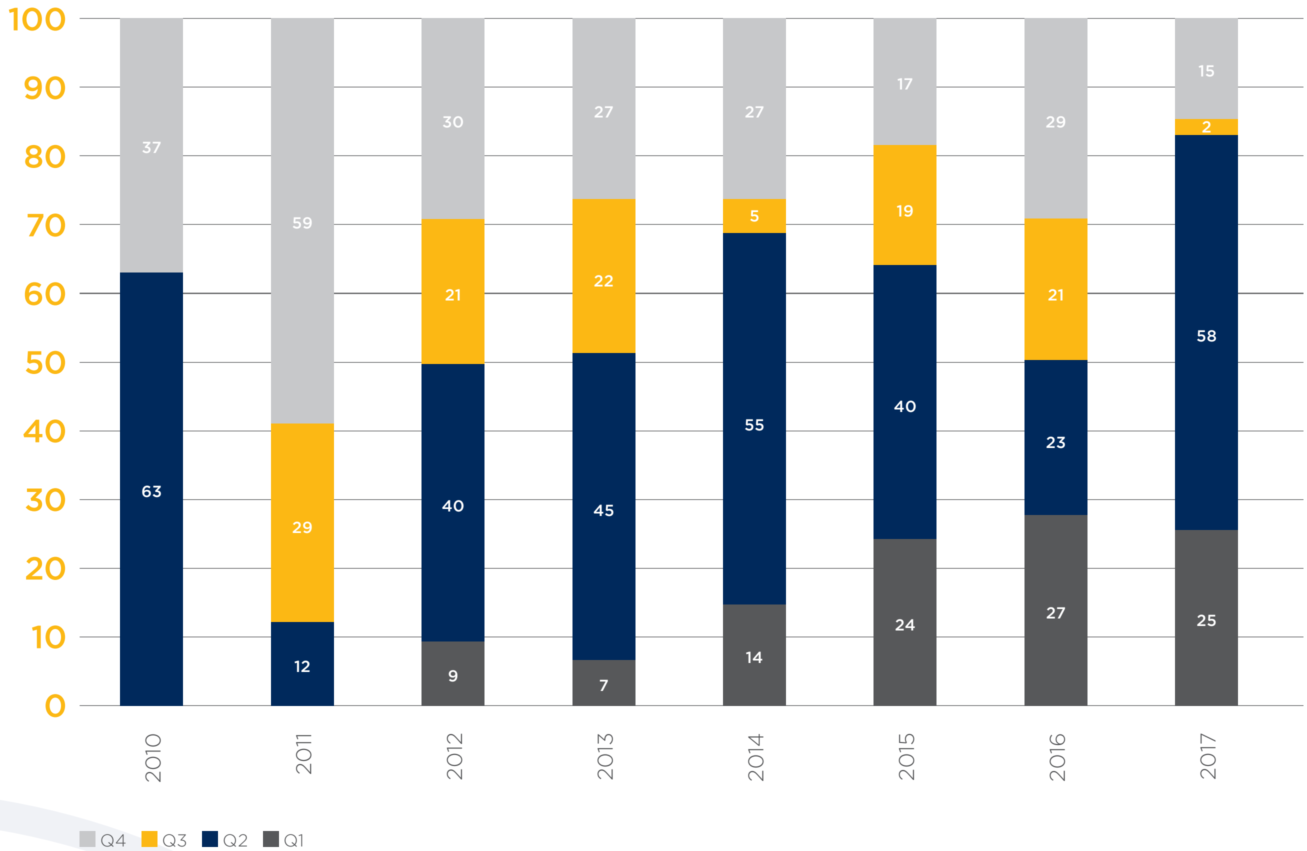
CHART: Quarterly ILS Issuance by Volume and Number of Deals (US$ billions) – Bermuda only



Source: Artemis and BMA calculations

3. SUPERVISION & LICENSING

CHART: Quarterly Breakdown of Bermuda-issued Deals (Deal Volume) 2010-2017 (in %)



Source: Artemis and BMA calculations

3. SUPERVISION & LICENSING

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

The Authority is responsible for supervising more than 1,300 licensed entities for AML/ATF purposes. As international standards continued to be strengthened, the Authority continued to refine its financial sector risk assessment framework and further develop its risk-based approach to supervision to include:

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

The Authority undertook significant work in 2017 to strengthen its AML/ATF framework. It further developed the AML/ATF risk assessment for the sectors it supervises building on from work which began in 2013, and began using an internal risk model for identifying risks at the firm level based on information provided from the results of onsite examinations, statutory returns and data calls from industry. This annual process provided the foundation of the Authority's approach to risk-based supervision. Furthermore, the Authority refined its AML/ATF supervisory framework in 2017 to more clearly identify the various roles played by each of its departments in combatting money laundering and terrorist financing.

The output from Bermuda's national risk assessments and the Authority's risk assessment processes informed the supervisory focus on the banking, corporate service provider and Long-Term (life) insurance sectors. The Authority conducted 225 off-site reviews and 29 supervisory on-site examinations at regulated financial institutions across all financial sectors. The Authority conducted on-site examinations of four banks. The Authority also introduced close and continuous supervision by establishing regular supervisory meetings with the banking sector, and held meetings with other industry groups during 2017.

The Authority conducted five on-site examinations in the insurance sector and two on-sites of Insurance Managers. This activity was supplemented by off-site reviews of 89 Insurance Managers and ongoing remediation programmes covering two Long-Term insurers based on prior on-site exams.

In the investment and fund sectors on-site examinations were conducted at three Fund Administrators and four Investment Businesses with ongoing remediation continuing for two Investment Businesses.

In the trust sector six on-site examinations were conducted, with ongoing remediation continuing for one Trust Company based on previous on-site examinations, while quarterly desk-based reviews were carried out for the money service business sector. The AML policies and procedures were reviewed for 101 Corporate Service Providers (CSPs) as part of the licensing process for CSPs that was conducted in 2017.

Additionally, the Authority reviewed eight applications for licensing and authorisation purposes and conducted 22 desk-based reviews of Non-Licensed Person (NLP) applications.

To meet its 2017 supervisory objectives, the Authority expanded its supervisory capabilities by selectively using professional third parties to supplement its on-site and off-site activities.

3. SUPERVISION & LICENSING

Upcoming CFATF Fourth Round Mutual Evaluation Review

As a member of the Caribbean Financial Action Task Force (CFATF), Bermuda will be subject to a CFATF Fourth Round round Mutual Evaluation Review (MER) in 2018. Given the importance of the mutual evaluation to Bermuda, the Authority worked closely with the National Anti-Money Laundering Committee (NAMLC) in 2017 to benchmark the Authority's AML/ATF framework against the CFATF methodology.

During the year, the Authority actively participated in a NAMLC sponsored national self-assessment exercise designed to evaluate the effectiveness of the country's MER preparation and identify what further action was required by the Authority and other participating national agencies in order to optimise their AML/ATF frameworks. The output from this self-assessment exercise will continue to inform the Authority's AML/ATF work plan to strengthen the Authority's AML/ATF framework ahead of the CFATF evaluation in 2018.

Enforcement Activity

The Authority continued to be active in the enforcement of regulatory obligations in 2017.

In February 2017, the Authority imposed civil penalties totalling $1,500,000 and licence restrictions on Sun Life Financial Investments (Bermuda) Limited (the Company) for numerous breaches of the Proceeds of Crime (Anti-Money Laundering & Anti-Terrorist Financing) Regulations 2008. The matter was published by way of a BMA press release in accordance with the change in policy regarding publication of enforcement actions announced by the BMA's CEO in early 2016.

The Company had failed to adequately comply with the regulations relating to the application of Customer Due Diligence (CDD); the ongoing monitoring of business relationships; the ceasing of transactions where it was not possible to apply CDD measures; and the establishment and maintenance of appropriate and risk sensitive policies and procedures. The Authority viewed the breaches as being serious because of their extent and duration, and because systemic weaknesses in the Company's internal AML/ATF controls was demonstrated. The case highlighted the importance of licensees having in place up-to-date AML/ATF policies and procedures which are appropriate, effective, and fully implemented in order to avoid the risk of financial products being used as a vehicle for money laundering or terrorist financing. In determining the appropriate level of civil penalties, the Authority took account of the fact that in December 2015, the Company closed its investment business to new sales and also that the Company fully cooperated with the Authority. The Authority continues to closely monitor the Company's remediation plan.

The Authority conducted a formal investigation into a registered insurance company which resulted in the Authority issuing formal Directions in order to protect policyholders and future policyholders. The Authority brought the matter to a successful conclusion by management and oversight of the realisation, sale, and transfer of assets, working in conjunction with US enforcement agencies.

The Authority successfully presented a winding-up petition in the Supreme Court with respect to Cumulus Eastern European Property Fund Limited, a regulated fund, following extensive and prolonged breaches of the requirements of the Investment Funds Act 2006. This action was necessary in order to protect the investors of the fund given the failure to prepare audited financial statements over several years and failure to have an investment manager in place.

3. SUPERVISION & LICENSING

Urgent directions were issued to a Class 3B insurer for repeatedly failing to file SFRs on time and for a failure to meet the Minimum Criteria for Registration. The Authority continues to monitor the implementation of those directions.

As part of its role in policing the perimeter, the Enforcement Department developed a plan to ensure that no unlicensed Corporate Service Providers were operating in the jurisdiction, and this is in the process of being implemented.

The Authority continues to use its regulatory oversight to encourage good governance and proper practice by imposing several default fines for non-payment of the Annual Business Fee (totalling $26,098) and for late filings of returns (totalling $177,900).

Two Warning Notices were published on the Authority's website. One was in regard to a company offering services as an investment business to members of the public via a Facebook page. The other concerned an entity inviting members of the public to enrol in a non-existent AML/ATF compliance course in Bermuda.

TABLE: Summary of supervisory activity across sectors for 2017

Sector	Focus of supervisory activity	Supervisory activity
All sectors: Anti-Money Laundering/ Anti-Terrorist Financing (AML/ATF)	• Risk-based approach to AML/ATF supervision underpinned by the output of the National Risk Assessment • Compliance of AML/ATF regulated entities assessed under the AML legislation • Regular supervisory meetings including with the banking sector, other financial sectors and industry groups • Expanded supervisory activities by using professional third parties to supplement on-/off-site activities • Ongoing remediation programmes across a number of regulated financial institutions • Met with regulated entities regarding the updating of NRA for 2017 • Further developed Risk Based Modelling for AMLATF Supervision • Implementation of a three year strategic plan 2017-2020	Examinations guided by the risk-based approach included: • 29 on-site examinations ◦ Five - Banks ◦ Three - Fund Administrators ◦ Two - Insurance Managers ◦ Four - Investment Businesses ◦ Five - Long-Term insurers ◦ Three - Money Service Businesses ◦ One - Non-Licensed Person ◦ Six - Trust companies • 225 off-site and licence application reviews including: ◦ One - Bank ◦ 26 - Fund Administrators ◦ 89 - Insurance Managers ◦ 101 - Corporate Service Provider ◦ One - Authorised Fund ◦ One -Trust Business ◦ One - Long Term Insurer ◦ Five - Investment Business • Ongoing remediation of regulated entities

3. SUPERVISION & LICENSING

Sector	Focus of supervisory activity	Supervisory activity
Banking	Pillar II supervisory reviews of all licensed banks based on their submission of Capital Assessment and Risk Profile reports On-site reviews of full banking group operations (domestically and internationally) on a rotational basis	• Two on-site reviews
Credit Union	Off-site review assessing compliance with the requirements of the legislation	• Ongoing
Corporate Service Provider Business	Reviewing all licensing applications for compliance with the Corporate Service Provider Business Act 2012, Code of Practice and Corporate Governance Policy	• Review and licensing of applicants
Insurance	• Commercial: on-site inspections focused on risk management, corporate governance and capital adequacy • Captive: supervision continued	• 14 group on-sites • 22 solo on-sites • Two Insurance Manager on-sites • 22 supervisory colleges as group supervisor • 20 colleges as host supervisor
Investment Business	On-site inspections focused on corporate governance, enterprise risk and compliance with the Investment Business Act 2003, General Business Conduct and Practice – Code of Conduct, and Advertising Code of Conduct Assessing the ongoing financial viability of the firms	• 11 on-site reviews • One thematic review
Money Service Business	Off-site reviews assessing compliance with the requirements of the legislation	• Ongoing
Stock Exchanges	Stock Exchanges are financial institutions within the meaning of the Bermuda Monetary Act 1969 and are subject to supervision, regulation and inspection	• One Prudential Meeting
Trust	On-site inspections focused on corporate governance, enterprise risk and compliance with the Trusts (Regulation of Trust Business) Act 2001 and the Code of Practice	• Five on-site reviews • Two thematic reviews

3. SUPERVISION & LICENSING

TABLE: Formal use of powers

Banking and Deposit Companies Act 1999

Section	Provision	Use in 2017
35	To vet licensed institutions who give written notice to the Authority when a person becomes a director or senior executive	28 notifications received; Authority conducted the appropriate vetting
25	Notification of new or increased control	One notification received; Authority conducted the appropriate vetting

Trusts (Regulation of Trust Business) Act 2001

Section	Provision	Use in 2017
24	Notification of new or increased control	Two notifications received; no objections provided
34	Notification of change of controller or officer	20 notifications received; Authority conducted the appropriate vetting

Investment Business Act 2003

Section	Provision	Use in 2017
28	Notification of new or increased control	Seven notifications received; no objections provided
43	Notification of change of controller or officer	30 notifications received; Authority conducted the appropriate vetting

Investment Funds Act 2006

Section	Provision	Use in 2017
45A	Notification of new or increased control	Two notifications received; no objections provided
46	Notification of change of director, senior executive and controller	23 notifications received; Authority conducted the appropriate vetting
64 (6A)	Investigations	One notice issued

Corporate Service Provider Business Act 2012

Section	Provision	Use in 2017
22	Notification of new or increased control	Zero notifications received
45	Notification of change of director, senior executive and controller	1 notification received; Authority conducted the appropriate vetting

3. SUPERVISION & LICENSING

Licensing

The Authority reviewed 148 applications in 2017, 83 of them insurance-related and 65 BTCSI-related.

Insurance applications

Of the 83 insurance-related applications, 75 were approved, two were withdrawn, three were deferred and three were declined. Of the successful applications, 30 were for general business (re)insurers ranging from Class 1 to Class 4, 10 were for Long-Term (life) insurers ranging from Class A to Class E, and 28 were for Special Purpose Insurers (SPIs). The remaining seven insurance-related approvals were for insurance intermediaries, inclusive of managers and agents.

Banking, trust and investment applications

One Trust business, one Investment Business and 62 limited Corporate Service Provider business licences were approved. One Investment Business licence application was declined.

Summary - Approved Applications

Class 1	**9**
Class 2	**2**
Class 3	**6**
Class 3A	**9**
Class 3B	**3**
Class 4	**1**
Class A	**0**
Class B	**0**
Class C	**2**
Class D	**0**
Class E	**8**
Special Purpose Insurer	**28**
Insurance Manager	**1**
Insurance Broker	**0**
Insurance Agent	**6**
Trust Company	**1**
Limited CSP Business Licence	**62**
Investment Business	**1**
Fund Administrator	**0**
Total	**139**

3. SUPERVISION & LICENSING

TABLE: Summary of BTCSI-related licensee status as at year-end 2017

Sector	Licensing Activity
Banking	Total licensees at end of the year: four (no change from 2016)
Trust	Total licensees at end of the year: 28 (28 in 2016) Licences surrendered: one (two in 2016) New licences issued: one (one in 2016) New Private Trust Companies: 20 (21 in 2016)
Investment Business	Total licensees at end of the year: 52 (54 in 2016) Licences surrendered: three (five in 2016) New licences issued: one (two in 2016) Declined Licence: one (zero in 2016)
Investment Funds	New authorised funds 14 (18 in 2016) New exempt A funds: 25 (12 in 2016) New exempt B funds: 13 (6 in 2016) Total number of funds: 543 (577 in 2016)
Fund Administration	Total licensees at end of the year: 29 (30 in 2016) Licences surrendered: one (two in 2016) New licences issued: zero (one in 2016)
Corporate Service Provider Business	Total licensees at end of the year: 62 (zero in 2016) Licences surrendered: zero (zero in 2016) New limited licences issued: 62 (zero in 2016) New unlimited licences issued: zero (zero in 2016)
Credit Union	Total at end of the year: one (no change from 2016)
Money Service Business	Total licensees at end of the year: two (no change from 2016)
Stock Exchanges	Total at end of the year: one (no change from 2016)

3. SUPERVISION & LICENSING

Companies, Partnerships and Permits Statistics – Applications Approved

	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4
Companies*	216	240	205	202	204	228
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	18	21	31	10	18	39
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	2	3	1	0	0	0
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	1	5	21	4	2	16
Total Applications Approved	**237**	**269**	**258**	**216**	**224**	**283**

*Companies includes – Continuations, Exempted, Exempted Limited by Guarantee, Local, Local 60/40, Local Limited by Guarantee and LLCs.

SECTION FOUR

DESIGNING AN IMPROVED AUTHORITY

4. DESIGNING AN IMPROVED AUTHORITY

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

Target Operating Model (TOM)

As committed to in 2016, the Authority moved forward with its mandate to review:

- Organisational structure
- Activities and processes
- Resources and costs
- Internal governance
- Culture and values

The review provided key target areas for the Authority to focus on and defined parameters for the BMA's Target Operating Model (TOM).

The Authority applied these findings and proceeded with a phased implementation plan in 2017, focusing first on organisational structure and preparing for future resourcing (including a review of the current fee structure). This work will continue into 2018- 2019.

Execution of the TOM aligns and supports the strategic objectives of the Authority and will assist the organisation in manoeuvring through future challenges in Bermuda's financial sector.

Information Technology (Vision 20/20)

Technology is and will continue to be crucial to the Authority's ability to function efficiently. The Authority will continue with its multi-year strategy to meet the goals of Vision 2020. Vision 2020's over-arching objectives are to facilitate and support operational efficiency, data management and security. Highlights of work conducted in 2017 include:

- Continued data security infrastructure improvements
- Limited purpose insurers submitting all filings to BMA via Electronic Statutory Financial Return (E-SFR) system
- Laying the groundwork to replace the Corporate Registration Processing (CRP) system with INTEGRA™ in 2018, and refinement of the Beneficial Ownership Registry to meet international law enforcement agency requirements (the Authority's Project Management Office (PMO) has been a critical component of our success in this regard)

4. DESIGNING AN IMPROVED AUTHORITY

Leadership Development and Mentoring

The Authority continued its focus on its leadership development and mentoring programmes in 2017. During the year, the newest addition to the Authority's internal suite of talent management programmes was launched.

In conjunction with a pre-existing, comprehensive leadership programme, the Authority launched a six-month intensive programme designed to support the ongoing development of middle and senior managers. In order to ensure a successful launch, six Assistant Directors from across the organisation were identified to participate in the pilot programme. Due to the pilot's success, plans are underway to embed the programme into the Authority's core internal training offerings for the coming year.

In order to facilitate improved succession planning efforts, enhanced, industry-specific coaching and mentoring programmes were also introduced to support the ongoing development of the Authority's technical supervisory staff. Given today's rapid pace of technological progress, BMA staff require increased technical competencies like never before. Given the success of these initiatives, the programmes will continue as a core developmental opportunity to support supervisory staff members.

BMA Management Team (as at 31st December 2017)

Jeremy Cox	Chief Executive Officer
Supervision	
Craig Swan	Managing Director, Supervision (Insurance)
Marcia Woolridge-Allwood	Senior Advisor, Banking, Trust, Corporate Services & Investment
Ricardo Garcia	Chief Actuary
Laila Burke	Deputy Director, Insurance
Duncan Evans	Deputy Director, Banking, Trust, Corporate Services & Investment
Gerald Gakundi	Deputy Director, Insurance
Collin Anderson	Assistant Director, Insurance
Tamara Anfossi	Assistant Director, Trust & Corporate Service Providers
Eric Donkoh	Assistant Director, Insurance
Timae Flood	Assistant Director, Insurance
Graham Lamb	Assistant Director, Insurance
Matias Leppisaari	Market Risk Expert
Martin Maringi	Assistant Director, Insurance
Richard May	Assistant Director, Actuarial Services, Long-Term
Moses Muoki	Assistant Director, Insurance
George Petropoulos	Assistant Director, Actuarial Services, Property & Casualty
Jeferino dos Santos	Assistant Director, Actuarial Services, Property & Casualty
Gina Smith	Assistant Director, Actuarial Services, Property & Casualty
Gary Thomas	Assistant Director, Actuarial Services, Long-Term
Donald Treanor	Assistant Director, Actuarial Services, Property & Casualty

4. DESIGNING AN IMPROVED AUTHORITY

Financial Stability & Anti-Money Laundering	
George Pickering	Senior Advisor
Marcelo Ramella	Deputy Director, Financial Stability
Bruce Law	Assistant Director, AML
Leo Mucheriwa	Assistant Director, Financial Stability
Licensing & Authorisations	
Leslie Robinson	Assistant Director, Corporate Authorisations
Melissa Morton	Assistant Director, Authorisations
Policy, Legal & Enforcement	
Shauna MacKenzie	Director
Garrett Byrne	Chief Enforcement Officer
Yvette Pierre	Deputy Director, Policy
Dina Wilson	Deputy Director, Legal Services
Ifor Hughes	Assistant Director, Policy
Natalie Stevenson	Assistant Director, International Affairs
Operations	
Shanna Lespere	Chief Operating Officer
Mesheiah Crockwell	Director of Human Resources
Sheridan Smith	Director, Management Services/Information Technology
Amanda Outerbridge	Deputy Director, Communications
Terry Pitcher	Deputy Director, Head of Finance & Currency Operations
Michael Albouy	Assistant Director, Project Management Office
Elizabeth Amyoony	Assistant Director, Human Resources
Michael Bean	HR Manager
Julie Dill	Assistant Director, Human Resources
Adrian Mendoza	Financial Controller
Organisational Development	
Verna Hollis-Smith	Assistant Director

SECTION FIVE

STATISTICS

Financial Highlights 2017

The Authority's net deficit amounted to $1.63 million in 2017, down from $3.59 million income in previous year. Total revenue decreased by 1.08% year-on-year to $47.76 million, down from $48.28 million. The decrease is mainly due to $0.44 million decrease in supervisory and licensing fees due to decreased revenue from insurance applications and registrations. The decline in revenues from the investment portfolio was solely a function of reinvesting in lower interest rate securities with maturing positions. The Authority's held-to-maturity portfolio of investments remained at a very high quality with all securities maintaining a rating of AA+ or better.

5. STATISTICS

Expenses increased by 10.52% to $49.39 million, up from $44.69 million in prior year. The increase is mainly due to $3.20 million increased salaries and employee benefits and $1.02 million increased professional fees due to costs associated with Target Operating Model implementation and CFATF preparations. All other expense categories increased marginally except amortisation of intangible assets.

As at 31st December 2017, the organisation's headcount remained relatively flat year over year. In the coming year headcount is expected to increase marginally to support increased supervisory and operational needs. The resourcing focus for the coming year will be on the continued development of staff's technical proficiency and support for succession planning initiatives.

TABLE: Currency Notes Issued & Redeemed (Bermuda Dollar)

	Notes Issued					Net Issues During Month	
Month	New	Reissued	Total	Notes Redeemed	Notes Issued & O/S at End of Month	Change	% Change
January	179,402	2,700,000	2,879,402	11,110,753	113,115,479	(8,231,351)	-6.78%
February	41,912	5,260,000	5,301,912	4,830,000	113,587,391	471,912	0.42%
March	112,129	8,320,000	8,432,129	7,306,000	114,713,520	1,126,129	0.99%
April	104,807	8,550,000	8,654,807	4,939,200	118,429,127	3,715,607	3.24%
May	196,726	4,640,000	4,836,726	5,650,000	117,615,853	(813,274)	-0.69%
June	417,528	10,300,000	10,717,528	6,465,910	121,867,471	4,251,618	3.61%
July	1,597,373	9,255,000	10,852,373	6,625,000	126,094,844	4,227,373	3.47%
August	40,061	4,370,000	4,410,061	7,910,000	122,594,905	(3,499,939)	-2.78%
September	2,283,901	6,620,000	8,903,901	15,616,000	115,882,806	(6,712,099)	-5.48%
October	3,210,392	6,400,000	9,610,392	9,061,000	116,432,198	549,392	0.47%
November	2,174,397	4,530,000	6,704,397	4,000,000	119,136,595	2,704,397	2.32%
December	401,460	12,170,000	12,571,460	7,720,100	123,987,955	4,851,360	4.07%
Year							
2017	10,760,088	83,115,000	93,875,088	91,233,963	123,987,955	2,641,125	2.18%
2016	7,633,587	93,354,000	100,987,587	96,428,650	121,346,830	4,558,937	3.90%

5. STATISTICS

TABLE: Currency Coins Issued & Redeemed (Bermuda Dollar)

Month	Coins Redeemed	Coins Issued & O/S at End of Month	Net Issues During Month	
			Change	% Change
January	10	16,153,040	10	0.00%
February	54,000	16,207,040	54,000	0.33%
March	10	16,207,050	10	0.00%
April	10	16,207,060	10	0.00%
May	127,011	16,334,071	127,011	0.78%
June	15,013	16,349,084	15,013	0.09%
July	243,009	16,592,093	243,009	1.49%
August	17,003	16,609,096	17,003	0.10%
September	46,009	16,655,105	46,009	0.28%
October	4	16,655,109	4	0.00%
November	12,503	16,667,612	12,503	0.08%
December	78,517	16,746,129	78,517	0.47%
Year				
2017	593,099	16,746,129	593,099	3.67%
2016	185,648	16,153,030	185,648	1.16%

5. STATISTICS

Banking

CHART: Bermuda Money Supply

(BD$ millions)	Dec-17	Jun-17	Mar-17	Dec-16	Sep-16
Notes & Coins in Circulation*	141	133	138	131	137
Deposit liabilities:	3,441	3,518	3,532	3,499	3,448
Total	3,582	3,651	3,670	3,630	3,586
Less: Cash at Banks and Deposit Companies	43	36	40	38	46
BD$ Money Supply	3,538	3,614	3,630	3,592	3,540
% Change on Previous Period	-2.10%	-0.44%	1.06%	1.47%	0.01%
% Change Year on Year	-0.04%	2.11%	2.30%	2.52%	2.66%

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.

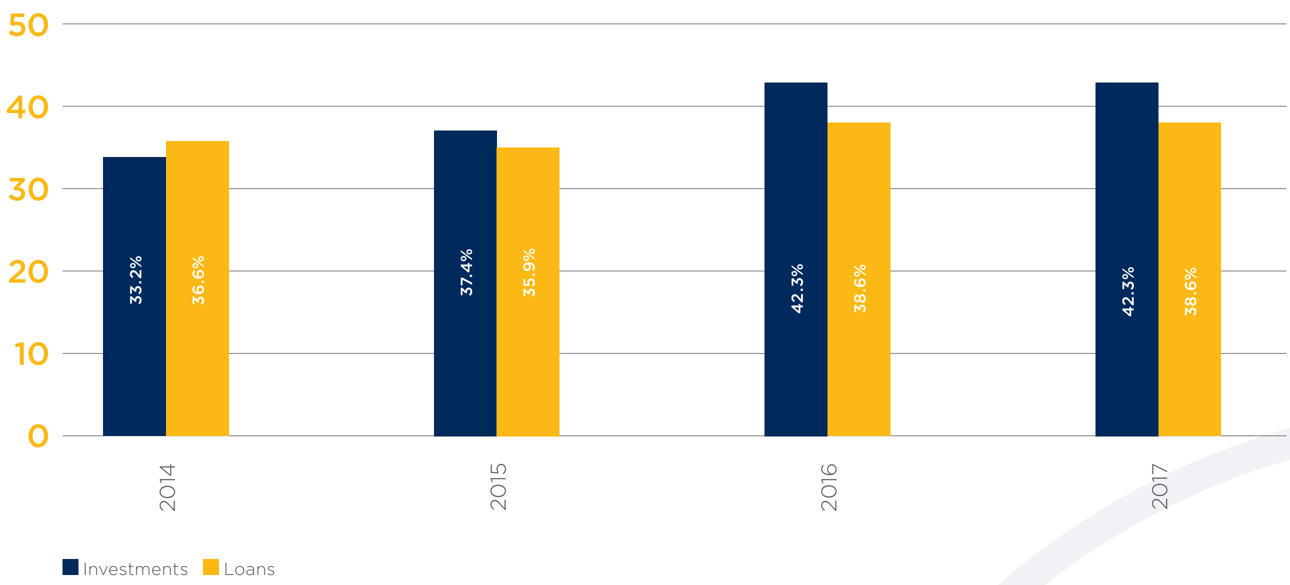
CHART: Bermuda Bank and Deposit Companies Total Assets (BD$ millions)

5. STATISTICS

CHART: Banking Sector Assets & Deposits (BD$ millions)

	31-Dec-17	30-Sep-17	30-Jun-17	31-Mar-17	31-Dec-16	30-Sep-16
Total Assets	21,769	21,392	21,912	22,454	22,713	22,414
Quarterly Changes (%)	1.8%	-2.4%	-2.4%	-1.1%	1.3%	-6.2%
Total Customer Deposits	19,153	18,802	19,233	19,947	20,216	19,501
Quarterly Changes (%)	1.9%	-2.2%	-3.6%	-1.3%	3.7%	-7.4%

CHART: Loans and Investments as a Proportion of Total Assets



5. STATISTICS

CHART: Composition of Banks' Assets as at 31st December 2017

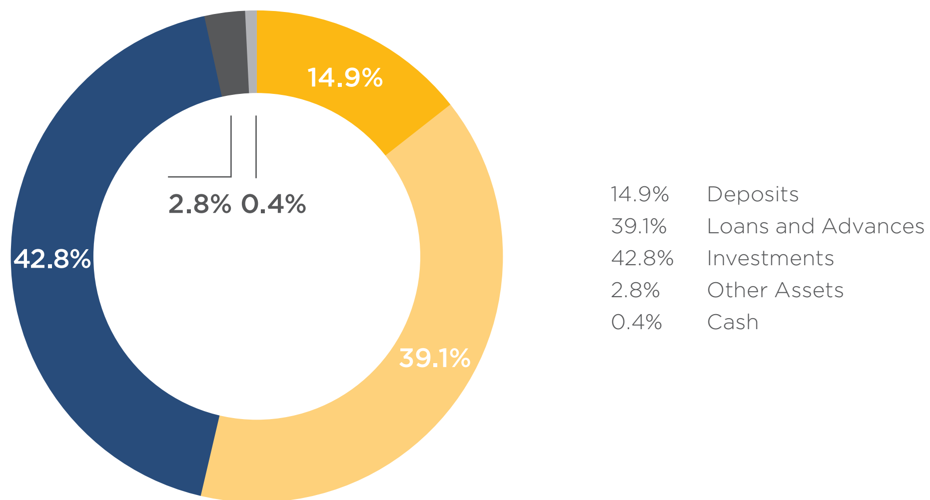
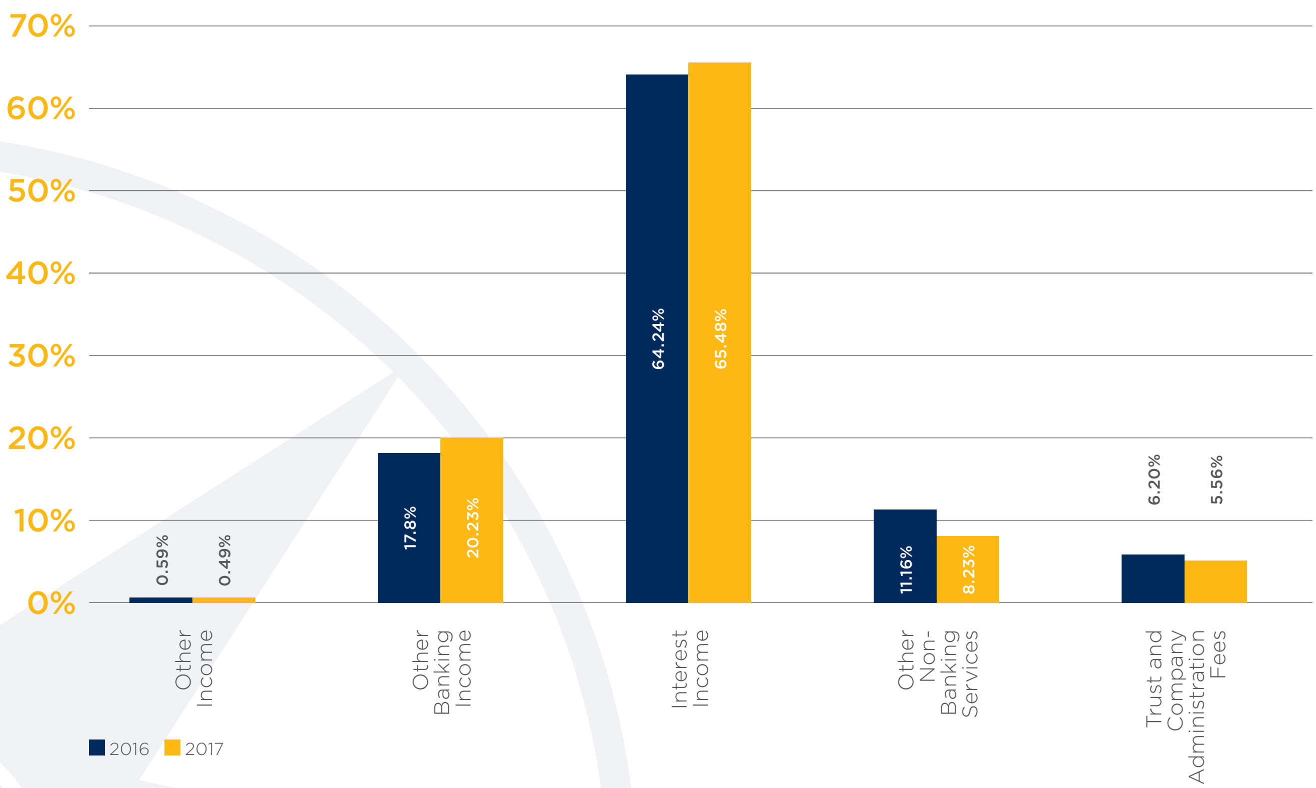
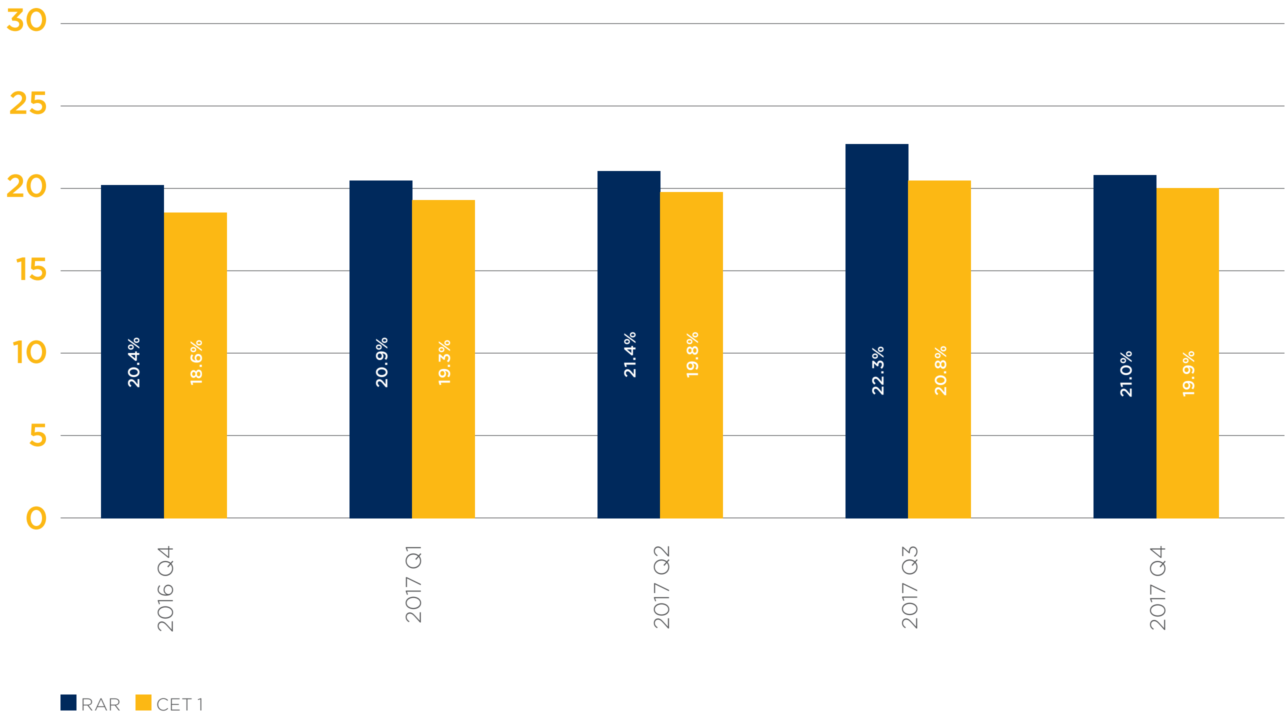


CHART: Banks and Deposit Companies Revenues (Consolidated)



5. STATISTICS

Banking Sector Consolidated Risk Asset Ratio



5. STATISTICS

CHART: Combined Banks And Companies Foreign Currency Position

(BD$ millions)	31-Dec-17	30-Sep-17	30-Jun-17	31-Mar-17	31-Dec-16	30-Sep-16
Total Foreign Currency Assets	17,855	17,441	17,887	18,346	18,582	18,242
Less: Other Assets	246	258	271	273	300	314
Less: Foreign Currency Loans to Residents	1,118	1,023	981	915	887	1,115
Net Foreign Currency Assets	16,492	16,160	16,635	17,159	17,395	16,814
Foreign Currency Liabilities	16,031	15,523	16,054	16,691	17,017	16,490
Add: BD$ Deposits of Non-Residents	169	184	172	171	162	182
Net Foreign Currency Liabilities	16,201	15,708	16,226	16,862	17,179	16,671
Net Foreign Currency Position	291	452	409	297	215	142

Totals may not add due to rounding

Q3-2016 and Q4-2016 “Net Foreign Currency Liabilities” amended

CHART: BD$ Deposit And Loan Profile – Combined Banks And Deposit Companies (Unconsolidated)

(BD$ millions)	Dec-17	Sep-17	Jun-17	Mar-17	Dec-16
Deposit Liabilities	3,441	3,518	3,532	3,499	3,448
Less: Loans, Advances and Mortgages	(3,578)	(3,608)	(3,641)	(3,688)	(3,772)
Surplus/(deficit) deposits	(138)	(90)	(109)	(189)	(324)
Percentage of Deposit Liabilities Loaned	104.0%	102.5%	103.1%	105.4%	109.4%

Totals may not add due to rounding

5. STATISTICS

Combined Balance Sheet Of Bermuda Banks And Deposit Companies (Consolidated)

	2017 - Q4				2017 - Q3				2017 - Q2			
(BD$ millions)	**Total**	**BD$**	**US$**	**Other**	**Total**	**BD$**	**US$**	**Other**	**Total**	**BD$**	**US$**	**Other**
Assets												
Cash	87	43	27	17	90	36	36	17	90	40	32	18
Deposits	3,243	12	1,995	1,236	2,390	17	1,293	1,079	2,914	31	1,369	1,514
Investments	9,323	39	7,860	1,424	9,410	40	7,766	1,604	9,386	40	7,797	1,549
Loans & Advances	8,514	3,464	3,317	1,733	8,886	3,499	3,515	1,871	8,890	3,554	3,321	2,015
Premises and Equipment	343	232	97	14	346	237	94	16	348	237	93	18
Other Assets	258	124	76	59	270	121	65	83	283	123	103	57
Total Assets	21,769	3,914	13,372	4,483	21,392	3,951	12,770	4,671	21,912	4,025	12,715	5,171
Liabilities												
Demand Deposits	9,696	1,092	7,344	1,260	9,913	1,144	7,494	1,275	9,700	1,137	7,242	1,321
Savings	6,444	1,572	3,045	1,828	6,114	1,586	2,772	1,755	6,639	1,599	3,045	1,995
Time Deposit	3,012	766	1,360	886	2,775	776	1,190	808	2,893	783	1,340	771
Sub Total - Deposits	19,153	3,429	11,749	3,975	18,802	3,507	11,457	3,839	19,233	3,519	11,627	4,087
Other Liabilities	635	327	205	103	484	256	97	131	648	307	206	134
Sub Total - Liabilities	19,787	3,756	11,954	4,078	19,286	3,763	11,554	3,970	19,880	3,826	11,833	4,221
Equity & Subordinated Debt	1,982	1,908	95	-22	2,106	1,994	140	-27	2,032	1,898	158	-25
Total Liabilities and Capital	21,769	5,664	12,048	4,056	21,392	5,757	11,693	3,942	21,912	5,724	11,991	4,197

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

5. STATISTICS

Combined Balance Sheet Of Bermuda Banks And Deposit Companies (Consolidated)

	2017 - Q1				2016 - Q4				2016 - Q3			
(BD$ millions)	**Total**	**BD$**	**US$**	**Other**	**Total**	**BD$**	**US$**	**Other**	**Total**	**BD$**	**US$**	**Other**
Assets												
Cash	80	38	26	16	104	46	24	33	87	38	33	16
Deposits	4,118	25	2,645	1,449	3,564	16	2,489	1,058	3,428	24	1,875	1,529
Investments	8,970	42	7,578	1,350	9,600	41	8,459	1,101	8,988	41	7,845	1,103
Loans & Advances	8,629	3,620	3,015	1,995	8,773	3,656	2,973	2,144	9,222	3,694	3,420	2,108
Premises and Equipment	351	239	95	17	355	244	96	16	352	238	99	15
Other Assets	305	145	106	55	317	129	131	58	336	136	132	68
Total Assets	22,454	4,108	13,465	4,882	22,713	4,132	14,172	4,410	22,414	4,172	13,403	4,839
Liabilities												
Demand Deposits	10,249	1,110	7,891	1,248	10,607	1,081	8,358	1,167	10,320	1,096	7,949	1,276
Savings	6,895	1,597	3,354	1,943	6,613	1,567	3,257	1,789	6,329	1,539	2,819	1,971
Time Deposit	2,804	779	1,313	712	2,996	785	1,506	706	2,852	793	1,328	731
Sub Total - Deposits	19,947	3,486	12,559	3,903	20,216	3,433	13,121	3,661	19,501	3,428	12,095	3,977
Other Liabilities	521	292	118	112	563	328	117	117	701	284	291	126
Sub Total - Liabilities	20,468	3,777	12,676	4,015	20,779	3,761	13,239	3,778	20,201	3,711	12,386	4,104
Equity & Subordinated Debt	1,986	1,864	144	-23	1,935	1,825	132	-22	2,213	1,831	401	-19
Total Liabilities and Capital	22,454	5,641	12,821	3,992	22,713	5,586	13,371	3,756	22,414	5,542	12,787	4,085

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

5. STATISTICS

Investment Funds

CHART: Investment Funds Statistics

Fund Count Statistics	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Administered Funds	6	7	7	7	7	7
Class A Exempt Funds	61	41	41	41	41	36
Class B Exempt Funds	38	27	26	26	27	25
Exempted Funds	19	54	58	61	66	78
Institutional Funds	270	278	277	272	282	280
Standard Funds	149	153	154	153	154	158
Total Number of Funds	543	560	563	560	577	584
Net Asset Value (BD$ billions)	$161.54	$162.50	$152.88	$135.03	$137.15	$139.34

The Authority has aligned its Investment Fund Statistics with the following definitions of fund license classes as per the Investment Funds Act 2006 (the Act):

- **Administered Funds** must be licensed under Part III of the Act and participants are required to invest a minimum amount of $50,000; or the fund must be listed on a Stock Exchange recognised by the Authority for the purpose of Section 11 of the Act.
- **Class A Exempt Funds**: A fund is automatically registered as a Class A Exempt fund after self-certifying that the following requirements of subsection 6A(2) of the Act have been met:
    - the fund is open to qualified participants,
    - the operator of the fund has appointed an investment manager for the fund that is either:
        - licensed in Bermuda;
        - authorised or licensed by a foreign regulator recognised by the Authority; or
        - for the purposes of the Act, is carrying on business in or from Bermuda, or in a jurisdiction recognised by the Authority, being a person who:
            - has gross assets under management of an amount that is not less than $100 million;
            - or is a member of an investment management group that has consolidated gross assets under management of an amount that is not less than $100 million.
- **Class B Exempt Funds** are open to qualified participants. The fund can apply to be exempted from the requirement for authorisation where the qualification requirements of subsection 7(2) of the Act have been met.
- **Exempted Funds**: Section 9 of the Act pertaining to exempt funds was repealed due to the introduction of two new exempt funds classifications – i.e. Class A and Class B above. Therefore, exempted funds are currently in the process of being re-classified.

5. STATISTICS

- **Institutional Funds** are targeted at institutional/sophisticated investors and are restricted to qualified participants investing at least $100,000. They are required to have an officer, trustee, or resident representative in Bermuda, being a person who has access to the books and records of the fund.
- **Standard Funds** do not fit within any other class of fund. Such funds are not restricted to sophisticated investors and may include a more significant retail element among their investors. Consequently they are subject to more comprehensive and regulation and supervision.

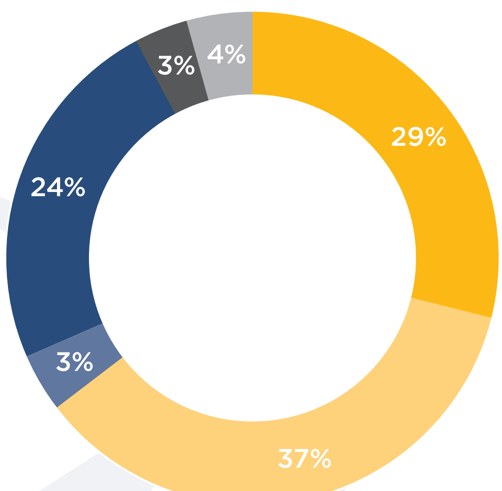
Total Funds by Jurisdiction

Fund Administrator Licensee Aggregate 2017 Data:

An aggregate total of US$189.0 billion in Assets under Administration (AuA) was reported by Bermuda Fund Administrator licensees as at 31st December 2017, up 24.0% from 2016*.

The total number of funds administered also increased by 7.9% from 1,996 to 2,154 (of which 606 are local incorporated funds with Bermuda-licensed fund administrators). The below geographic breakdown reflects the total fund clients for year-end 2017.

CHART: Total Funds by Jurisdication



29% Bermuda
37% Cayman
3% BVI
24% US and Canada
3% European Union
4% Rest of Asia and Oceania

*2016 AuA restated

5. STATISTICS

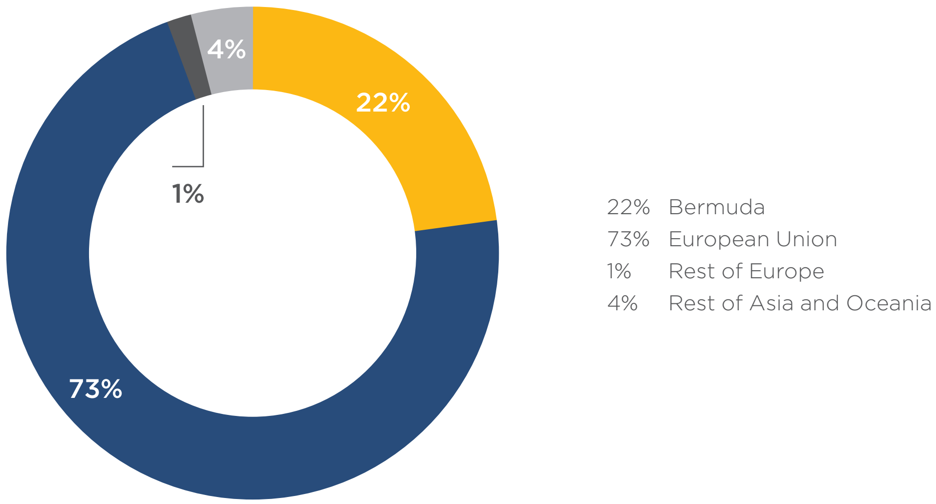
Total Assets under Management (AuM) by Jurisdiction

Investment Business Licensee Aggregate 2017 Data: AuM

Reported Investment Business licensee aggregate AuM as at 31st December 2017 was US$191.2 billion compared to the US$160.3 billion reported for 2016, an increase of 19.3%.

The highest proportion of these assets (73%) is represented by clients in the European Union followed by 22% Bermuda-based clients.

CHART: Total Assets Under Management by Jurisdication



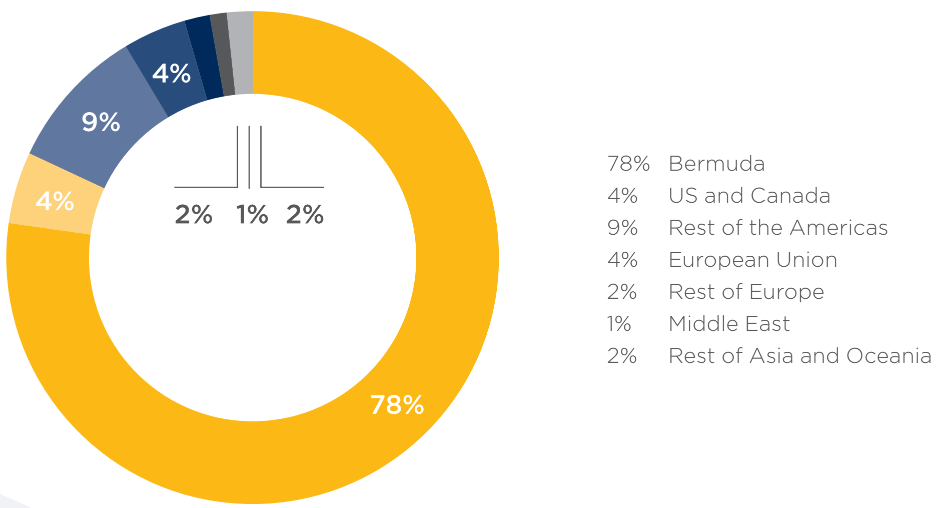
5. STATISTICS

Investment Business Licensee Aggregate 2017 Data: AuA

Reported Investment Business licensee aggregate AuA for the same period was US$66.0 billion compared to the US$56.0 billion reported for 2016, an increase of 17.8%*.

A significant portion of these assets (78%) pertains to Bermuda clients with clients in the 'Rest of the Americas' a distant second at 9%.

CHART: Total AuA by Jurisdication



Note:*For Investment Business Licensees, AuA are classified as 'assets managed on behalf of investors on a non-discretionary basis'.

5. STATISTICS

Insurance

TABLE: Analysis of all Insurers Registered

Class of Insurer by Licence	2017	%	2016	%
Class 1	218	18.3%	225	18.4%
Class 2	267	22.4%	280	22.9%
Class 3	239	20.1%	254	20.8%
Class 3A	126	10.6%	127	10.4%
Class 3B	25	2.1%	22	1.8%
Class 4	40	3.4%	41	3.3%
Class A	7	0.6%	7	0.7%
Class B	8	0.7%	8	0.7%
Class C	94	7.9%	107	8.7%
Class D	10	0.8%	8	0.7%
Class E	31	2.6%	29	2.4%
Special Purpose Insurer	126	10.6%	115	9.4%
Totals	1,191	100%	1,223	100%

TABLE: Analysis of Additions to the Register

Class of Insurer by Licence	2017 Registrations	%	2016 Registrations	%
Class 1	12	20.7%	4	9.5%
Class 2	1	1.7%	4	9.5%
Class 3	4	6.9%	4	9.5%
Class 3A	6	10.3%	7	16.7%
Class 3B	4	6.9%	0	0.0%
Class 4	1	1.7%	2	4.8%
Class A	0	0.0%	1	2.4%
Class B	0	0.0%	0	0.0%
Class C	1	1.7%	1	2.4%
Class D	0	0.0%	1	2.4%
Class E	5	8.6%	1	2.4%
SPI	24	41.4%	17	40.5%
Totals	58	100%	42	100%

5. STATISTICS

TABLE: Market Statistics by Class of Insurer

Market Statistics by Class of Insurer
For the year ended 31st December 2016*

Class of Insurer	No. of Licences	Gross Premiums (US$)	Net Premiums (US$)	Total Assets (US$)	Capital & Surplus (US$)
Class 1	217	3,072,358,586	2,534,148,663	30,701,072,846	25,897,085,708
Class 2	262	8,307,325,938	6,730,899,531	58,035,396,746	33,348,842,988
Class 3	229	40,530,887,849	24,728,319,521	119,900,840,912	39,797,742,129
Class 3A	119	12,586,672,665	10,367,815,062	27,368,795,678	16,050,885,007
Class 3B	17	12,100,070,455	8,618,463,427	28,523,599,602	10,663,218,146
Class 4	39	37,955,565,638	31,211,993,217	172,559,291,187	83,123,182,884
Class A	7	1,584,243,769	1,579,231,632	6,375,835,221	3,131,870,806
Class B	8	513,333,714	473,136,550	1,680,857,924	755,685,319
Class C	99	31,412,895,921	26,719,237,106	139,618,217,628	42,530,824,137
Class D	8	1,655,132,658	694,377,629	5,795,111,356	1,856,357,210
Class E	25	17,787,531,236	16,105,303,133	142,289,654,233	34,113,936,914
Special Purpose Insurer	105	3,071,747,900	2,890,171,572	31,292,776,988	6,571,622,110
Total	1,135	170,577,766,329	132,653,097,043	764,141,450,320	297,841,253,358

*Underwriting statistics quoted are from insurance company Statutory Financial Returns (SFR) and modified filings for 2016. Companies submit filings on a phased basis throughout the year following the financial year-end. The initial submission deadline for 2016 SFRs was April 2017. Due to this schedule the most recent complete year-end figures for this overview are from 2016.

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

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

5. STATISTICS

- Class 3B: Large commercial insurers whose percentage of unrelated business represents 50% or more of net premiums written or loss and loss expense provisions and where the unrelated business net premiums are more than $50 million
- Class 4: Insurers and reinsurers capitalised at a minimum of $100 million underwriting direct excess liability and/or property catastrophe reinsurance risk
- Long-Term (life insurance):
  - Class A: A single-parent Long-Term captive insurance company underwriting only the Long-Term business risks of the owners of the insurance company and affiliates of the owners
  - Class B: Multi-owner Long-Term captives owned by unrelated entities, underwriting only the Long-Term business risks of the owners and affiliates of the owners and/or risks related to or arising out of the business or operations of their owners and affiliates. A single-parent and multi-owner Long-Term captives writing no more than 20% of net premiums from unrelated risks
  - Class C: Long-Term insurers and reinsurers with total assets of less than $250 million; and not registrable as a Class A or Class B insurer
  - Class D: Long-Term insurers and reinsurers with total assets of $250 million or more, but less than $500 million; and not registrable as a Class A or Class B insurer
  - Class E: Long-Term insurers and reinsurers with total assets of more than $500 million; and not registrable as a Class A or Class B insurer
- Special Purpose Insurers (SPI): A SPI assumes insurance or (re)insurance risks and fully funds its exposure to such risks, typically through a debt issuance or some other financing (as approved by the Authority)

5. STATISTICS

TABLE: Market Statistics by Region of Beneficial Owner/s

Market Statistics by Region of Beneficial Owner
For the year ended 31st December 2016

Domicile of Owners	No. of Licences	Gross Premiums (US$)	Net Premiums (US$)	Total Assets (US$)	Capital & Surplus (US$)
Captives					
Africa/Middle East	5	78,783,791	17,888,492	109,877,845	60,408,071
Asia	25	301,024,952	208,238,429	1,025,859,968	691,530,146
Australia/New Zealand	13	68,372,264	32,517,124	408,739,478	328,803,881
Bermuda	103	6,448,118,369	4,571,306,592	51,386,531,516	19,846,520,644
Caribbean/Latin America	38	1,579,654,620	1,502,165,578	6,720,810,953	3,388,145,260
Europe	102	13,885,083,377	13,076,889,556	64,576,875,317	36,003,109,009
North America	437	31,647,112,483	16,636,730,125	92,465,308,573	42,612,709,939
Sub-Totals	723	54,008,149,856	36,045,735,896	216,694,003,650	102,931,226,950
Professional Insurers/Reinsurers					
Africa/Middle East	4	1,659,787,374	732,002,473	2,994,978,507	1,092,691,754
Asia	16	2,579,671,216	2,448,886,451	9,965,741,897	4,269,266,727
Australia/New Zealand	1	3,600,230,000	2,649,531,000	6,171,960,000	1,472,340,000
Bermuda	155	23,979,667,854	20,405,501,169	139,293,494,641	60,619,457,329
Caribbean/Latin America	25	7,351,139,172	6,455,876,722	55,906,841,585	26,991,217,947
Europe	63	28,035,419,101	23,663,469,524	105,138,419,362	36,469,051,153
North America	148	49,363,701,756	40,252,093,807	227,976,010,679	63,996,001,498
Sub-Totals	412	116,569,616,474	96,607,361,147	547,447,446,671	194,910,026,408
Totals	1,135	170,577,766,329	132,653,097,043	764,141,450,320	297,841,253,358

5. STATISTICS

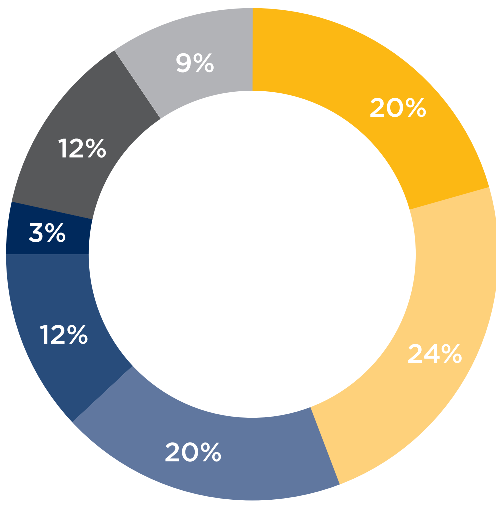
TABLE: Market Statistics by Company Type

Company Type	No. of Licences	Gross Premiums (US$)	Net Premiums (US$)	Total Assets (US$)	Capital and Surplus (US$)	% of Insurers
Captives						
Captive writing Third Party	229	40,530,887,849	24,728,319,521	119,900,840,912	39,797,742,129	20%
Captive writing Connected or Related Business	270	8,820,659,652	7,204,036,081	59,716,254,671	34,104,528,307	24%
Single Parent Captives	224	4,656,602,355	4,113,380,295	37,076,908,066	29,028,956,514	20%
Sub-Totals	723	54,008,149,856	36,045,735,896	216,694,003,649	102,931,226,950	64%
Professional Insurers/ Reinsurers	136	24,686,743,120	18,986,278,489	55,892,395,280	26,714,103,153	12%
Class 4	39	37,955,565,638	31,211,993,217	172,559,291,187	83,123,182,884	3%
Long-Term Ins./ Reinsurers	132	50,855,559,815	43,518,917,868	287,702,983,217	78,501,118,261	12%
Special Purpose Vehicle	105	3,071,747,900	2,890,171,572	31,292,776,988	6,571,622,110	9%
Sub-Totals	412	116,569,616,474	96,607,361,147	547,447,446,672	194,910,026,408	36%
Totals	1,135	170,577,766,329	132,653,097,043	764,141,450,320	297,841,253,358	100%

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

5. STATISTICS

CHART: Actively Writing Insurers by Company Type



20% Captive Writing Third Party
24% Captive Writing Connected or Related Business
20% Single Parent Captives
12% Professional Insurers/Reinsurers
3% Class 4
12% Long-Term Insurers/Reinsurers
9% Special Purpose Vehicle

FINANCIALS

BERMUDA MONETARY AUTHORITY

BMA House

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P.O. Box 2447
Hamilton HM JX Bermuda

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30th April 2018

The Hon E. David Burt, JP, MP
The Premier of Bermuda and Minister of Finance
Ministry of Finance
Hamilton

Dear Premier:

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

This document also contains the reports for the year 2017 which the Authority is required to make to you pursuant to:

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

Yours sincerely,

Jeremy Cox
Chief Executive Officer

BERMUDA MONETARY AUTHORITY

30th April 2018

BMA House

43 Victoria Street
Hamilton HM 12 Bermuda

P.O. Box 2447
Hamilton HM JX Bermuda

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

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

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

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

Yours sincerely,

The Hon. Gerald Simons
Chairman

Jeremy Cox
Chief Executive Officer

Office of the Auditor General
Reid Hall, Penthouse
3 Reid Street
Hamilton HM 11, Bermuda

Tel: (441) 296-3148
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Email: oag@oagbermuda.bm
Website: www.oagbermuda.bm

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

I have audited the accompanying financial statements of the Bermuda Monetary Authority, which comprise the statement of financial position as at December 31, 2017, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Bermuda Monetary Authority as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Hamilton, Bermuda
April 23, 2018

Heather Thomas, CPA, CFE, CGMA
Auditor General

BERMUDA MONETARY AUTHORITY

Statement of Financial Position
As at December 31, 2017

(In thousands of Bermuda dollars)	Note	2017	2016
Assets			
Current assets			
Cash and cash equivalents	3, 5	46,682	43,756
Accounts and other receivables	3, 6	893	951
Prepayments		518	797
Stock of numismatic items	7	845	860
Stock of notes and coins for circulation	8	5,015	5,582
		53,953	51,946
Non-current assets			
Investments, held-to-maturity	3	108,779	109,651
Property and equipment	9	22,633	23,317
Intangible assets	10	4,179	2,246
		135,591	135,214
Total Assets		189,544	187,160
Liabilities			
Current liabilities			
Accounts and other payables	3, 11, 17	7,043	6,261
Notes and coins in circulation	3, 12	140,734	137,500
		147,777	143,761
Equity			
Capital subscribed	14	20,000	20,000
General reserve	14	21,767	23,399
		41,767	43,399
Total Liabilities and Equity		189,544	187,160

Commitments (Note 20)

Gerald Simons
Chairman

Jeremy Cox
Chief Executive Officer

The accompanying notes are an integral part of these financial statements

BERMUDA MONETARY AUTHORITY

Statement of Comprehensive Income
For the year ended December 31, 2017

(In thousands of Bermuda dollars)	Note	2017	2016
Revenues			
Supervisory and licensing fees	15	43,337	43,778
Incorporation fees, vault commission and other income		1,022	991
Net sale of special coins		44	52
Operating revenue		44,403	44,821
Investment income	16	3,358	3,463
Total revenues		47,761	48,284
Expenses			
Salaries and employee benefits	17	36,293	33,090
General expenses	18	6,318	6,022
Professional fees		4,192	3,172
Depreciation of property and equipment	9	1,319	1,206
Circulation note and coin expenses	8	641	438
Amortisation of intangible assets	10	630	764
Total expenses		49,393	44,692
Total comprehensive (loss)/income for the year		(1,632)	3,592

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

The accompanying notes are an integral part of these financial statements

BERMUDA MONETARY AUTHORITY

Statement of Changes in Equity
For the year ended December 31, 2017

(In thousands of Bermuda dollars)	Note	2017	2016
Capital		20,000	20,000
General Reserve			
Balance, beginning of year		23,399	19,391
Adjustment to General Reserve	13	-	416
Total comprehensive (loss)/ income for the year		(1,632)	3,592
Balance, end of year		21,767	23,399
Equity		41,767	43,399

The accompanying notes are an integral part of these financial statements

BERMUDA MONETARY AUTHORITY

Statement of Cash Flows
For the year ended December 31, 2017

(In thousands of Bermuda dollars)	Note	2017	2016
Cash flows provided by / (used in) operating activities			
Total comprehensive (loss)/income for the year		(1,632)	3,592
Adjustment for:			
Non-cash items included in total comprehensive income for the year	19	1,653	2,049
Change in operating assets	19	1,552	560
Change in operating liabilities	19	782	296
Net cash provided by operating activities		2,355	6,497
Cash flows (used in) / provided by investing activities			
Additions of intangible assets	10	(2,563)	(1,446)
Additions of property and equipment	9	(635)	(551)
Proceeds from sale of property and equipment		-	1
Purchase of investments		(12,550)	(41,153)
Proceeds from maturity of investments		13,085	40,225
Net cash (used in) investing activities		(2,663)	(2,924)
Cash flows provided by financing activities			
Net increase in notes and coins in circulation circulation		3,234	4,745
Net cash provided by financing activities		3,234	4,745
Net increase in cash and cash equivalents		2,926	8,318
Cash and cash equivalents at beginning of year		43,756	35,438
Cash and cash equivalents at end of year	5	46,682	43,756
Operational cash flows from interest			
Interest received	16	3,227	3,596

The accompanying notes are an integral part of these financial statements

1. General information

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

The primary responsibilities of the Authority are:

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

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

2. Summary of significant accounting policies

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

2.1 Basis of preparation

(a) Statement of compliance

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

These financial statements were authorised for issue by the Board of Directors (the "Board") on April 23, 2018.

2.1 Basis of preparation (continued)

(b) Basis of measurement

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

(c) Use of estimates and judgements

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

2.2 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

2.3 Property and equipment

(a) Recognition and measurement

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

2.3 Property and equipment (continued)

(a) Recognition and measurement (continued)

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

(b) Subsequent costs

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

(c) Depreciation and impairment

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

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

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

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

2.4 Intangible assets

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

2.4 Intangible assets (continued)

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

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

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

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

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

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

2.5 Financial instruments

2.5.1 Classification

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

(a) Financial assets

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

2.5.1 Classification (continued)

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Authority charges fees or provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are carried at amortised cost less any impairment losses in the statement of financial position. Amortisation is determined using the effective interest method. Loans and receivables are included in current assets if maturity is within twelve months of the statement of financial position date. Otherwise, these are classified as non-current assets.

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

(ii) Held-to-maturity financial assets

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

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

(b) Financial liabilities

The Authority classifies accounts and other payables 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 or liability. All financial instruments are measured initially at fair value plus transaction costs.

2.5.3 Derecognition of financial assets and liabilities

(a) Financial assets

A financial asset is derecognised when:

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

(b) Financial liabilities

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

2.5.4 Impairment of financial assets

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

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

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

2.5.4 Impairment of financial assets (continued)

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including;

  (i) adverse changes in the payment status of borrowers in the portfolio; and
  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

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

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

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

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

2.6 Impairment of property, equipment and intangible assets

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

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

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

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

2.7 Stock of notes, coins and numismatic items

2.7.1 Stock of notes and coins for/in circulation

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

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

2.7.2 Stock of numismatic items

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

2.8 Cash and cash equivalents

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

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

2.9 Employee benefits

(a) Short-term employee benefits

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

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

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

2.9 Employee benefits (continued)

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

(b) Post-employment benefits

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

(c) Other long-term employee benefits

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

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

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

2.10 Provisions

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. The Authority has not recorded a provision in 2017 nor 2016.

2.11 Revenue recognition

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

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

Investment income is recognised using the effective interest method.

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

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

Vault commission is recorded as revenue when earned.

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

2.12 Going concern

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

2.13 Events after the year-end reporting period

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

2.14 New and amended standards not yet adopted

A number of new or amended standards are effective for annual periods beginning on or after January 1, 2018 and early adoption is permitted; however, the Authority has not early adopted the following new or amended standards in preparing these financial statements.

(i) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

The Authority has completed an initial assessment of the potential impact of the adoption of IFRS 15 on its financial statements. Based on this assessment, the Authority does not expect any difference in the timing of revenue recognition. The Authority plans to adopt IFRS 15 in its financial statements for the year ending December 31, 2018, using the practical expedient approach. This will result in completed revenue transactions that began and ended in the same comparative reporting period, as well as the revenue transactions that are completed at the beginning of the earliest period presented, not being restated.

(ii) IFRS 9 Financial Instruments

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Authority currently plans to apply IFRS 9 for its year ending December 31, 2018.

The actual impact of adopting IFRS 9 on the Authority's financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Authority holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Authority to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete. However, the Authority has performed a preliminary assessment of the potential impact of adoption of IFRS 9 based on its financial instruments at December 31, 2017.

Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

2.14 New and amended standards not yet adopted (continued)

(ii) IFRS 9 Financial Instruments (continued)

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Based on its preliminary assessment, the Authority does not believe that the new classification requirements, if applied on December 31, 2017, would have had a material impact on its accounting for the relevant financial statement captions.

Impairment – Financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Authority's preliminary assessment indicated that application of IFRS 9's impairment requirements at December 31, 2017 would have resulted in no increase in loss allowances at that date compared with impairment losses recognised under IAS 39. However, the Authority has not yet finalised the impairment methodologies that it will apply under IFRS 9.

2.14 New and amended standards not yet adopted (continued)

(ii) IFRS 9 Financial Instruments (continued)

Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

The Authority has not yet designated any financial liabilities at FVTPL and the Authority has no current intention to do so. The Authority's preliminary assessment did not indicate any material impact if IFRS 9's requirements regarding the classification of financial liabilities were applied at December 31, 2017.

Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected losses. The Authority's preliminary assessment included an analysis to identify data gaps against current processes and the Authority plans to implement the system and control changes that it believes will be necessary to capture required data.

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Authority plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in equity as at January 1, 2018.

(iii) IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for leases. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to current standard – i.e. lessors continue to classify leases as finance or operating leases.

The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply *IFRS 15 Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

The Authority expects that adoption of IFRS 16 will not impact its financial reporting materially. The Authority plans to adopt IFRS 16 in the financial statements for the year ending December 31, 2019 with no material impact expected.

(In thousands of Bermuda dollars)

2.14 New and amended standards not yet adopted (continued)

(iv) Other Standards

The following amended standards and interpretations are not expected to have an impact on the Authority's financial statements.

- *Annual Improvements on IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.*
- *Classification and Measurement of Share-based Payment Transactions (Amendment to IFRS 2).*
- *Transfers of Investment Property (Amendments to IAS 40).*
- *Sale of Contribution of Asset between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*
- *IFRIC 22 Foreign Currency Transactions and Advance Consideration.*
- *IFRIC 23 Uncertainty over Income Tax Treatments.*

3. Financial risk management

(a) Fair value of financial instruments

(i) Carrying amount and fair value of financial instruments

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

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS				
Cash and cash equivalents	46,682	46,682	43,756	43,756
Accounts and other receivables	893	893	951	951
Investments, held-to-maturity	108,779	107,476	109,651	108,589
Total financial assets	156,354	155,051	154,358	153,296
FINANCIAL LIABILITIES				
Notes and coins in circulation	140,734	140,734	137,500	137,500
Accounts and other payables	7,043	7,043	6,261	6,261
Total financial liabilities	147,777	147,777	143,761	143,761

(In thousands of Bermuda dollars)

3. Financial risk management (continued)

(ii) Financial instruments at fair value

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

Level 1 – quoted prices in active markets
Level 2 – inputs are observable either directly or derived from quoted prices
Level 3 – no observable inputs

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

	Level 1	Level 2	Level 3	Total
Financial instruments at fair value as at December 31, 2017				
Investments, held-to-maturity	107,476	-	-	107,476
Total financial instruments	107,476	-	-	107,476
Financial instruments at fair value as at December 31, 2016				
Investments, held-to-maturity	108,589	-	-	108,589
Total financial instruments	108,589	-	-	108,589

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

(b) Credit risk

Credit risk is the risk of loss of principal or interest due to uncertainty in a counterparty's ability to meet its obligations. The Authority is exposed to credit risk arising from investments in US Government, US Government Agency and Supranational Banks' debt securities and accounts and other receivables. The Authority manages credit risk by adhering to the fund management policy guidelines set forth by the Board's Investment Committee. The Authority is exposed to a concentration of credit risk as 74% (2016 – 86%) 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, 2017 and 2016. Details on the impairment of accounts and other receivables are included in Note 6.

(In thousands of Bermuda dollars)

3. Financial risk management (continued)

(b) Credit risk (continued)

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

	2017	2016
Investments, held-to-maturity		
AAA **	27,817	15,297
AA+ **	80,962	94,354
** Moody's equivalent grade is Aaa.	108,779	109,651
Cash and cash equivalents		
Cash at bank and in-hand		
AA+	265	319
AA	316	91
A-	356	420
BBB	627	507
Not rated	18	19
	1,582	1,356
Overnight repurchase agreements		
AA+	45,100	42,400
	46,682	43,756

Investments, held-to-maturity

This account consists of:

	2017	2016
US Government and US Government Agencies	80,962	94,354
Supranational Bank	27,817	15,297
	108,779	109,651

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

(In thousands of Bermuda dollars)

3. Financial risk management (continued)

(c) Market risk

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

(i) Interest rate risk

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

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

Sensitivity to interest rate risk

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

		2017		2016
	+1%	-1%	+1%	-1%
Change in comprehensive (loss)/income/equity due to movement of percentage point across yield curves:				
US dollar overnight repurchase agreement with the US Federal Reserve	524	(443)	395	(134)
US dollar quoted securities	1,076	(1,076)	1,155	(1,155)
Total	1,600	(1,519)	1,550	(1,289)

An increase in interest rates of 1% would result in additional income of $1,600 (2016 - $1,550). A decrease in interest rates of 1% would result in a decrease in income of $1,519 (2016 - $1,289).

3. Financial risk management (continued)

(ii) Currency risk

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

At December 31, 2017 and 2016, the Authority did not hold a significant amount of foreign currency other than US dollars, which are par with Bermuda dollars. Given the small size of the net foreign currency exposure relative to the total assets of the Authority, currency risk is not considered material.

(iii) Price risk

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

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

(d) Liquidity risk

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

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

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

(In thousands of Bermuda dollars)

3. Financial risk management (continued)

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

As at December 31, 2017

	Total	No fixed maturity	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
FINANCIAL ASSETS						
Cash and cash equivalents	46,682	46,682	-	-	-	-
Investments (fair value)	107,476	-	10,079	13	27,262	70,122
Accounts and other receivables	893	893	-	-	-	-
	155,051	47,575	10,079	13	27,262	70,122
FINANCIAL LIABILITIES						
Notes and coins in circulation	140,734	140,734	-	-	-	-
Accounts and other payables	7,043	7,043	-	-	-	-
	147,777	147,777	-	-	-	-
Net maturity difference	7,274	(100,202)	10,079	13	27,262	70,122

As at December 31, 2016

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

3. Financial risk management (continued)

(e) Operational risk

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

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

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

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

4. Critical accounting estimates and judgements

4.1 Fair value estimation

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

4.2 Use of estimates and judgements

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

(In thousands of Bermuda dollars)

4.2 Use of estimates and judgements (continued)

Estimates in these financial statements include:

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

Actual results could differ from these estimates.

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

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

5. Cash and cash equivalents

This account consists of:

	2017	2016
Cash at bank and in hand	1,582	1,356
Overnight repurchase agreement with the US Federal Reserve	45,100	42,400
Total	46,682	43,756

Cash at bank earns interest at an effective rate of 1.04% (2016 – 0.34%).

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

6. Accounts and other receivables

This account consists of:

	2017	2016
Accounts receivable	942	1,576
Less: provision for impairment of receivables	(755)	(1,390)
Accounts receivable – net	187	186
Accrued interest	706	765
Total	893	951

(In thousands of Bermuda dollars)

6. Accounts and other receivables (continued)

The ageing analysis of these receivables are as follows:

	2017	2016
Up to 3 months	187	186
Total	187	186

As at December 31, 2017, accounts receivable of $755 (2016 - $1,390) were impaired and fully provided for. The individually impaired receivables mainly relate to fees charged to regulated entities. The ageing of these receivables is as follows:

	2017	2016
Up to 3 months	18	6
3 to 6 months	42	6
Over 6 months	695	1,378
Total	755	1,390

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

	2017	2016
Balance as at January 1	1,390	1,579
Release of provision for impairment of receivables	(635)	(189)
Balance as at December 31	755	1,390

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

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

(In thousands of Bermuda dollars)

7. Stock of numismatic items

This account consists of:

	2017	2016
Commemorative notes and coins	783	794
Circulation notes and coins	19	21
Bullion for inventory production	165	165
Provisions	(122)	(120)
	845	860

8. Stock of notes and coins for circulation

This account consists of:

	2017	2016
Notes	4,671	5,038
Coins	344	544
	5,015	5,582

The cost of stocks recognised as expenses and included in "circulation note and coin expenses" amounted to $641 (2016 - $438).

(In thousands of Bermuda dollars)

9. Property and equipment

This account consists of:

	Land, building and improvements	Computer equipment	Furniture and fixtures	Museum items	Total
At January 1, 2017					
Cost	31,111	3,173	3,106	72	37,462
Accumulated depreciation	(8,816)	(2,449)	(2,880)	-	(14,145)
Net book amount	22,295	724	226	72	23,317
Year ended December 31, 2017					
Additions	-	618	17	-	635
Disposals – cost	-	(777)	(136)	-	(913)
Disposals - accumulated depreciation	-	777	136	-	913
Depreciation charge	(776)	(390)	(153)	-	(1,319)
Closing net book amount	21,519	952	90	72	22,633
At December 31, 2017					
Cost	31,111	3,014	2,987	72	37,184
Accumulated depreciation	(9,592)	(2,062)	(2,897)	-	(14,551)
Net book amount	21,519	952	90	72	22,633

(In thousands of Bermuda dollars)

9. Property and equipment (continued)

This account consists of:

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

Depreciation of $1,319 (2016- $1,206) has been charged in the statement of comprehensive income.

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

	2017	2016
Furniture and fixtures	2,512	2,467
Computer equipment	1,360	1,966

(In thousands of Bermuda dollars)

10. Intangible assets

This account consists of:

	Computer Software					
	2017			2016		
	Internally developed	Externally acquired	**Total**	Internally developed	Externally acquired	**Total**
At January 1						
Cost	5,758	3,951	**9,709**	5,758	2,505	**8,263**
Accumulated amortisation	(5,622)	(1,841)	**(7,463)**	(5,264)	(1,435)	**(6,699)**
Net book amount	136	2,110	**2,246**	494	1,070	**1,564**
Year ended December 31						
Additions	-	2,563	**2,563**	-	1,446	**1,446**
Disposals – cost	(20)	(141)	**(161)**	-	-	**-**
Disposals - accumulated amortisation	20	141	**161**	-	-	**-**
Amortisation charge	(135)	(495)	**(630)**	(358)	(406)	**(764)**
Closing net book amount	1	4,178	**4,179**	136	2,110	**2,246**
At December 31						
Cost	5,738	6,373	**12,111**	5,758	3,951	**9,709**
Accumulated amortisation	(5,737)	(2,195)	**(7,932)**	(5,622)	(1,841)	**(7,463)**
Net book amount	1	4,178	**4,179**	136	2,110	**2,246**

Amortisation of $630 (2016 - $764) is included in the statement of comprehensive income.

The cost of software fully amortised and still in use in 2017 is $6,817 (2016 - $5,940).

There were no research and development costs charged to the statement of comprehensive income in 2017 and 2016.

11. Accounts and other payables

This account consists of:

	2017	2016
Accrued expenses	5,027	4,714
Accounts payable	61	40
Amounts due to related parties (Note 21)	1,524	1,262
Customer deposits and annual business fees payable	383	208
Deferred income	48	37
	7,043	6,261

12. Notes and coins in circulation

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

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

At December 31, 2017, the Authority was required to hold a reserve of external assets of at least $70,367 (2016 - $68,750) and the actual external assets held totalled $154,460 (2016 - $152,460).

As indicated in Note 3(d), at December 31, 2017, the fair value of the Authority's total financial assets exceeded its financial liabilities by $7,274 (2016 - $9,535).

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

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

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

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

14. Equity

Equity

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

(In thousands of Bermuda dollars)

14. Equity (continued)

(a) Capital

The Authority's authorised capital of $30,000 can be subscribed at such times and in such amounts as the Board, with the approval of the Minister of Finance (the "Minister"), may require. As at December 31, 2017 capital of $20,000 (2016 - $20,000) has been subscribed.

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

(b) General Reserve

A general reserve of $21,767 (2016 - $23,399) has been established and maintained in accordance with Section 8 of the Act.

On April 5, 2017, the Minister of Finance granted approval for the 2016 net earnings of $3,592 to be transferred to the general reserve account.

15. Supervisory and licensing fees

This account consists of:

	2017	2016
Insurance fees	34,500	35,295
Bank and deposit company fees	4,553	4,545
Anti-money laundering fines ("AML fines")	1,500	1,000
Investment funds	1,044	1,078
Investment business licence fees	647	645
Trust company fees	619	672
Anti-money laundering fees ("AML fees")	351	361
Insurance fines	119	109
Credit Union licence fees	3	3
Corporate Service Provider fees ("CSP fees")	1	20
Investment Business Act fines ("IBA fines")	-	50
	43,337	43,778

In accordance with Section 24 (5) of the Proceeds of Crime Regulations (Supervision and Enforcement) Act 2008, AML fees in the amount of $351 (2016 - $361) and AML fines in the amount of $1,500 (2016 - $1,000) were recognised as revenue and expenses in the amount of $1,567 (2016 - $1,492) were incurred.

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

(In thousands of Bermuda dollars)

16. Investment income

This account consists of:

	2017	2016
Interest on investments held-to-maturity	3,227	3,596
Gain on call of US quoted securities	-	60
Interest earned on overnight repurchase agreement with the US Federal Reserve	468	134
Net amortisation/accretion of premiums/discounts on investments held-to-maturity	(337)	(327)
	3,358	3,463

17. Salaries and employee benefits

This account consists of:

	2017	2016
Salaries and bonuses	29,533	27,043
Payroll tax	3,134	2,672
Pension costs	1,271	1,147
Health insurance	1,150	1,098
Life insurance	416	392
Directors' fees	403	368
Social insurance costs	335	298
Other benefits	51	72
	36,293	33,090

The Authority has 184 employees at December 31, 2017 (2016 – 180).

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.

17. Salaries and employee benefits (continued)

(i) Defined contribution plan (continued)

Employee contributions to the Plan are 5% of gross salary matched by the Authority. These contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The balance of prepaid contributions as at December 31, 2017 amounted to $nil (2016 - $45). The Authority's contributions to the Plan during the year were $1,205 (2016 - $1,118).

(ii) Defined benefit plan

The Authority contributes to the Public Service Superannuation Fund ("PSSF" or the "Fund"), which is a defined benefit plan, administered by the Government and covers the remainder of the Authority's eligible employees, all of whom were previous employees of the Government. Contributions of 8% (2016 – 8%) of gross salary are required from both the employee and the Authority, and have been included in salaries and employee benefits. As part of the agreement to transfer this employee group to the Authority, the Authority is not required to make contributions to the Fund with respect to the quantified actuarial deficiencies. As a result, the current year contributions to the Fund represent the total liability of the Authority. The Authority's contributions to the Fund during the year were $127 (2016 - $123).

(b) Other employee benefits

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

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

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

Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation liability as at December 31, 2017 was $536 (2016 - $505) and is included in accounts and other payables.

(In thousands of Bermuda dollars)

17. Salaries and employee benefits (continued)

(b) Other employee benefits (continued)

Certain employees are entitled to special retirement benefits based upon their years of service at the time of retirement. The present value of the special retirement benefits obligation depends on a number of factors that are determined on an actuarial basis. Two key assumptions used in calculating this liability include the discount rate and salary inflation. Any changes in these assumptions will affect the carrying amount of the liability. During the year, special retirement benefits of $104 (2016 – nil) were paid or about to be paid out. The liability as at December 31, 2017 was $266 (2016 - $335) and is included in accounts and other payables.

18. General expenses

This account consists of:

	2017	2016
Premises and office	3,830	3,798
Conferences, seminars, education and training	1,088	977
Annual business fees written off	795	172
Communication	416	400
Recruitment and repatriation	343	399
Other	275	231
Public relations	78	71
Advertising	70	65
Net foreign exchange loss	56	96
Provision for impairment on numismatic items	2	2
Release of provision for impairment of receivables (Note 6)	(635)	(189)
	6,318	6,022

19. Cash generated from operations

	2017	2016
Non-cash items included in total comprehensive (loss)/ income for the year		
Depreciation of property and equipment (Note 9)	1,319	1,206
Amortisation of intangible assets (Note 10)	630	764
Amortisation/accretion of premiums/discounts on investments, held-to-maturity (Note 16)	337	327
Gain on call of US quoted securities (Note 16)	-	(60)
Provision for impairment of receivables (Note 6)	(635)	(189)
Gain on sale of property and equipment	-	(1)
Provision for impairment on numismatic items (Note 18)	2	2
	1,653	2,049

(In thousands of Bermuda dollars)

19. Cash generated from operations (continued)

	2017	2016
Change in operating assets		
Stock of notes and coins for circulation	567	433
Stock of numismatic items	13	(126)
Accounts and other receivables	693	733
Prepayments	279	(480)
	1,552	560
Change in operating liabilities		
Accounts and other payables	782	296
	782	296

20. Commitments

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

Annual contractual commitments are as follows:

	2017	2016
2017	-	1,666
2018	1,671	1,216
2019	495	442
2020	447	390
2021	442	-
Thereafter	11	390
	3,066	4,104

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

	2017	2016
Property and equipment	-	-
Intangible assets	772	1,262
	772	1,262

(In thousands of Bermuda dollars)

21. Related-party transactions

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

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

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

	2017	2016
Staff expenses:		
Payroll tax	3,134	2,672
Social insurance	335	298
Pension costs - PSSF	127	123
Premises expense - land tax	222	221
Professional fees – audit	93	95
Other general expenses - immigration fees	80	116
Office expense - postage	5	3

At December 31, 2017, payroll tax amounting to $1,524 (2016 - $1,262) remain outstanding (Note 11).

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

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

Board and key management compensation

The Directors of the Board of the Authority are appointed by the Minister to serve for fixed periods of time. The Board, through its Human Capital Committee, oversees the appointment, performance and compensation of the executive leadership team. Board members are paid an annual fee of $20 (2016 - $20), Board sub-committee Chairmen are paid an annual fee of $25 (2016 - $25) and the Board Chairman receives an annual fee of $75 (2016 - $75). Travel expenses of $107 (2016 - $72) were paid to overseas board members.

(In thousands of Bermuda dollars)

21. Related-party transactions (continued)

Board and key management compensation (continued)

The Chief Executive Officer is paid a salary of $500 (2016 - $500) and is eligible for a performance-based bonus of up to 45% (2016 – 45%) of salary. With effect from 2015, the CEO is eligible for a retention bonus which accrues annually at rate of 10% of his annual base salary through December 31, 2019.

Salaries of the other seven members of the executive team range from $238 to $364 (2016 - $233 to $355), with a performance-based bonus of up to 30% (2016 – 30%) of salary.

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

	2017	2016
Directors' fees	403	368
Executive management salaries, bonuses and other short-term employee benefits	3,531	3,430
Retention bonus	50	50
Post-employment benefits	177	173

NOTES

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