BERMUDA MONETARY AUTHORITY ANNUAL REPORT 2012

BMA

BERMUDA MONETARY AUTHORITY

2012 ANNUAL REPORT

ABOUT US

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

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

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

OUR MISSION

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

Table of Contents

international cooperation

The Authority views international participation as critical to our role as Bermuda's financial services regulator. The scope and nature of the Bermuda market demands a high level of international engagement on our part, which we fully embrace.

We have been active internationally for many years, through monitoring of ongoing discussions and developments on regulatory standards and initiatives globally. More recently however, we have increased our international engagement in various ways. This includes leading and participating in key technical committees within global standard setting bodies, and providing training to fellow-regulators overseas. We have done this in the context of the evolving international regulatory environment, and reform initiatives stemming from the financial crisis of 2008/09. Another influencing factor has been the growing sophistication of our market over time, and ensuring overall that Bermuda's best interests and unique characteristics are properly considered.

Therefore, being engaged internationally gives the Authority the opportunity to offer a pragmatic, balanced perspective to discussions of relevance to Bermuda. It also enables us to demonstrate regulatory leadership on matters in which we have notable expertise, such as insurance regulation. In addition, having a robust international agenda helps to generate further understanding of Bermuda's framework among key international stakeholders, including global standard setting bodies and our peer regulators. Educating key international stakeholders on Bermuda's standards and our position on relevant regulatory issues, and developing active working relationships with our counterparties is even more important today as we continue to move forward with our regulatory change agenda for Bermuda.

independent perspective

We remain committed to applying risk-based regulations that are practical and effective for the diverse nature of the Bermuda market, and to delivering quality supervision. We are focused on following through on this long-standing commitment, and to using our depth of experience in financial regulation to support Bermuda's reputation as a premier domicile.

In 2012, we again assessed the potential impact of significant events in the international regulatory arena of most relevance to Bermuda. One prime example was the delay to implementation of Europe's Solvency II Directive, and any impact of those timeline changes to our regulatory agenda for the insurance sector. While the Authority continues to closely monitor developments in that area, we are continuing with our strategy of regulatory and supervisory enhancements for Bermuda's commercial insurance sector, moving ahead with an approach that is workable for this market.

The work we have completed in recent years on framework enhancements, as well as Bermuda's proven track record of effective risk-based supervision, has also reinforced the Authority's reputation as a top–tier regulator. We are able to take an independent view on our regulatory developments, and to make decisions based on what is right for Bermuda, while seeking to achieve global recognition for our supervisory regimes.

Board of Directors *as at 1st January 2013*

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

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

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

Jeremy Cox
Chief Executive Officer

The Hon. Gerald Simons, OBE
Chairman

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

Ronald Simmons
Partner,
Moore Stephens & Butterfield

Mr. Anthony Joaquin
Deputy Chairman,
Ernst & Young (retired)
(not shown)

E. Barclay Simmons
Managing Partner,
Attride-Stirling & Woloniecki
(not shown)

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

Chairman's Letter

In common with financial regulators worldwide, the Authority is working to fulfill its mandate against a continually evolving backdrop. Change is the only constant the organisation faces. Last year was no exception, whether in terms of shifting timelines of external regulatory initiatives relevant to Bermuda such as Solvency II, or, closer to home, challenging economic realities that impact our financial services sector directly and indirectly.

However, one thing remained unchanged in 2012: the unwavering focus of the Board and management to build further on the Authority's achievements in delivering quality regulation, which supports Bermuda's credibility as a financial jurisdiction.

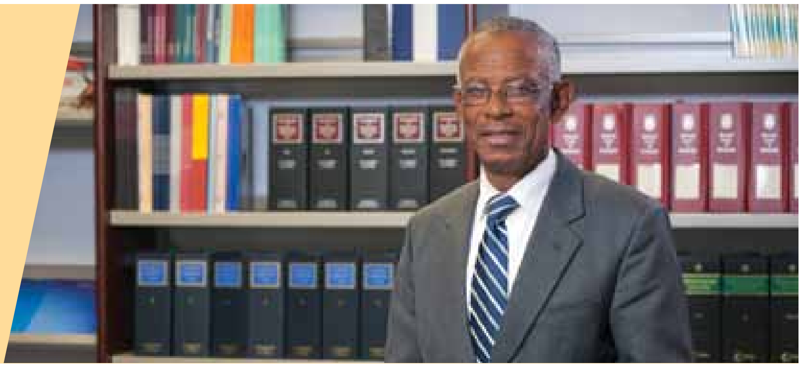
Much of that focus has been on managing change effectively while working towards meeting core strategic goals: progressing the BMA's regulatory development programme; effectively managing international relations; resource enhancement; and operational effectiveness. The Board continued to monitor management's progress across each of these key areas during the year.

Adapting Bermuda's framework to international standards is fundamental to regulatory development here. However, it has become increasingly evident that alignment with international expectations must be appropriately balanced with the need to apply regulations that fit the unique characteristics and diversity of Bermuda's market. That balance must also extend to ensuring that Bermuda's competitive position remains uncompromised while applying effective, globally-recognised regulatory frameworks. Management remained sensitive to this important issue while implementing enhanced supervisory regimes for the insurance market in particular throughout the year. Our CEO and his team have done a highly commendable job of ensuring Bermuda remained in good standing with key stakeholders in Europe and the US by maintaining consistency with relevant international standards while continuing with regulatory changes that are suitable for this market.

Impacts from the prevailing challenges in the local economy were felt across all segments of Bermuda's financial services sector during the year. The role of the regulator is even more critical in such conditions, a vital thread of oversight underpinning overall market stability. Active and frequent engagement with the market took place throughout 2012, in particular the banking sector, while the Authority formally monitored how regulated entities are mitigating the effects of the economic downturn. Ultimately, while the Authority undoubtedly remains vigilant with enhanced monitoring efforts across segments of the market, maintaining market stability is the collective focus of all stakeholders in Bermuda.

The roll-out of enhanced supervisory regimes during 2012 was supported by a range of policy and legislative provisions. Legislative development was therefore one of several key areas that required ongoing input from the Board's committees. The details of that significant work are included later in this Report. Overall, Board-level input via the committee structure has ensured the Authority employs the requisite internal controls and governance systems expected of a leading international regulator. In terms of resourcing, much progress has been achieved in building the internal technical resources the Authority must have to deliver on its commitments as Bermuda's financial regulator. The Board-approved increases in headcount in recent years were conditional – the requirement being to build further on key technical skills in-house aligned with the Authority's expanding responsibilities and Bermuda's evolving regulatory framework. That goal has been achieved to a large degree, particularly over the past two years. The Board also continues to challenge management on ensuring there are effective succession plans in place for the Authority to serve Bermuda effectively both now and in the future.

As we look to the future, and in my new capacity, I wish to acknowledge my predecessor Alan Cossar. In another significant change for the year, Alan stepped down as Chairman at the end of his term.



The Hon. Gerald Simons
Chairman

He has been a dedicated and highly engaged leader of the Board through a period of significant external events and internal transformation. On behalf of my fellow Board members I thank Alan for his service to the Authority and the jurisdiction. I also take this opportunity to express our sincere appreciation to the indefatigable Darren Johnston. Darren also stepped down at the end of 2012 as one of the Authority's longest-serving Directors; we thank him for his contributions and consistently demonstrating a deep commitment to Bermuda's interests during his tenure.

The Authority once again performed to a high standard during another demanding year, delivering on key components of its comprehensive regulatory agenda. The Board and its various committees maintained a corresponding level of strategic oversight on progress achieved in that regard, as well as monitoring key milestones in relation to governance, internal control processes and corporate policy. I would like to thank the Board and the entire staff of the Authority for their hard work during another period of unrelenting change; I look forward to continuing to work with them in support of Bermuda's success.

Board Committees 2012

Non-Executive Directors

Alan C. Cossar (Chairman)
Darren Johnston
Walter Bell
Anthony Joaquin
Lynda Milligan-Whyte
Barclay Simmons
Ronald Simmons
The Hon. Gerald Simons
Tracy Tepper

The Non-Executive Directors Committee comprises all non-executive members of the Board and is charged under section 4C of the BMA Act with responsibility for:

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

Audit & Risk Management

Anthony Joaquin (Chairman)
Alan C. Cossar
Ronald Simmons

The purpose of the Audit and Risk Management Committee (ARMC) of the Board of Directors of the Bermuda Monetary Authority is to:

- Monitor (i) the accounting and financial reporting process of the Authority, including its internal accounting and financial controls, and (ii) the integrity of the Authority's financial statements;
- Retain and oversee the independent auditors of the Authority's financial statements and determine their remuneration;
- Oversee the Authority's risk management process;
- Provide the Board with the results of its monitoring and its recommendations, as well as additional information and materials as it deems necessary to make the Board aware of significant financial matters that require the Board's attention; and
- Oversee the internal audit function of the Authority.

The Committee met as required during the year to:

- Review and monitor the Authority's progress and implementation of amendments to its internal control processes;
- Complete review and oversight of the external audit process for the Authority's 2011 financials;
- Review the internal audit reports for any necessary action in 2012, and confirm the internal audit plan for 2013;
- Provide ongoing oversight to enterprise risk management development within the Authority's operations, including the appointment of the Authority's first Risk Officer; and
- Provide oversight of major information technology initiatives via review and analysis of the Authority's performance against strategic project milestones.

Human Capital

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

The Human Capital Committee (HCC) has delegated responsibility to approve the overall compensation framework for the Authority, and to approve the individual remuneration levels for Directors and above. The Committee is also responsible for:

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

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

Corporate Governance & Ethics

Ronald Simmons (Chairman)
Jeremy Cox
Barclay Simmons
The Hon. Gerald Simons

The Corporate Governance and Ethics Committee (CGEC) has responsibility for developing, implementing, and monitoring effective corporate governance principles, policies and procedures, which are critical prerequisites for the Authority to fulfill its mandate. The CGEC also oversees the policies and programmes of the Authority to ensure the BMA Board, management and staff conduct their functions in an ethical manner.

During 2012 the Committee successfully completed the following major items on its agenda for the year:

- Finalisation of the mandate for the Enforcement Committee and of the Authority's enforcement process;
- Revision and updating of the bye-laws for the Authority.

Investment

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

The Investment Committee (IC) has responsibility for ensuring prudent investment of the Authority's portfolio of assets, in accordance with the requirements of the Bermuda Monetary Authority Act 1969 (BMA Act) and with the investment policy guidelines that are established by the Board.

During 2012 the Committee maintained its review of the quality of investments within the Authority's portfolio by monitoring ongoing compliance with the Investment Guidelines and BMA Act. The detailed Investment Guidelines are designed to both limit material capital risk and maintain a high degree of liquidity. The investment portfolio has remained in full compliance with the Act and Guidelines throughout 2012, thereby achieving the objectives of liquidity maintenance and avoidance of material capital risk.

Legislative & Policy

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

The purpose of the Legislative and Policy Committee is to:

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

The Committee completed reviews of:

- The Statements of Principles for the following sectors: banking, insurance group supervision, corporate service providers, the use of enforcement powers and the anti-money laudering (AML) regime;
- Guidance Notes for corporate service providers and the supervisory colleges for insurance groups;
- The proposed corporate governance policy for the investment business sector, fund administrators and trust undertakings;
- Insurance Amendment Rules 2012;
- Extension of prudential rules to Class C and D insurers;
- New rules for Class 3A, revision of rules for Class E, Class 4 and Class 3B, and housekeeping matters for the Insurance Group Supervision Rules and the Group Solvency Rules;
- Amendments to the Insurance Act 1978 to incorporate changes to address issues raised during the European Insurance and Occupational Pensions Authority (EIOPA) assessment including the prohibition of carrying on non-insurance business, tweaking of the definitions of general business and Long-Term business, expanding material changes to be reported, clarifying the appointment of group actuary, clarifying the power to modify rules, tightening the timelines for reporting failure to meet minimum solvency requirements;
- The bye-laws for the Authority;
- The Japanese Fund Rules and Investment Funds Appeal Tribunal Regulation; and
- The Economic Balance Sheet framework for Long-Term and general business insurers.

Executive Team *as at 31st December 2012*

Jeremy Cox
Chief Executive Officer

Bradley Erickson
Chief Operating Officer

Marcia Woolridge-Allwood
Director, Banking, Trust, Corporate Services & Investment

Pat Phillip-Bassett
Deputy Director, Corporate Governance & Communications

Craig Swan
Director, Insurance Supervision

Shanna Lespere
Director, International Affairs

Shauna MacKenzie
Director, Legal Services & Enforcement

Shelby Weldon
Director, Licensing & Authorisations

John Dill
Director, Management Services

Mary Frances Monroe
Director, Policy, Research & Risk

CEO's Report

Managing change while providing stable supervision characterised the Authority's activities during 2012 during a period of global financial uncertainty.

Implementing Quality Supervision

After targeting a new phase of supervision at the start of the year, the Authority successfully executed a significant shift from policy development to actively implementing a range of key framework enhancements.

The implementation programme for 2012 focused on major banking sector initiatives and further roll-out of enhanced supervisory regimes for the insurance sector. This involved effective use of the local and international expertise of our expanded technical teams, particularly in the areas of supervision and risk analytics. Active communication and consultation with the various sectors of Bermuda's financial services market were also a priority.

Most notable in the international regulatory arena was the European Commission's decision to further delay implementation of Solvency II. Assessing the impact of the delay and discussions with the market on its implications were in progress at the end of 2012. While Bermuda's equivalence with the Directive remains an important objective, the Authority's view is that the overall much broader adoption of effective risk-based supervision goes beyond a single regulatory initiative. Therefore, the Authority has continued with its own independent schedule of regulatory and supervisory enhancements for Bermuda's commercial insurers, at a pace that is right for our market.

Banking, Trust, Corporate Services and Investment

Work towards developing specific proposals for applying Basel III in Bermuda moved forward during the year. We completed first-round consultation with the market on initial proposals to implement regulatory capital enhancements in line with the directions the Basel Committee has set. Development of a Consultation Paper on such enhancements began towards year-end, along with further work on liquidity risk management proposals. This work continues, with the priority being to adapt Basel III within Bermuda's banking regime pragmatically and with continued input from the market.

We also concluded establishment of a Corporate Governance Code for the banking sector in 2012. The Code introduces 13 key principles to the market, reinforcing elements of corporate governance obligations that were formerly within various Bermuda regulations. The Code provides directors and officers of institutions with additional detailed guidance on required risk management and corporate governance practices and compliance with minimum licensing criteria.

Additionally, in a development that facilitates growth opportunities for the Bermuda market, the Authority introduced the Corporate Service Providers Act 2012. The Act establishes a new licensing and supervisory regime for entities acting as agents for company formations, as well as providing a range of corporate secretarial and other support functions. The Corporate Service Providers (CSPs) regime reflects best practice globally in this area, while ensuring appropriate oversight to maintain the integrity and strong know your customer (KYC) standards that are core to Bermuda's financial reputation.

In a similar vein, the Authority actively supported broader jurisdictional business development efforts during 2012. This involved providing input and regulatory perspective to initiatives such as the public/private sector Asset Management Task Force. The Bermuda Government, in association with the Bermuda Business Development Corporation, is actively working to reinforce Bermuda's position as a premier domicile for

Jeremy Cox
Chief Executive Officer

funds formation, management and administration. The Authority's role was to provide guidance on appropriate regulatory development around this effort. This involved extensive liaison with the Government and the market during the year. A continuing priority is to ensure that our supervisors maintain a strong understanding of the financial market sectors we regulate. This is best achieved through informed dialogue and interaction with the funds sector, to which end we established a link with the New York Hedge Fund Roundtable, an organisation committed to advancing the industry along the highest ethical standards.

Insurance

With the approvals and amendments that took place during 2012, the core policy and legislative infrastructure is now in place to complete implementation of Bermuda's enhanced framework for commercial insurers. The main legislative changes support key areas, such as the further embedding of group supervision, extending the scope of solvency and reporting requirements to remaining sectors of the Long-Term market, and addressing additional framework enhancements identified during Bermuda's Solvency II equivalence assessment. Phased roll-out of regime changes for the commercial market continued during 2012, while early in 2013, we also made clear publicly that Bermuda will not apply a Solvency II-type regime to the captive sector.

After consultation with the commercial insurance sector, we took the pragmatic step of deferring or adjusting the pace of implementation of certain regulatory changes. We recognise the importance of responding to market feedback, particularly regarding relatively new advancements such as group supervision and appropriate recognition of the Long-Term sector's specific risk characteristics.

We also took into account related pending developments in global insurance regulatory standards, taking care to put Bermuda developments and interests in that context. These considerations influenced to a certain degree our adjustments to timelines for some regimes.
Active committee participation as well as monitoring of work internationally on risk-based regulatory developments also remained a priority. As in prior years, our continued advocacy efforts within standard setting bodies, particularly the International Association of Insurance Supervisors, were critical to achieving this priority. This meant we could both contribute to international developments, and determine the ongoing relevance or impacts for Bermuda of such changes. Maintaining strong working relationships with key decision-makers is a very important aspect of reinforcing the credibility we have earned overseas, and supports acceptance of Bermuda's regulatory approach globally. This also facilitated our work during the year on group supervision of the insurance market, and the supervisory college programme we introduced and conducted throughout 2012.

As a result of these efforts, Bermuda remains well-positioned for global recognition of its insurance framework, including Solvency II equivalence, while pragmatically building in appropriate provisions and time for firms to transition to key regime enhancements.

Effective Outreach and Continuous Improvement

In the past, the Authority made significant progress through building upon its consultative, risk-based approach to applying regulation. Activity in 2012 was no exception, with a series of trial runs and outreach on various supervisory initiatives conducted across the market that provided useful insight and feedback prior to roll-out.

Change management and continuous improvement cannot be tackled in a vacuum. Accordingly, towards the end of the year, we invited external stakeholders to give us their views on the Authority's performance in that regard and generally. The results of the 2012 External Stakeholders Survey (ESS) show good support for the Authority's overall performance and strategic objectives as a financial regulator. Indeed, the greatest areas of improvement since the first ESS conducted in 2008 include perceptions of the BMA's transparency; adoption of international standards; management of risk; and understanding the markets we regulate. The study also showed most respondents indicating that the Authority is responsive, and that the pace of applying our framework changes is appropriate.

There were, of course, areas of improvement that emerged from the results. Respondents agreed that our technical staff has expertise, however, it is clear we must reinforce and demonstrate these technical capabilities to deliver quality supervision. Similarly, there must be continued focus on responsiveness as well as ensuring we deliver value for money as Bermuda's regulator, particularly in challenging economic conditions.

We appreciate the feedback we received from participants across all sectors of Bermuda's financial services sector. The results of the survey will help us to maintain the perceived areas of strength and address opportunities for improvement within our organisation. They will also assist us in our operational and strategic planning as we seek to deploy resources efficiently.

The Right People, The Right Skill Sets

Overall, as we progress our strategic planning, the focus is increasingly on making sure that the Authority's resources are adequate for the continued growth and development of Bermuda's financial services industry. We recognise that ensuring there is sufficient depth in both the technical and leadership skills within the organisation now and for the future has perhaps never been more critical. Achieving this strategic goal, and implementing effective succession plans, is key to delivering quality supervision, which is relevant for markets and for meeting global standards that are constantly evolving. One development in 2012 aligned with this strategy was establishing new dedicated resources for risk analytics and macroprudential surveillance to support and inform the Authority's supervisory review process. We also began assessing how emerging standards for institutions deemed to be systemically important globally may be relevant to the Bermuda market. Today, all financial regulators must be vigilant and able to identify the next 'unknown' in terms of regulatory trends and converging standards as markets become increasingly interconnected. This focus is critical if the Authority is to maintain its reputation as a leading risk-based financial regulator.

Conclusion

The Authority has built an effective framework that addresses core elements of regulation and supervision, and we have won global recognition for this achievement. We are also building a highly-skilled team focused on implementing quality, risk-based supervision.

Open and honest dialogue between the regulated and regulator remains critically important. This was increasingly apparent during 2012 and the Authority would like to record its appreciation of the many close working relationships developed with stakeholders whose input is vital to our regulatory agenda.

We extend our thanks to our Board of Directors for their insight and direction. In particular, we are grateful to Alan Cossar and Darren Johnston, who completed their terms of service with the Board last year and provided invaluable input and expertise. Alan was our Chairman during one of the most challenging periods in the Authority's history, and Darren completed one of the longest periods of service on the Board. On behalf of all staff at the Authority, I acknowledge their unwavering support and selfless service, and their significant contributions to the organisation. We look forward to working with the Hon. Gerald Simons and Anthony Joaquin in their new capacities as Chairman and Deputy Chairman respectively, and to future contributions from all our Directors, including the most recent members Fiona Luck and Allan Marshall.

Our appreciation also goes to the industry associations and other representatives from the Bermuda market who have contributed so willingly and actively to our various consultative processes throughout the year. Thanks also to colleagues from a range of areas within the Bermuda Government with respect to developing policy and legislative enhancements, most notably the Ministry of Finance and the Attorney General's Chambers.

Let me close by acknowledging, once again, the focus and dedication of the Authority's team. They worked hard to achieve challenging targets for 2012 based on our core priority: delivery of well-timed, appropriate changes that enhance Bermuda's regulatory framework with an independent approach, as we build further credibility and trust with our counterparts overseas. Through their collective efforts and achievements, the Authority's team enabled us to deliver on that commitment in 2012 and to support Bermuda's continued success as a respected financial jurisdiction.

2012 Business Milestones Completed

Insurance

- Eligible Capital/Own Funds: implementation: Class 3A
- Bermuda Solvency Capital Requirement (BSCR) Model: trial run: Class C and D; phased implementation: Class 3A
- Internal Capital Models (ICM): standards and applications framework – Guidance Note
- CISSA (ORSA): trial run: Class C and D
- Groups: phased trial run: Groups BSCR Class 3A and E; transitional implementation: Group supervision Class 4 and 3B
- Long-Term Business Framework: Long-Term reclassification implemented
- Captive Risk Return: market consultation

Banking & Corporate Service Providers

- Corporate Governance Policy for Bermuda Licensed Banks implemented
- Corporate Service Provider Regime: consultation completed, Corporate Service Provider Business Act 2012 passed by Parliament

Legislative Developments

- Enactment of enhanced enforcement measures legislation

Regulatory Development & Framework Enhancement

During the year, the Authority's regulatory change agenda progressed, clearly focused on maintaining our two priorities – to apply effective, risk-based regulation that is right for Bermuda and to implement framework enhancements at a pace that is appropriate for the firms operating within the jurisdiction.

Banking, Trust, Corporate Services and Investment

The work to enhance our regulatory regimes also seeks to position the jurisdiction positively in terms of alignment with relevant international standards. However, we continue to apply enhancements pragmatically, and with extensive market consultation to support efficient implementation.

Banking

Basel III – QIS for Bermuda Banks

After publishing a Discussion Paper at the end of 2011 on our preliminary thoughts on implementing Basel III in Bermuda, the Authority continued consultation throughout 2012. This involved a quantitative impact study (QIS) with Bermuda's banks. The QIS comprised a detailed assessment of a more stringent definition of capital and risk-weighted assets. Preliminary results suggest that risk-based capitalisation remains broadly stable but would depend on transitional arrangements regarding the recognition of existing forms of capital under a revised regime consistent with Basel III. The findings from this exercise will help the Authority assess some of the potential supervisory implications of adopting these standards.

We will conduct a similar QIS exercise in 2013 on the revised liquidity standards the Basel Committee on Banking Supervision (the Basel Committee) proposed in January 2013.

Corporate Governance Policy for Banks

The Authority issued the Corporate Governance Policy (the Policy) for Bermuda banks during the year. The Policy is based on the Basel Committee's "Principles for Enhancing Corporate Governance", issued in response to the 2008/09 global financial crisis, which seeks to raise the standard of governance practice internationally in the banking sector.

The Policy consists of principles and underlying guidance covering board practices, the role of senior management, risk management and internal controls, compensation, complex corporate structures and disclosure and transparency. In late 2012 these principles were incorporated into the minimum criteria for licensing under the Banks and Deposit Companies Act 1999.

Thematic Credit Review

As part of our rolling thematic reviews of regulated sectors, the Authority commenced a thematic credit review in late 2012 to assess the adequacy of the banks' credit risk management policies and practices. Once completed, this review will provide valuable insight into broader issues ultimately affecting the wider Bermuda economy.

Bank Resolution Regime

The Authority's consultation on establishing a special resolution regime for Bermuda's banks continued in 2012. This followed publication of a Consultation Paper on the matter in late 2011. This phase of consultation included a wider stakeholder body comprising the Official Receiver and other liquidation practitioners to consider the Authority's proposals for enshrining bank intervention powers in legislation. This piece of legislation is in its final stages of review and the Authority expects to have it considered by Parliament in mid-2013. The Minister of Finance and the Authority are the two main authorities in Bermuda that will have a role in the special resolution regime.

Trust

Trust-Specific AML/ATF Enhancements

The Authority issued a sector–specific Guidance Note that provides additional direction on certain areas of anti-money laundering /anti-terrorist financing (AML/ATF) compliance for Bermuda trust companies. The Guidance Note addresses a variety of matters, which include clarifying the definition of the beneficial owner, providing simplified and enhanced due diligence for trusts, and guidelines for the ongoing monitoring of trusts.

Corporate Service Providers Regime

Consultation on a licensing and supervisory regime for entities providing corporate service provider (CSP) business was also completed during the year. Parliament subsequently passed the Corporate Service Provider Business Act 2012 in July. The Act, which came into force on 1st January 2013, provides for prudential oversight of CSPs in Bermuda, while also accommodating the market's ability and desire to provide such services within the jurisdiction. This effort was part of a jurisdictional drive to support Bermuda's competitive position in terms of speed-to-market of company formations, while maintaining high standards and appropriate oversight in this regard.

The new regime reflects long-standing regulatory powers applicable across Bermuda's financial sector including provision for, among other matters, licensing criteria and reporting requirements for CSPs. The Authority adopted a phased approach to implementation of the regime, which has a transition period of 12 months for service providers to meet the minimum licensing criteria set out under the Act.

Investment Sector

E-filing Platform Development

Much work was completed in development of the Authority's core e-filing platform, ERICA (Electronic Regulatory Information Compliance Application) during 2012. The ERICA platform, once fully deployed, will support efficiencies in the supervisory process, and also streamline the reporting, collection and analysis of data required for regulatory proposes. Development will continue throughout 2013 when the Authority expects to extend the system to enable market participants to submit filings electronically to the BMA.

Investment Funds Appeal Tribunal Regulations Introduced

In September the Investment Funds Appeal Tribunal Regulations 2012 were introduced to further detail the process surrounding an appeals tribunal. The Investment Funds Act 2006 currently makes provisions for, among other matters, an appeal process under section 55. Similar to other financial services sectors, an appeal tribunal may be constituted to address an appeal on the Authority's decisions.

Other

Corporate Governance Policy

In December 2012 the Authority released a Consultation Paper on corporate governance standards for entities licensed under the Trusts (Regulation of Trust Business) Act 2001, the Investment Business Act 2003 and the Investment Funds Act 2006. The Paper sets out nine principles and related guidance which reinforce key elements of corporate governance and assist industry in adopting a sound corporate governance framework that supports prudent business conduct.

Insurance Developments

The Authority maintained momentum with ongoing regulatory and supervisory framework enhancements in 2012; highlights include:

Commercial Insurer Solvency Regime

The jurisdiction's strict minimum solvency margin requirements - coupled with the Authority's application of the Bermuda Solvency Capital Requirement (BSCR), our standard risk-based capital model - continue to support overall stability of the insurance sector. The Authority introduced the BSCR for Class 4 entities in 2008 and Class 3B insurers in 2010. In 2012, we made further amendments and additions to the prudential rules setting enhanced risk-based capital requirements for Bermuda's commercial insurers. As a result, by the end of the year all commercial insurers, including the Long-Term sector and insurance groups, were subject to the BSCR under the relevant legislation. The legislation also includes transitional provisions to support phased implementation of certain requirements, for example in relation to eligible capital. Specific phasing of particular regime elements initiated in 2012 for small commercial Class 3A insurers and the Long-Term sector remain in progress.

We continued our measured progress during the year on rolling out enhanced regulatory reporting standards to the sector. By the end of 2012, GAAP financial statement requirements were in place for Class 4, 3B, and E insurers. A review of the Authority's public filing policy in relation to Class 3A, C and D insurers is currently in progress, which meant deferring this requirement for those classes at the end of the year.

Monitoring of international developments related to other key framework components, such as economic balance sheet proposals, also continued. This monitoring is essential to ensure we apply Bermuda's initiatives in this area appropriately within the evolving global context. Of particular interest are the International Accounting Standard Board standards currently under review, which we will consider when establishing future direction for Bermuda. Further consultation on an appropriate approach on economic balance sheet requirements will take place with the market through 2013.

Group Supervision Framework

The Authority also made amendments to the rules and prudential standards in relation to group supervision. This means that solvency and financial reporting requirements were fully in place by the end of 2012 for Bermuda insurance groups, in addition to group-specific on-site processes and the supervisory college framework.

The rules also established corporate governance and risk management requirements for insurance groups, which became effective as of 1st January 2013.

The process to begin phased implementation of the Groups BSCR began with deferral of group capital requirements, which will come into effect from year-end 2013. This is to review the risk-sensitivity of the model and continue market consultation on the appropriate approach to applying enhanced capital requirements to groups.

Internal Capital Models (ICM)

The Authority issued a revised Guidance Note on the ICM application and review process to include specific sections relating to Long-Term insurance business. Subsequently, pilot activity took place with a number of Long-Term firms to test our assessment and internal governance procedures for the model approval process.

We also received the in-house resources dedicated to ICM review and further training was conducted to ensure preparedness for accepting applications. To supplement processing applications in its initial stages, at the end of the year we began the process to appoint a panel of external consultants qualified to assist the Authority in conducting model approval reviews.

Captives Reporting Regime

As part of our overall work to apply enhanced reporting requirements across the insurance market, we completed consultation in this regard with the captive sector during 2012.

We reviewed industry comments from a Consultation Paper issued in mid-2012 on the "Enhanced Reporting Requirements for Limited Purpose Insurers." Our proposals include consolidating existing submissions we receive from captive insurers together with a new risk self-assessment return, to form one electronic statutory filing. Both the market and the Authority should benefit from increased efficiencies from this change. We will conduct a trial run of the risk return on the Authority's e-filing platform in 2013.

Insurance Capital Adequacy Framework Enhancements for 2012

Component	Developments in 2012
Analytical Framework	• Enhanced analytical frameworks for Class 4, 3B, 3A, E, and groups • Developed analytical frameworks for Class D and C
Capital and Solvency Return	• Introduced Class D and C Returns on a trial run basis and amended the legislation to bring them into scope • Amended the Commercial Insurers Solvency Self-Assessment (CISSA) and the Schedule of Group's Solvency Self-Assessment (GSSA) to clarify Board role in self-assessment process • Amended the Schedule of Eligible Capital to ensure consistency with the Insurance (Eligible Capital) Rules 2012 and the Insurance (Group Supervision) Rules 2011 as applicable • Enhanced the Schedule of Risk Management with respect to the intra-group exposures and risk concentrations, as well as stress and scenario tests for various classes • Enhanced the statutory balance sheet for all general business commercial legal entities with respect to investments in affiliates • Required additional disclosure on the statutory balance sheet for all legal entities and insurance groups with respect to collateralised balances associated with reinsurance activity • Implementation of the enhanced capital requirement (ECR) for Long-Term insurers (Class E, D and C) has been deferred to the 2013 year-end and will be phased in as appropriate • Implementation of the ECR for insurance groups has been deferred and will be phased in as appropriate
Enhanced Regulatory Reporting	• GAAP financial statement requirements in place for Class 4, 3B and E • Deferred for Class 3A, C, D, subject to BMA review of public filing policy

Macroprudential Monitoring

Since 2011, the Authority has been developing a dedicated macroprudential monitoring and analysis function, building further on our existing risk analytics resources. These resources are designed to support and enhance the Authority's policymaking and supervisory capabilities.

A major example of such support in 2012 was the methodologies developed for proactive, system-wide assessment of potential market vulnerabilities based on BSCR data that commercial insurers submitted to the Authority. BSCR stress testing components have been revised on this basis, further strengthening the Authority's toolkit to maintain market stability. We also continued work in this respect during the year for the banking sector; specifically, further refinements for developing an early warning system for the sector.

We now also have additional tools to examine in detail relevant macroeconomic and capital market-related information and analytical reviews of important developments impacting supervision. This includes an interactive macroprudential surveillance tool to identify, monitor and analyse market, financial and other environmental factors that may impact the risk profile of Bermuda's financial entities. In particular, this entails assessing systemic risks that may occur or increase from emerging vulnerabilities in the financial sector domestically and abroad.

International Participation

During the year the Authority established a dedicated advocacy and international affairs function. The initiative reflects the increased importance we attach to developing effective relationships with key stakeholders overseas, such as other financial regulators as well as standard-setting bodies.

This function recognises that in an increasingly complex global regulatory arena, there is a need for a specialised, cohesive approach to differentiate the Authority as a top-tier regulator, and Bermuda as a premier domicile. In 2012, the international affairs function executed an outreach strategy driven by the Authority's objectives and the requirements of Bermuda's financial services markets.

This work involved promoting Bermuda's framework and identifying international regulatory trends and business development opportunities. It also included participating in events and organisations we targeted for their ability to influence regulatory change and foster strong relationships of strategic value to Bermuda.

We have identified international advocacy targets in the US and Europe. As regards insurance regulation, in the short-term, our attention will be focused on the National Association of Insurance Commissioners and the Federal Office of Insurance in the US. In Europe, priority targets include the European Commission and the European Insurance and Occupational Pensions Authority. However, our overarching objective is to maintain the Authority's involvement with the International Association of Insurance Supervisors, the global standard setting body for insurance regulation.

We continued during the year to be actively involved in the work of international standards setters for the banking and investment sectors, regularly participating in meetings of the Group of International Financial Centre Supervisors, the Caribbean Group of Banking Supervisors and the International Organisation of Securities Commissions. In addition, representatives of the Authority attended the plenary meetings of the Caribbean Financial Action Task Force.

Providing Technical Training Globally

During 2012, as has been the case for some years now, the Authority shared Bermuda's regulatory expertise with our international counterparts. This was primarily through presentations and seminars in a number of overseas supervisory training initiatives. This activity included specific technical seminars on financial regulation covering topics such as risk-based capital design and assessment, macroprudential surveillance, financial innovation and Islamic finance.

Highlights of International Participation for 2012

Insurance	
IAIS Participation	• Chairman: Macroprudential Policy & Surveillance Working Group • Solvency and Actuarial Issues Subcommittee • Reinsurance and Other Forms of Risk Transfer Subcommittee/ Reinsurance Transparency Group (RTG) • Financial Stability Committee • Insurance Groups Subcommittee • Technical Committee • Tri-annual meetings
Presentations, seminars and delivery of technical training	• Regional Consultative Group for the Americas meetings in Bermuda, Chile • Financial Stability Institute (FSI) Regional Training Seminar for Supervisors in Latin America on Capital and Risk Management, Mexico City • Reinsurance Disputes in Litigation and Arbitration conference, New York, US • 8th International Insurance Supervision Seminar on Core Supervisory Issues, Beatenberg, Switzerland • FSI Seminar on Supervision of International Insurance Groups and Systemic Risk, Basel, Switzerland • International Centre for Education in Islamic Finance (INCEIF) and Islamic Financial Services Board (IFSB), Kuala Lumpur, Malaysia • International Insurance Symposium, World Bank Headquarters, Washington, D.C
Banking	
	• Group of International Finance Centre Supervisors • Caribbean Group of Banking Supervisors
Investment	
	• International Organisation of Securities Commissions (IOSCO) • Caribbean Group of Securities Regulators • Offshore Group of Collective Investment Scheme Supervisors

Legislative Developments

The Authority's legislative agenda was very full in 2012. There were amendments made to regulatory legislation administered by the Authority in relation to all Bermuda's financial services sectors.

Legislative Change Overview

Legislative changes were made to facilitate ongoing regulatory and supervisory framework enhancements, as well as to introduce a new licensing and supervisory regime for corporate service providers.

European Insurance and Occupational Pensions Authority (EIOPA) "Caveats" Addressed

Key amendments to insurance legislation were completed during 2012. These were consistent with the Authority's commitment to ensure Bermuda's framework remains aligned with relevant international standards and EIOPA's Solvency II equivalence assessment. Matters addressed by the changes included: confirming the independence of the internal audit function within insurers; removing the ability to co-mingle Long-Term and General Business activities written on a direct basis; the segregation within an entity of insurance and non-insurance business; minimum solvency measures; and new material change notifications.

Bermuda's Group Supervision Regime Embedded

Implementation of Bermuda's group supervision regime has progressed significantly. The insurance prudential standard rules relating to insurance groups were amended during the year. The amendments facilitated enforcement of corporate governance and risk management standards for insurance groups, which took effect from 1st January 2013.

Long-Term Solvency Standards Expanded

The Insurance (Prudential Standards) (Class E Solvency Requirement) Rules 2011 (the "Rules") were revised to bring Class C and D Long-Term insurers within scope of the legislation; and in this connection the Rules were subsequently amended to implement the requisite enhanced capital requirements for these two classes of insurer.

Uniform Enforcement Powers Rolled Out Across Sectors

The Authority introduced a uniform set of enforcement powers which were incorporated under the Insurance Act 1978; the Banks and Deposit Companies Act 1999; the Investment Business Act 2003; and the Trusts (Regulation of Trust Business) Act 2001 (the "Regulatory Acts"). Similar amendments are under review for inclusion under the Investment Funds Act 2006 by the end of 2013.

We issued a 'Statement of Principles on the Use of Enforcement Powers' generally detailing how the statutory powers will be exercised and addressing a number of matters. Areas covered included the Authority's approach to assessing non-compliance issues of regulated entities and progressing those issues to enforcement; the enforcement decision making process; factors influencing a choice of enforcement action; procedures for the use of enforcement actions; and the criteria for publicising enforcement action decisions. The Statement of Principles on the Use of Enforcement Powers is available on the Authority's website at www.bma.bm.

Corporate Governance Requirements for Banks Implemented

The Banks and Deposit Companies Act 1999 (the "Act") was amended to incorporate matters arising out of the Corporate Governance Policy for Banks (the "Policy"). The amendments and the Policy build on existing practices and requirements applicable to Bermuda's banking sector. Specific amendments were made to the minimum licensing criteria under the Act to make provision for institutions to implement corporate governance policies and processes. The amendments also establish that the Authority will take such entities' compliance with the Policy into consideration when assessing whether banks have met requisite licensing and ongoing requirements.

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

The Corporate Service Provider Business Act establishes a regulatory framework to license and supervise Bermuda entities defined as corporate service providers (CSPs). The Act incorporates established regulatory provisions to ensure that our regulatory oversight of this sector is consistent with the manner in which other financial sectors are regulated by the BMA. It also makes provision for matters relating to breach of regulatory requirements under the CSP Act by such entities. The Authority may impose civil penalties or use its enforcement powers in relation to breaches under the Act. These include actions such as public censure, prohibition orders and injunctive powers, which were previously incorporated under existing legislation.

Deposit Insurance - Banking Sector

The Bermuda Deposit Insurance Corporation (BDIC) board was appointed in 2012. The Authority's CEO and Director, Banking, Trust, and Investment were included as ex-officio members. The BDIC, an independent statutory body that will administer and oversee the deposit insurance scheme established for Bermuda's banking sector, is expected to be fully operational during the first half of 2013.

Highlights of Legislative Initiatives During 2012

Insurance	Overview
Amendments to the Insurance Act 1978 (the Act)	The Act was amended in line with a number of planned changes to the regulation of insurance business, e.g. • Enhanced reporting requirements for insurer Classes 4, 3B, 3A and E • Class C and D insurers were brought within relevant scope as of 31st December 2012
Insurance (Prudential Standards) (Class 4 and 3B Solvency Requirement) Amendment Rules 2012	The Insurance (Prudential Standards) (Class 4 and 3B Solvency Requirement) Rules 2008 were amended to, among other matters: • Clarify the terms “group” and “unaffiliated” for the purposes and interpretation of the Rules • Reflect the policy position that there will no longer be a requirement for directors to separately sign off on the CISSA section of the capital and solvency return
Insurance (Prudential Standards) (Class 3A Solvency Requirement) Amendment Rules 2012	• Amendment was made to the Insurance (Prudential Standards) (Class 3A Solvency Requirement) Rules 2011 to, among other matters, clarify the definition of “policyholder obligations”
Insurance (Prudential Standards) (Class C, Class D and Class E Solvency Requirement) Amendment Rules 2012	• Insurance (Prudential Standards) (Class E Solvency Requirement) Rules 2011 were generally amended to incorporate Class C and D insurers to bring them within scope for enhanced reporting requirements already required for Class E insurers
The Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Amendment Rules 2012 (“Amendment Rules”)	• The Amendment Rules include enhancement and clarification of technical requirements under the capital and solvency return
The Insurance (Group Supervision) Amendment Rules 2012 (the “Group Supervision Rules”)	Amendments to the Insurance Group Supervision Rules 2011 included: • A transitional provision for eligible capital requirements until 1st January 2024 for the inclusion of certain specific instruments • Provision to ensure independence of the internal audit function and highlight the importance of board-level attention to internal audit compensation • A requirement for the filing of an unaudited statement for public disclosure with respect to the group’s compliance with the minimum margin of solvency and the enhanced capital requirement (ECR)

Insurance (Eligible Capital) Amendment Rules 2012	• Transitional provision was made via the Insurance (Eligible Capital) Rules ("EC Rules") for eligible capital requirements until 1st January 2024 for the inclusion of certain specific instruments to qualify as Tier 1, Tier 2 or Tier 3 capital in accordance with the EC Rules.
Insurance Returns and Solvency Regulations 1980 and Insurance Accounts Regulations 1980 (the "Regulations")	• Amendments were made to the Regulations to generally ensure appropriate cross-referencing to the requirements of the Insurance Act 1978 and to incorporate amendments relating to housekeeping matters
Corporate Service Providers	
Corporate Service Provider Business Act 2012 (the "CSP Act")	• The CSP Act established a licensing and supervisory regime for professional service providers in Bermuda that act as agents for company formations and provide corporate secretarial functions and other services (including acting as a nominee for undertakings established in Bermuda)
Numismatics	
Commemorative Coins Regulations 2012 ("Coins Regulations")	• The Coins Regulations made provision for the Authority to issue a series of commemorative coins to the general public based on designs and features displayed on currency notes issued under the Bermuda Monetary Authority (Currency Forms and Designs, Etc.) Regulations 2007

Supervision & Licensing

The Authority continued to apply a risk-based approach to supervision of Bermuda's financial sector. We maintain specific supervisory programmes for each sector of Bermuda's market under our remit.

The elements of the supervisory process across sectors generally comprises a mix of fundamental monitoring via statutory reporting and desk-based reviews, regular prudential meetings with company management, and on-site reviews.

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

On-site reviews have been a significant addition to our supervisory tool kit. These detailed inspections provide another method of gaining an in-depth understanding of regulated business. Typically such reviews consist of supervisory staff meeting with top management of regulated entities to assess matters such as the company's business strategy, risk management controls and processes and AML/ATF provisions.

The Authority conducts ongoing supervision of Bermuda's banking, trust, investment (including investment businesses, investment funds, and fund administrators), insurance, credit unions, and money service business sectors. The supervisory programme for each sector is conducted in accordance with the provisions of the relevant Acts. The following pages highlight specific activity relating to ongoing supervision of these sectors during 2012.

Banking Supervision

Enhanced Reporting and Monitoring

During the year the Authority took steps to enhance the reporting and monitoring of credit risk exposures in the banking sector as a precautionary measure given the prolonged economic downturn. The upward movement of the ratio of non-performing loans to total loans by banks' credit portfolios, along with the potential impact on international markets of the Eurozone debt crisis, warranted enhanced monitoring of the sector.

Banks were required to provide monthly reports on their credit portfolios. The Authority reviewed these reports and held discussions with institutions' on their stress testing methodologies and general frameworks, as well as the adequacy of provisions for loan losses. The Authority also conducted parallel stress testing of loan portfolios and met with banks regularly to discuss credit quality and developments in the loan portfolios. The enhancement of macroprudential surveillance during the year has improved the Authority's ability to identify potentially adverse economic and financial market developments before they have a substantial impact on regulated entities. We expect to continue building on our macroprudential work in 2013. Overall, the banking sector maintained high levels of capital during the year, relative to international minimum standards.

New E-filing of Prudential Information Reporting Forms

We continued building on use of eXtensible Business Reporting Language (XBRL), in line with our overall plan to leverage technology for operational, regulatory and supervisory efficiencies. During the fourth quarter of 2012, we introduced electronic filing of the prudential information reporting for banks. Full roll-out of the new system is planned for early 2013. In addition to greater efficiencies in the reporting process for banks, the new system will provide for improved reporting and richer data analysis capabilities for our supervisory teams.

Stress Testing

Further to the publication of the Authority's "Guidelines on Stress Testing for the Bermuda Banking Sector" in 2010, the Authority continued its programme of stress testing the sector under the Basel II, Pillar 2 supervisory review process. All banks provided the results of their stress tests during the Capital Assessment and Risk Profile (CARP) submissions at the end of Q2 2012. The stress tests covered, inter alia, the impact on the banks' loan portfolios (residential, commercial and personal) and investment portfolios of a significant downturn in the property market as well as adverse movement in interest rates. The Authority also conducted parallel stress tests on all banks to assist in the setting of minimum capital requirements, as well as to ensure that all banks were able to maintain regulatory capital ratios above international benchmarks and Tier 1 capital ratios in excess of 6% post stress scenarios.

Overview of the Financial Position

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

Assets and Liabilities

There was a decline of 5.4% in the consolidated assets of the banking sector; down from $25.5 billion at the end of 2011 to $24.2 billion at the end of 2012 (See Banking Sector Assets & Deposits table on page 57). This was a significant change from the growth of 9.3% experienced in 2011.

The overall decline in assets mainly reflected a decrease in investments of 11.8%, a 4.1% decline in loans and advances and 1.3% fall in other assets. This was slightly offset by a 1.2% increase in cash and deposits placed with other financial institutions.

The decline in the balance sheet was driven by a fall of 7.0% in deposit liabilities to $20.5 billion from $22 billion. This related to decreases in all components over the year, with time deposits falling by 14%, demand deposits by 5.4% and savings deposits 1.2% (See Banking Sector Assets & Deposits table on page 57).

Balance Sheet Structure

The overall allocation of assets remained much the same as 2011, with only minor changes in the weights. Loans and advances continued to account for the largest portion of assets, with investment assets being the second largest component followed by deposits with other financial institutions. Investment assets declined in relative size, while deposits placed with other institutions increased. The share of loans increased marginally from 36.1% to 36.6%, while the share of investments fell from 35.5% to 33.2%, and an increase in the share of deposits from 24.7% to 26.4% (See Composition of Banks Assets chart on page 57).

Earnings and Profitability

Total income for all banks declined slightly during 2012 relative to the previous year. This mainly reflected a notable decline in non-banking income of 35.2%. This was partially offset by an increase of banking income of 3.3%, which constitutes 75.6% of total income. The most notable component of banking income is net interest income, which increased by 2% over the year. The rise in net interest income reflected the significant decline in interest expenses paid to deposit liabilities as a result of the decrease in time deposits and demand deposits.

As a portion of total income, net interest income increased from 59.7% in 2011 to 64.7% in 2012. The interest margin for the sector increased to 88.2% of interest income in 2012 relative to 85.4% in 2011. Operating costs also declined by -7.1% reflecting savings generated from increased cost management.

Capital Adequacy

Capital adequacy in the Bermuda banking sector, as measured by the risk asset ratio (RAR), remained strong in 2012. However, there was a slight reduction in the RAR for the sector to 21.7%, compared to 23.2% at end 2011 (see Banking Sector Consolidated Risk Asset Ratio table on page 58). The decrease was reflective of a growth of 3.7% in risk weighted assets coupled with a decline in capital of 3%. Notwithstanding this decrease, capital ratios remained above the regulatory minimum capital requirements and in excess of international benchmarks.

Credit Union Supervision

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

The Bermuda Industrial Union Credit Union is currently the only credit union in Bermuda. The Authority conducted ongoing supervision of this entity in accordance with the provisions of the Credit Union Act 2010 throughout 2012.

Bermuda Stock Exchange (BSX)

Although the Bermuda domestic capital market continued to experience pressure as a result of difficult global and domestic market conditions, the BSX's international listing business, and in particular the listing of Insurance Linked Securities (ILS), continued to gain momentum for the BSX and Bermuda.

On the domestic policy front, a significant step forward in the modernisation and further development of Bermuda's domestic capital market took place. This milestone was the enactment of legislation permitting the gradual easing of Bermuda's 60/40 foreign ownership rule for public companies listed on designated stock exchanges, such as the BSX.

The total market capitalisation of the BSX as at 31st December 2012 (excluding fund listings) stood at over $421 billion of which approximately $1.53 billion represented the domestic market. Total trading volume for the period was 12.7 million shares with a corresponding value of $38 million compared to 6.5 million shares with a corresponding value of $25.3 million for 2011.

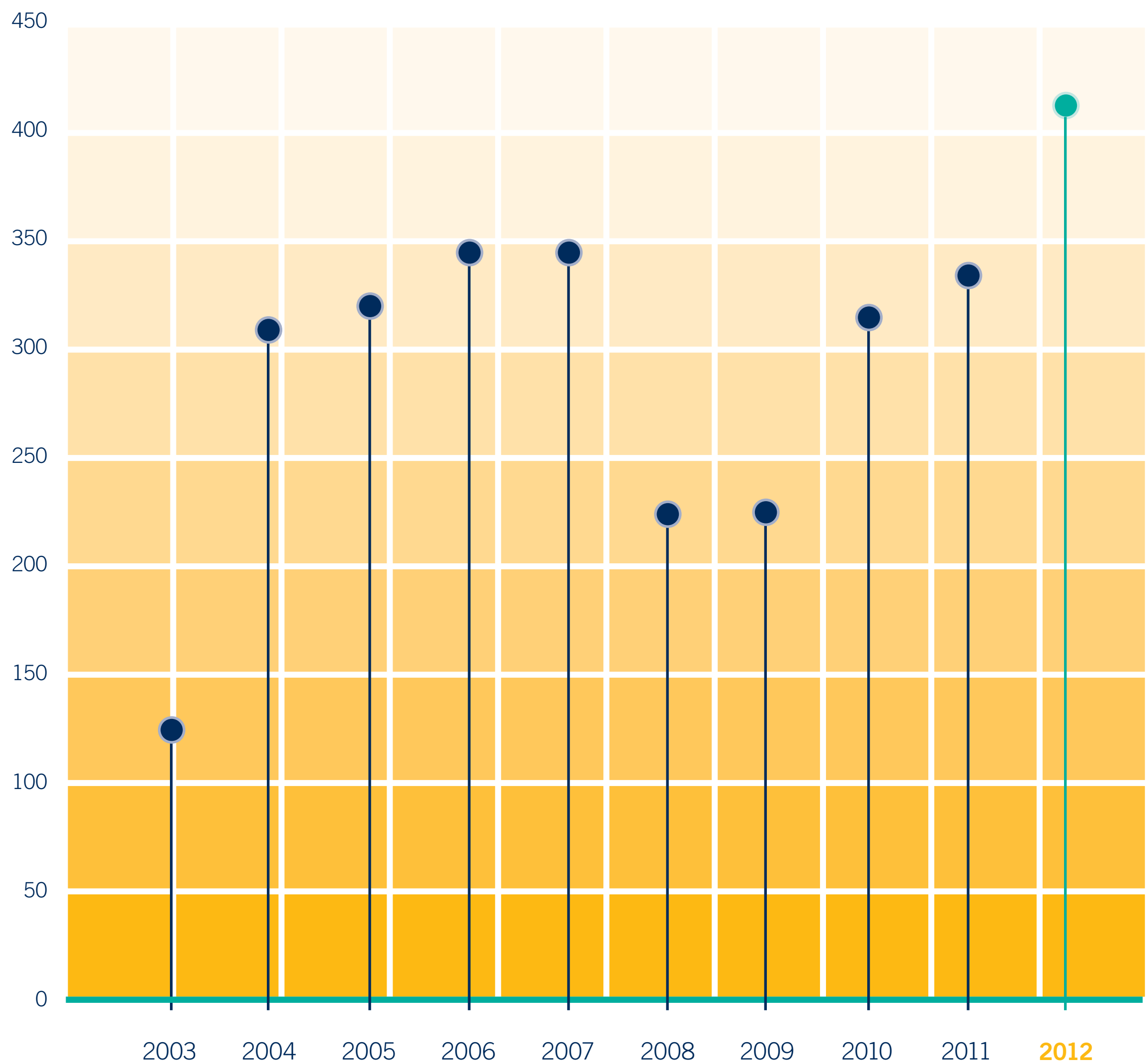
The Royal Gazette/ BSX Index closed the year at 1,090.82 or 4% lower than 2011. As at 31st December 2012, there were 633 securities listed on the BSX. Included in the new listings were the Variable Note Programmes of Everglades Re, Eurus III and Blue Danube. The further listing of Queen Street Re V, VI, VII and Lakeside Re III along with programme issuances by Embarcadero Reinsurance plus Compass Re and the launch of the specialist exchange traded fund Blue Capital Global Reinsurance Fund, raised the number of ILSs listed on the BSX to 38 with an approximate market capitalisation of $5.81 billion.

There were 23 new collective investment vehicles, 15 international equities and three fixed income securities listed and nine subsequent issues from listed issuers.

Noteworthy in 2012, were the listings of the Bermuda Government Bond, Waterloo International Investment Holdings, Cambridge Energy Group, Bermuda National, Wire & Wire, Apollo Enterprise Solutions and Green States Energy. De-listings included Flagstone Re Holdings following its merger with Validus Holdings. 2012 also saw Cohort Ltd. admitted as a BSX Trading Member and Appleby Securities upgrading its listing sponsorship membership to full member of the BSX.

The year-on-year increase in listed securities from 613 in 2011 to 633 in 2012 was achieved despite the continued difficult global economic conditions.

Bermuda Stock Exchange (BSX) – Market Capitalisation *(US$ billions)*



Insurance Supervision Highlights

Overview - Market Results

The Bermuda insurance sector continued to thrive. The number of new insurers registering in Bermuda remained consistent with the prior year – a total of 53 compared to 54 in 2011. A large percentage of entrants to the market in 2012 included 27 Special Purpose Insurers (SPI), representing an increase of 21% over 2011.

The rapid rate of SPIs registrations has accompanied Bermuda's emergence as a global centre for the creation, listing and servicing of Insurance Linked Securities (ILS). The global market capitalisation of ILS issued during 2012 increased to $6.4 billion. Bermuda's total net issuance for the year amounted to $2.5 billion (or 40 percent of the global issuance), outperforming 2010 and 2011, when $1.2 billion and $1.6 billion were raised respectively.

The Long-Term (life insurance) sector also recorded growth during 2012. The nine new Long-Term insurers registered covered various lines of business including life, annuity, credit life and long-term disability. In addition to business derived from the Bermuda market there was robust activity from the United Kingdom, Europe and the US, as well as emerging markets such as Latin America.

In 2011 total gross premiums written accounted for $107.6 billion. Of that total, the commercial sector wrote $87.3 billion and the captive sector $20.3 billion.

Bermuda's insurers recorded aggregate total assets of $452.2 billion, a 13.8% decrease, compared to $524.7 billion achieved the previous year. Total capital and surplus was $168.7 billion compared to $185.2 billion the previous year.

Group Supervision

A range of supervisory activity in relation to insurance groups took place during the year. The Authority conducted five group on-site reviews and hosted 12 supervisory colleges covering groups for which we are Group Supervisor. In addition, we were a participating supervisor in a further six colleges. During the colleges we presented and received detailed analyses, and coordinated supervisory plans, in discussions with relevant regulators from overseas on insurance groups with Bermuda-related operations. Also, we continued ongoing work to establish Memoranda of Understanding (MOUs) with relevant jurisdictions in relation to group supervisory colleges.

In the first half of the year, the Authority assisted an overseas regulator by participating in a group internal model approval review of a major reinsurer for which we are the host regulator. We were specifically requested to assess the catastrophe risk module of an internal capital model based on the Authority's expertise in evaluating such risks. Preceding this work was a supervisory college held in conjunction with the home regulator, after which we also undertook assessing the underwriting risk management and risk governance segments of the reinsurer's overall group review. These initiatives were another opportunity to build on the Authority's demonstrated commitment to supervisory cooperation.

Insurer Solvency

The jurisdiction's strict minimum solvency margin requirements, coupled with the Authority's application of the BSCR, continued to support overall stability of the insurance sector. We introduced the BSCR to Class 4 entities in 2008 and to Class 3B insurers in 2010. In 2012, all commercial insurers, including Long-Term entities, were subject to the legislation. For the 2012 year-end, Class E firms were exempted from the enhanced capital requirement for one year and the requirement for Class C and D insurers was deferred pending adjustments to portions of the Long-Term BSCR. The revised Long-Term BSCR is due to be released for consultation in 2013. Modifications to the BSCR are taking into account risk characteristics specific to the Long-Term sector, including asset, longevity and variable annuity charges.

We also received quarterly filings for Class 4, 3B and groups for which the Authority is the Group Supervisor, and legal entities that are not members of a group for which the Authority is the Group Supervisor.

Anti-Money Laundering/Anti-Terrorist Financing Highlights

The Authority conducted 13 anti-money laundering/anti-terrorist financing (AML/ATF) specific on-site assessments across the banking, trust, fund administrator and money service businesses sectors.

To complement the on-site process we entered a new phase of AML supervision in 2012, conducting industry-specific desk-based reviews. These reviews required risk-based examinations of the AML/ATF policies and procedures already in use by trust companies, funds and fund administrators, as well as Non-Licensed Persons (NLP). We conducted a series of public outreach sessions for trust companies, fund administrators, and investment businesses. We also conducted a general AML awareness session for the Bermuda Institute of Chartered Secretaries and Administrators.

In advance of the International Monetary Fund's next assessment of Bermuda – expected to take place in 2015 – the Authority led preparations for a jurisdictional National Risk Assessment (NRA). This included organising a workshop between representatives from the World Bank, Bermuda's National Anti-Money Laundering Committee (NAMLC) and industry representatives, to discuss proposed coordination and execution of the NRA, which will take place during 2013.

Enforcement Highlights

The Authority has maintained its policy of applying its enforcement powers judiciously, in cases of material non-compliance. There were a number of occasions in 2012 where we commenced investigations on that basis. In some cases the findings led us to require specific remedial action, while in others the investigations remained in progress at the end of the year. In addition to conducting investigations, we imposed restrictions and conditions on the licences of a number of regulated entities over the course of the year, as deemed necessary. We also participated in, and supervised, remedial actions in lieu of enforcement activity in a number of matters.

Summary of Supervisory Activity Across Sectors for 2012

Sector	Focus of Supervisory Activity	Supervisory Activity
Banking	• Pillar II supervisory reviews of all licensed banks based on their submission of the Capital Assessment and Risk Profile reports	• Quarterly risk compliance and internal audit meetings • Several prudential and strategy meetings • Two on-site reviews • Two supervisory colleges
Trust	• General compliance with the Act	• Two on-site reviews • Four prudential meetings
Investment Business	• On-site reviews covered such matters as high-level controls, including corporate governance, operational risk, AML/ATF controls, compliance with the General Business Conduct and Practice – Code of Conduct and Advertising Code of Conduct • General compliance with the Act • Financial viability of the investment provider	• Two prudential meetings • 10 strategy meetings • Three post-licensing follow up meetings • Six on-site reviews
Investment Funds /Fund Administrators	• Review of fund's periodic statistical reports and content of prospectuses • Vetting of fund service providers • Vetting and approval of material change requests	• Reviewed and processed 176 notifications and 428 material changes • 48 new fund authorisations • Seven on-site visits • One post licensing visit • One prudential meeting
Money Service Business	• Assessing the ongoing financial viability of firms	• Prudential and strategy meetings held
Credit Union	• General compliance with the Act	• Quarterly review of compliance with the Act
Insurance	• On the commercial side, group supervision and insurer solvency remain major focuses • On the captive side, we continue to supervise appropriately	• Five group on-sites • 14 solo on-sites • 12 supervisory colleges as Group-Wide Supervisor • 16 colleges as host supervisor
Anti-Money Laundering/ Anti-Terrorist Financing (AML/ATF)	• Industry-specific desk-based reviews examining AML/ATF policies and procedures already in use by trust companies, funds and fund administrators as well as Non-Licensed Persons (NLP)	• 13 on-sites across several sectors including: banks; trust companies; fund administrators and money service businesses.

Formal Use of Powers During 2012

Banking and Deposit Companies Act 1999		
Section	**Provision**	**Use in 2012**
35	To vet licensed institutions who give written notice to the Authority when a person becomes a director or senior executive	Notifications received; Authority conducted the appropriate vetting
36	To object or not object to notifications of significant shareholder changes	One application received; "no objection" provided
Credit Unions Act 2010		
Section	**Provision**	**Use in 2012**
14	To restrict or revoke a licence	Lending restricted until non-compliant positions are remediated
Investment Business Act 2003		
Section	**Provision**	**Use in 2012**
28	Notification of new or increased control	One notification received; Authority's "no objection" provided
43	Notification of change of controller or officer	Notification received; Authority conducted the appropriate vetting
Trusts (Regulation of Trust Business) Act 2001		
Section	**Provision**	**Use in 2012**
24	Notification of new or increased control	One notification received; "no objection" provided
34	Notification of change of controller or officer	Notification received; Authority conducted the appropriate vetting
38 and 39	To gain right of entry to premises and to carry out investigations, as well as for the appointment of inspectors	One report commissioned

Licensing

Assessment and Licensing Committee Activity

The Assessment and Licensing Committee (ALC) reviewed a total of 83 applications in 2012. 80 were insurance-related and three were banking, trust and investment-related.

• INSURANCE APPLICATIONS

Out of the 80 insurance-related applications received, 77 were approved, two remain outstanding for further consideration and one was declined. Out of the successful applications, 26 were for insurers ranging from Class 1 to Class 4. There was also one application for a Class B licence; eight applications for Class C licences; one for a Dual Licence (a Class 2 & Class B) and 28 for Special Purpose Insurers (SPIs). The remaining 14 insurance-related approvals were for insurance intermediaries, which include managers, brokers and agents.

• BANKING, TRUST AND INVESTMENT APPLICATIONS

Three applications were approved. All three of the successful applications were for investment business licences.

ALC-APPROVED APPLICATIONS

In summary, the 2012 breakdown of applications approved by ALC are as follows:

Class 1	5
Class 2	5
Class 2 & Class B	1
Class 3	7
Class 3A	7
Class 4	1
SPI	28
Class B	1
Class C	8
Insurance Manager	6
Insurance Broker	4
Insurance Agent	4
Investment Business	3
Total	**81**

Summary of Licensing Activity (Banking, Trust, Private Trust, Money Service Businesses, Investment Business, Investment Funds) as of year-end 2012

Sector	Licensing Activity
Banking	• Total licencees at end of the year: 4
Trust	• Total licencees at end of the year: 30 (33 in 2011); New Private Trusts: 11
Money Service Business	• Total licencees at end of the year: 2
Investment Business	• New: 3 • Total Licencees at end of the year: 63 (64 in 2011) • Licences surrendered: 4
Investment Funds	• New Authorised Funds: 48 (73 in 2011) • Total Number of Funds: 762
Fund Administrators	• New: 0 (3 in 2011) • Total Licencees at end of the year: 37 (43 in 2011) • Licences surrendered: 6

BMA Performance Against 2012 Service Standards

Transaction	Service Standards	2012 Performance
Corporate Registrations: - Company incorporations - Listed (stock exchange) company incorporations - Permit companies - Partnerships - Issues and transfer of shares	90% of applications within: - 24 hours - 1 hour - 2 days - 2 days - 2 days	Met
Investment Fund Applications:	Process and approve 85% of applications for new funds or material changes within 6 business days	Met
Insurance Licensing and Authorisations[1]:		
- 2011 Class 4 company Statutory Financial Returns	100% to be completed by June 1st 2012	Met
- 2011 Class 3B and domestic[2] insurance company Statutory Financial Returns	100% to be completed by July 1st 2012	Met
- 2011 Class 3, 3A and Long-Term company Statutory Financial Returns	100% to be completed by December 31st 2012	Met
- 2011 Class 1 and 2 company Statutory Financial Returns	100% of companies in risk-based sample to be completed by December 31st 2012	Met
- Registrations	90% to be completed in 3 business days	85% completed in 3 business days
Certificates of Compliance	90% to be completed in 2 business days	Met

[1] These service standards are set for year-end 2011 filings of Statutory Financial Returns (SFRs). Companies submit SFRs on a staggered basis throughout the year following the financial year-end. The initial submission deadline for 2011 SFRs was April 2012. In keeping with the BMA's risk-based approach, SFRs for Class 4 companies were reviewed first. An SFR review involves receiving the Return and conducting a financial analysis of its contents, as well as an assessment of the accuracy, completeness and fairness of each submission. Based on this review firms are subsequently contacted to confirm either that the Authority is satisfied with the SFR or that more information or action in relation to a submission is required, which could include meetings with company management.

[2] Separate service standards are set for Class 3B and domestic insurance companies in keeping with their risk profile.

Companies, Partnerships and Permits Statistics - Applications Approved

	2012-Q4	2012-Q3	2012-Q2	2012-Q1	2011-Q4	2011-Q3
Companies	265	214	238	220	261	238
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	17	20	21	14	21	12
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	1	1	1	2	2	5
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	9	13	3	14	10	4
Unit Trusts	5	2	12	8	3	6
Total Applications Approved*	297	250	275	258	297	265

** Quarterly numbers are amended to reflect more up-to-date consent information.*
The statistics shown above reflect the number of applications that have received vetting clearance from the Bermuda Monetary Authority. These figures do not reflect the actual number of entities incorporated in Bermuda during the period. Such statistics can be obtained from the Registrar of Companies.

Supporting Effective Regulation

During the year the Authority's supervisory activities were supported by an active programme of external stakeholder outreach, strategic resourcing and robust staff development initiatives, as well as a continued focus on leveraging the use of technology. These efforts were designed to ensure that the Authority remained positioned to deliver high quality regulation and supervision to the Bermuda market and to demonstrate our leadership as a risk-based financial services regulator.

External Outreach

As we progressed our regulatory agenda for the year an active programme of external outreach and strategic stakeholder communications supported our efforts. This applied particularly to international advocacy, regulatory equivalence and local awareness initiatives.

This programme continued building on work in recent years to reinforce the Authority's position as a credible and trusted regulator among key stakeholders, locally and internationally.

Through 2012, it also supported sharing our technical expertise with the market and other regulators including: providing transparency around ongoing framework development; conveying our openness to business development issues; and demonstrating our balanced approach to implementing enhanced regimes. Further, the programme sought to increase the Bermuda community's understanding of our broader functions and the pivotal role the organisation plays in supporting the public interest.

Proactive industry and media relations, senior staff members' participation within international regulatory fora, and issuing a range of technical materials and reports remained core elements of the Authority's strategic outreach.

A major highlight for the year was our 3rd Annual International Regulatory Forum, which the Authority hosted in December. The Forum brought some of the world's best financial minds to Bermuda to debate global financial issues, including such topics as the fallout for the banking sector from the Eurozone crisis; current trends shaping the asset management market internationally; global developments in captive regulation; international regulatory equivalency efforts; and what the advent of Global Systemically Important Insurers (GSIIs) will mean for Bermuda.

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

- *Advocacy programme* - maintained regular and frequent contact with key international opinion-formers and decision makers, particularly in the EU and US.
- *Industry outreach* - conducted regular briefing sessions and meetings with the market to ensure awareness among industry of their requirements and obligations under various framework enhancements. Also provided support to jurisdictional outreach efforts to build on the market's understanding of Bermuda's risk-based framework and its effectiveness.
- *Keynote market presentations* - participated in local and international conferences, seminars and events to continue external stakeholder education about Bermuda's regulatory developments
- *Local outreach* - executed targeted communications initiatives to raise public awareness of the Authority's functions, along with its consumer education initiative and related supervisory products.
- *Graduate Training Programme* - communicated the BMA's profile as an employer of choice, and regulation as a viable career option; the Programme is attracting suitably-qualified Bermudians whom the Authority is developing for key supervisory roles in the organisation.

Information Technology

Technology is one of the key levers that the Authority uses to increase the capacity and accuracy of its supervisory process.

To this end, in 2012 we continued to roll-out our Electronic Regulatory Information Compliance Application (ERICA) extending it for use by the funds sector. ERICA is a secure web portal that receives, tracks, and processes regulatory filings, material changes and other types of submissions market participants make to the Authority. The electronic platform will streamline the reporting, analysis and collection of data for regulatory purposes, resulting in significant efficiencies within our supervisory processes across sectors. It will also make it easier for firms to be in compliance with the Authority's reporting requirements.

Progressing the fund sector phase of the ERICA initiative was the primary focus of our efforts during 2012. Additional e-filing initiatives were also implemented in the banking area with the deployment of the electronic submission of the quarterly Prudential Information Return that banks submit to the Authority. We also conducted preliminary work to establish e-filing of enhanced Statutory Financial Returns for captive insurers. We expect the captives initiatives to be completed in 2013.

Resources & Staff Development

Having the right people with the right skill-sets to enable the Authority to perform our duties as Bermuda's financial services regulator to the highest standard remained the key driver of our recruitment and staff development efforts through the year.

As expected, our recruitment results in 2012 ended slightly higher in terms of total number of positions filled as compared to the previous year. Most of this activity focused on our stated priority of filling key senior management-level vacancies necessary to support our regulatory agenda. Such appointments comprised over 50% of all new hires, promotions and transfers during the year. However, recognising some of the challenges in attracting and sourcing suitably qualified and experienced candidates for many of our technical posts, our recruitment strategy also included leveraging the skill-sets currently available internally and embedding initiatives that supported continued development of existing talent. In doing so, we were able to creatively source staff internally either by way of secondment or through acting appointments for certain roles. Such initiatives had the knock-on benefits for our team of providing cross-training opportunities, broader exposures to the Authority's work, and assisting with career development within the organisation. Our strategy during the year also included employing new and creative approaches to identify talent and increase the understanding externally about the many unique opportunities available within the organisation.

Looking at the year ahead, we anticipate that recruitment activity will remain steady for the first half of 2013 as we continue with our agenda of regulatory change, and may likely decline thereafter.

We will also remain focused on staff development, continuing to enhance technical competencies among our employees and managing performance to meet objectives. During 2012, the Authority remained steadfast in this commitment to the ongoing development of our intellectual capital. The aim is to ensure that we are appropriately positioned to meet the changing needs of supervision and regulation. This was evidenced by the calibre of learning and development programmes designed to address the specific needs of our supervisory and administrative staff. Our learning and development strategy was closely aligned with a robust needs analysis so that the Authority remains positioned to address the specialised needs of our workforce. Overall, we continued to refine our supervisory training toolkit along with our leadership programme with an emphasis on shared experiences, strategic thinking, emotional intelligence and problem solving techniques. Importantly, development plans have been closely aligned to the technical competency framework established in 2011. As a result supervisors have a better understanding of expectations in relation to assisting the Authority to deliver quality supervision for Bermuda.

BMA Management Team *as at 31st December 2012*

Jeremy Cox	**Chief Executive Officer**
Bradley Erickson	Chief Operating Officer
Banking, Trust, Corporate Services & Investment	
Marcia Woolridge-Allwood	Director
Geraldine Low	Deputy Director
Tamara Anfossi	Assistant Director, Financial Institutions & Investment Funds
Finance & Currency Operations	
Terry Pitcher	Head of Finance & Currency Operations
Corporate Governance & Communications	
Pat Phillip-Bassett	Deputy Director
Human Resources	
Mesheiah Crockwell	Head of Human Resources
Licensing & Authorisations	
Shelby Weldon	Director
Leslie Robinson	Assistant Director, Licensing
Melissa Morton	Acting Assistant Director, Authorisations
Akilah Wilson	Acting Assistant Director, Licensing
International Affairs	
Shanna Lespere	Director
Legal Services & Enforcement	
Shauna MacKenzie	Director
Thomas Galloway	Deputy Director
Dina Wilson	Assistant Director
Management Services	
John Dill	Director
Howard Ho	Assistant Director, Information Technology
Insurance Supervision	
Craig Swan	Director
Niall Farrell	Deputy Director
David Theaker	Deputy Director, Actuarial Services
Suzanne Williams	Deputy Director
Laila Burke	Assistant Director
Simbarashe Chinyemba	Assistant Director, Actuarial Services, Property & Casualty
Eric Donkoh	Assistant Director
Gerald Gakundi	Assistant Director
David Kaniaru	Assistant Director, Analytics & Infrastructure
Christopher Killourhy	Internal Models Specialist
Richard May	Assistant Director, Actuarial Services, Long-Term
Susan Molineux	Assistant Director
Gina Smith	Assistant Director, Actuarial Services, Property & Casualty
Gary Thomas	Assistant Director, Actuarial Services, Long-Term
Donald Treanor	Assistant Director, Actuarial Services, Property & Casualty
Organisational Development	
Verna Hollis-Smith	Assistant Director
Policy, Research & Risk	
Mary Frances Monroe	Director
Marcelo Ramella	Deputy Director, Research
Diana Nedvidek	Deputy Director, Policy
Andreas Jobst	Deputy Director, Chief Economist
Ifor Hughes	Assistant Director, Macroprudential
Martin McHugh	Assistant Director
Senior Advisor	
Roger Scotton	International Affairs

Statistics

Financial Highlights 2012

2012 saw the Authority implement a number of supervisory initiatives derived from policy developments over the past few years.

As a result we have achieved significant milestones in the Authority's regulatory agenda, progressing towards the next phase of implementation for our supervisory regimes, while also enhancing operational efficiency. We have also extended our relationships and influence with regulatory counterparts overseas and international standard setting bodies. The continued cooperation and support of the Bermuda market has contributed to these achievements, helping the Authority to keep pace with its international counterparts in a manner fit for Bermuda's market.

In terms of overall financial position, we continued to use some of the Authority's general reserves to finance our operations, given Bermuda's continued weak economic conditions. Accordingly, the Authority recorded a net deficit of $1.15 million in the year ended 31st December 2012 as compared to a net deficit of $0.7 million in the year ended 31st December 2011. The Authority's very sound financial position enabled us to keep fees to industry unchanged for the third year running going into 2013, thereby assisting in easing pressure on firms in these challenging economic times.

Revenues rose to $41 million in 2012, increasing marginally over the prior year driven mainly by a small increase in the number of complex commercial insurers. Revenues from the Authority's investment book continued to decrease as maturing securities were replaced with positions with lower yields; a function of the continued low interest rate environment. The quality of the investment book remains very high with all securities maintaining a rating of AA+ or higher.

Overall, strict control over expenditures resulted in an increase of less than 2% on a like-for-like basis over 2011. While the aggregate salaries and expenditures expense rose due to increasing staff numbers, non-salary and currency expenditure dropped 11% over the previous year and is now 34% lower than 2010. The requirement to expand the Authority's technical staffing levels further is expected to level out in 2013 when we expect to reach our full complement.

Currency Notes Issued & Redeemed (Bermuda Dollar)

Month	New	Notes Issued Re-issued	Total	Notes Redeemed	Notes Issued & O/S at End of Month	Net Change During Month Amount Change	% Change
January	187	3,000,000	3,000,187	15,653,000	105,120,759	(12,652,813)	-10.74%
February	70,557	5,730,000	5,800,557	8,060,995	102,860,321	(2,260,438)	-2.15%
March	150,050	9,500,000	9,650,050	8,776,411	103,733,960	873,639	0.85%
April	125,544	7,200,000	7,325,544	7,923,000	103,136,504	(597,456)	-0.58%
May	266,230	9,506,000	9,772,230	7,876,000	105,032,734	1,896,230	1.84%
June	160	6,100,000	6,100,160	5,450,956	105,681,938	649,204	0.62%
July	8,304,187	14,730,000	23,034,187	7,248,000	121,468,125	15,786,187	14.94%
August	561	3,600,000	3,600,561	18,033,001	107,035,685	(14,432,440)	-11.88%
September	40,935	3,610,000	3,650,935	9,980,021	100,706,599	(6,329,086)	-5.91%
October	50,514	6,000,000	6,050,514	7,148,982	99,608,131	(1,098,468)	-1.09%
November	90,000	10,850,000	10,940,000	3,995,000	106,553,131	6,945,000	6.97%
December	8,218,689	3,566,000	11,784,689	4,210,010	114,127,810	7,574,679	7.11%
Year							
2012	**17,317,614**	**83,392,000**	**100,709,614**	**104,355,376**	**114,127,810**	**(3,645,762)**	**-3.10%**
2011	9,965,154	105,234,000	115,119,154	108,820,305	117,773,572	6,378,849	5.73%

Currency Coins Issued & Redeemed (Bermuda Dollar)

Month	Coins Issued	Coins Issued & O/S at End of Month	Net Issues During Month Amount Change	% Change
January	3	15,326,770	3	0.00%
February	3	15,326,773	3	0.00%
March	4	15,326,777	4	0.00%
April	10	15,326,787	10	0.00%
May	34	15,326,821	34	0.00%
June	30,010	15,356,831	30,010	0.20%
July	30,017	15,386,848	30,017	0.20%
August	21	15,386,869	21	0.00%
September	20	15,386,889	20	0.00%
October	8	15,386,897	8	0.00%
November	3	15,386,900	3	0.00%
December	17	15,386,917	17	0.00%
Year				
2012	**60,150**	**15,386,917**	**60,150**	**0.39%**
2011	159	15,326,768	159	0.00%

Banking

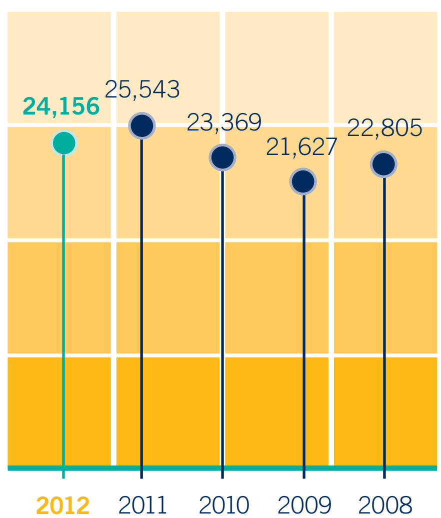
Bermuda Money Supply

(BD$ millions)	2012-Q4	2012-Q3	2012-Q2	2012-Q1	2011-Q4	2011-Q3
Notes & Coins in Circulation*	130	115	121	119	133	120
Deposit Liabilities	3,351	3,398	3,437	3,480	3,521	3,582
Total	3,480	3,513	3,558	3,599	3,654	3,702
Less: Cash at Banks & Deposit Companies	46	34	38	37	53	39
BD$ Money Supply	3,434	3,479	3,520	3,562	3,602	3,664
% Change on Previous Period	-1.28%	-1.16%	-1.19%	-1.10%	-1.68%	-1.55%
% Change Year on Year	-4.65%	-5.04%	-5.42%	-4.10%	-3.67%	-3.26%

** 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.*

Bermuda Bank and Deposit Companies (Consolidated) Total Assets

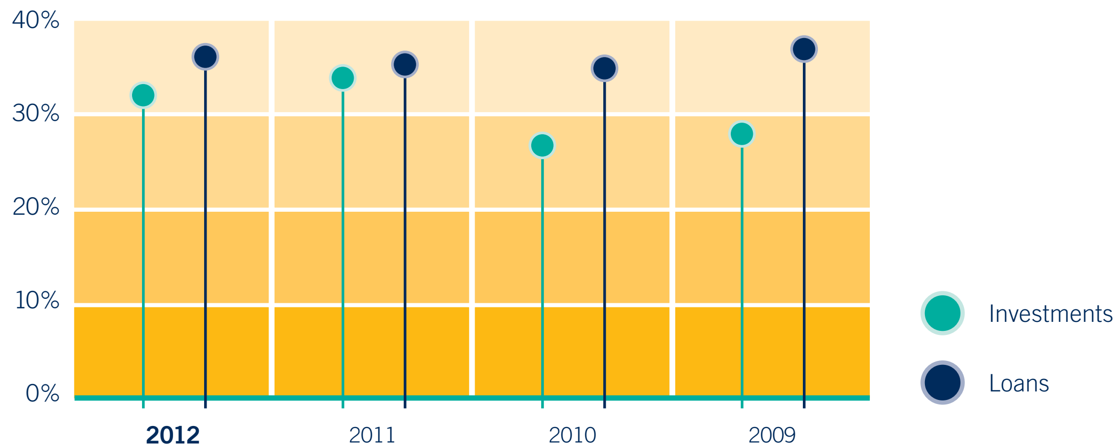
(BD$ millions)



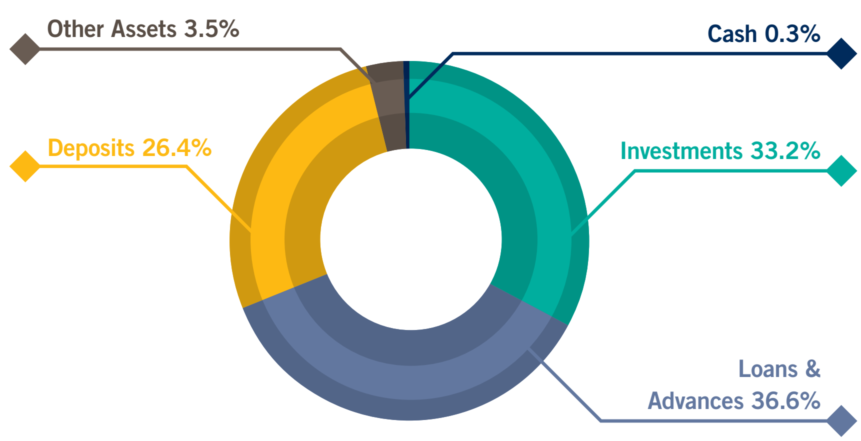
Banking Sector Assets & Deposits

(BD$ millions)	2012-Q4	2011-Q3	2012-Q2	2012-Q1	2011-Q4	2011-Q3
Total Assets ($ millions)	24,156	23,588	23,662	24,695	25,543	24,104
Quarterly Change (%)	2.4	-0.3	-4.2	-3.3	6.0	1.6
Total Deposits ($ millions)	20,491	19,966	20,174	21,114	22,023	20,531
Quarterly Change (%)	2.6	-1.0	-4.5	-4.1	7.3	3.6

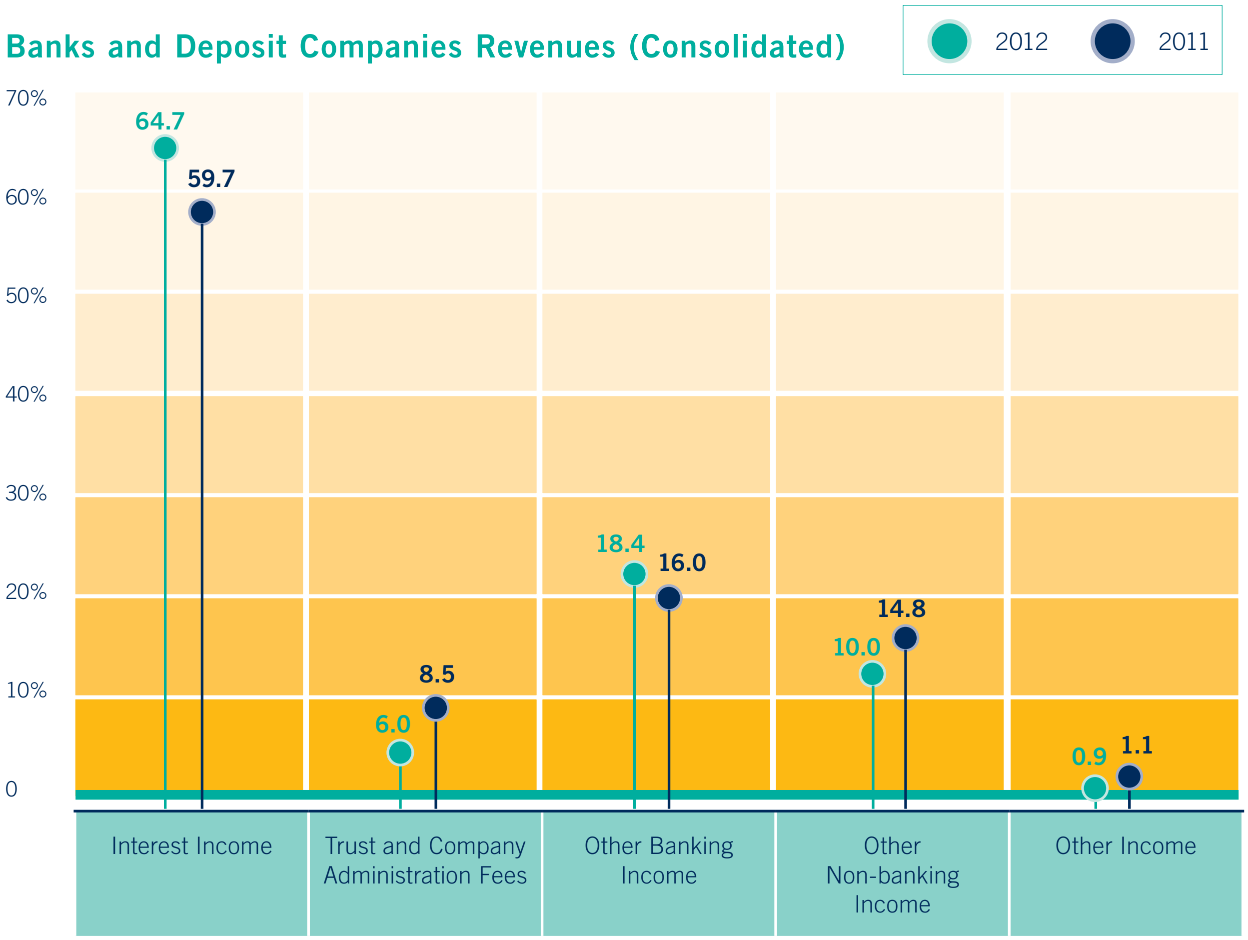
Loans and Investments as a Proportion of Total Assets



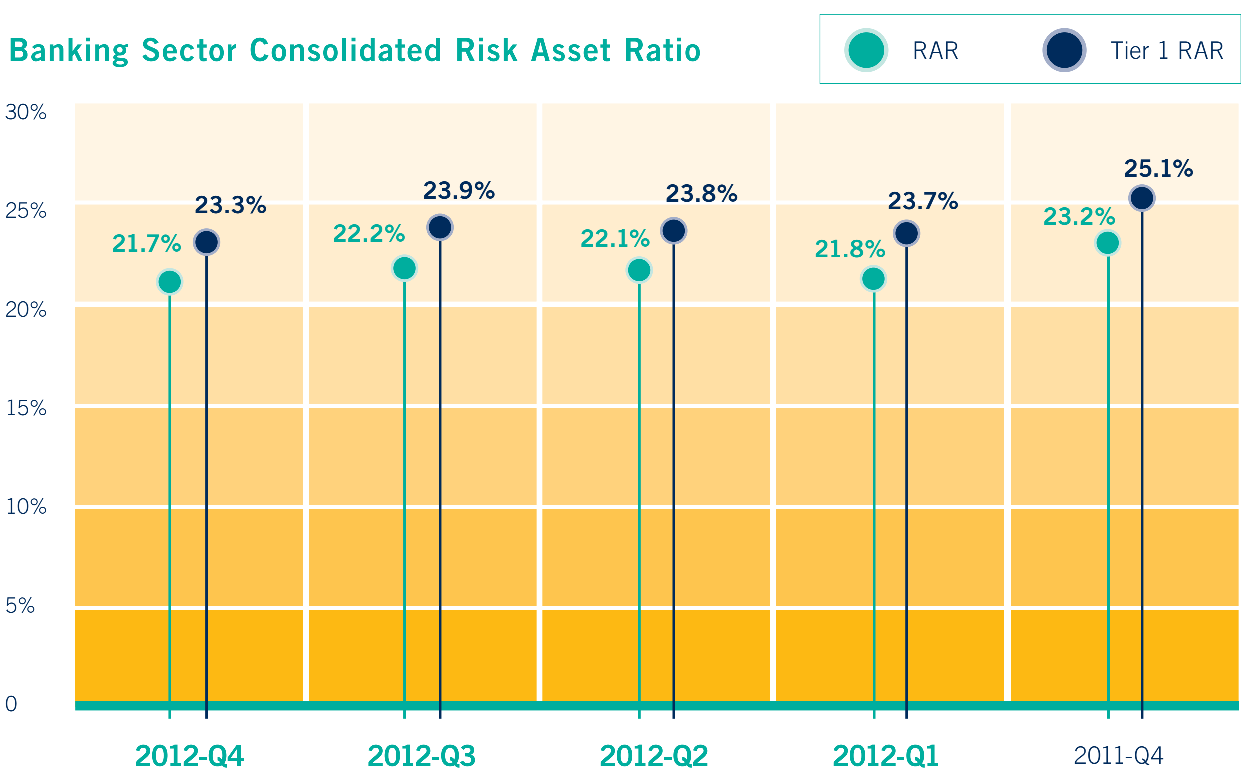
Composition of Banks' Assets as at 31st December 2012



Banks and Deposit Companies Revenues (Consolidated)



Banking Sector Consolidated Risk Asset Ratio



Combined Banks and Deposit Companies Foreign Currency Position (Consolidated)

(BD$ millions)	2012-Q4	2012-Q3	2012-Q2	2012-Q1	2011-Q4	2011-Q3
Total Foreign Currency Assets	18,759	18,147	17,770	18,852	19,672	18,334
Less: Other Assets	196	222	274	172	167	220
Less: Foreign Currency Loans to Residents	819	854	894	872	918	847
Net Foreign Currency Assets	17,744	17,071	16,602	17,808	18,587	17,267
Foreign Currency Liabilities	17,434	16,902	16,990	17,970	18,757	17,189
Add: BD$ Deposits of Non-Residents	178	185	196	225	214	198
Net Foreign Currency Liabilities	17,612	17,086	17,186	18,194	18,971	17,387
Net Foreign Currency Position	**132**	**(16)**	**(584)**	**(386)**	(384)	(120)

Total foreign currency assets decreased by 5% over the year while total foreign currency liabilities decreased by 7%. As a result there was a contraction in the net foreign currency liabilities over the year to $132 million from $384 million in 2011. This result mainly reflected developments throughout 2012 where the growth in foreign currency assets outpaced the growth in foreign currency liabilities.

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

(BD$ millions)	2012-Q4	2012-Q3	2012-Q2	2012-Q1	2011-Q4	2011-Q3
Deposit Liabilities	3,351	3,398	3,437	3,480	3,521	3,582
Less: Loans, Advances and Mortgages	(4,855)	(4,885)	(5,332)	(5,306)	(5,316)	(5,267)
Surplus/(Deficit) Deposits	(1,504)	(1,487)	(1,895)	(1,826)	(1,795)	(1,685)
Percentage of Deposit Liabilities Loaned	**144.9%**	**143.8%**	**155.1%**	**152.5%**	151.0%	147.0%

The ratio of Bermuda dollar loans to Bermuda dollar deposits decreased from 151% in Q4 2011 to 145% as at Q4 2012. Bermuda dollar loans and advances declined by 9% while Bermuda dollar deposits declined by 5% over the same year on year period. As in previous years the shortfall in Bermuda dollar deposits relative to Bermuda dollar loans and advances is financed through foreign currency-denominated customer deposits mainly denominated in US dollars.

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

(BD$ millions)	2012-Q4				2012-Q3				2012-Q2			
	Total	BD$	US$	Other	Total	BD$	US$	Other	Total	BD$	US$	Other
Assets												
Cash	79	46	16	17	70	34	22	14	77	38	22	17
Deposits	6,383	56	4,066	2,262	5,272	28	2,290	2,955	4,882	38	2,621	2,223
Investments	8,011	46	6,127	1,839	8,603	56	6,205	2,341	8,349	55	5,728	2,566
Loans & Advances	8,833	4,725	2,433	1,675	8,727	4,757	2,602	1,368	9,384	5,193	2,717	1,474
Premises & Equipment**	531	401	112	18	543	415	113	15	547	417	114	16
Other Assets**	319	123	109	87	373	151	132	90	424	150	133	141
Total Assets	**24,156**	**5,397**	**12,862**	**5,898**	**23,588**	**5,441**	**11,364**	**6,783**	**23,662**	**5,892**	**11,334**	**6,436**
Liabilities												
Demand Deposits	9,652	841	6,476	2,336	8,961	842	5,250	2,869	8,987	806	5,514	2,666
Savings	5,189	1,438	1,766	1,985	5,072	1,437	1,469	2,166	5,099	1,476	1,526	2,096
Time Deposits	5,650	1,018	2,280	2,352	5,932	1,063	2,588	2,281	6,089	1,092	2,522	2,475
Sub Total - Deposits	**20,491**	**3,296**	**10,522**	**6,673**	**19,966**	**3,343**	**9,307**	**7,316**	**20,174**	**3,374**	**9,562**	**7,238**
Other Liabilities	650	411	174	64	559	281	199	79	474	284	67	123
Sub Total - Liabilities	**21,141**	**3,707**	**10,696**	**6,737**	**20,525**	**3,623**	**9,506**	**7,396**	**20,648**	**3,658**	**9,629**	**7,361**
Equity & Subordinated Debt	3,015	1,901	1,103	11	3,063	1,936	813	314	3,014	1,929	776	310
Total Liabilities and Capital	**24,156**	**5,608**	**11,800**	**6,748**	**23,588**	**5,559**	**10,320**	**7,710**	**23,662**	**5,587**	**10,404**	**7,671**

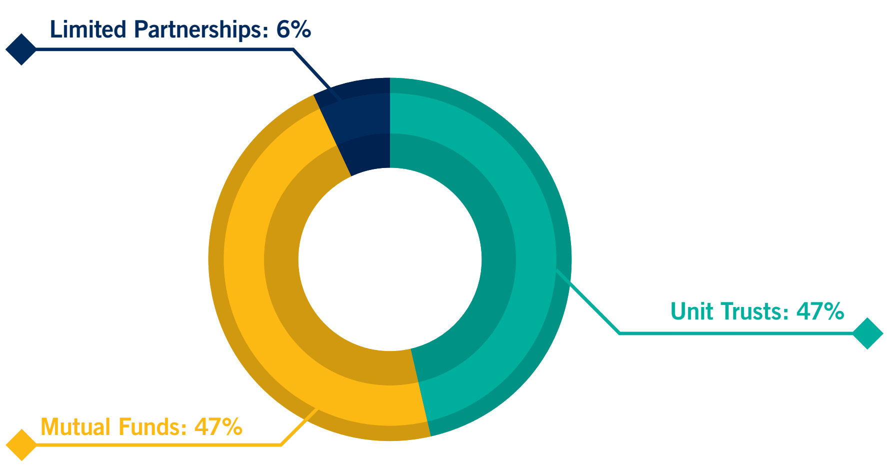
(BD$ millions)	2012-Q1				2011-Q4				2011-Q3			
	Total	BD$	US$	Other	Total	BD$	US$	Other	Total	BD$	US$	Other
Assets												
Cash	77	37	19	21	88	53	15	20	74	39	18	17
Deposits	5,956	35	3,078	2,843	6,299	34	3,943	2,323	7,309	26	3,759	3,524
Investments	8,443	48	5,896	2,499	9,080	49	6,521	2,510	6,575	49	4,658	1,868
Loans & Advances	9,354	5,161	2,734	1,460	9,214	5,172	2,687	1,354	9,266	5,123	2,794	1,349
Premises & Equipment**	551	421	114	16	554	423	115	16	528	401	112	15
Other Assets**	313	141	178	-6	308	141	44	122	352	132	124	96
Total Assets	**24,695**	**5,843**	**12,019**	**6,833**	**25,543**	**5,871**	**13,326**	**6,346**	**24,104**	**5,770**	**11,465**	**6,869**
Liabilities												
Demand Deposits	8,509	613	5,266	2,630	10,199	870	7,157	2,172	8,648	870	5,501	2,278
Savings	6,090	1,471	2,311	2,307	5,252	1,459	1,404	2,389	5,117	1,474	1,373	2,271
Time Deposits	6,515	1,333	2,534	2,648	6,572	1,130	2,951	2,491	6,765	1,170	2,790	2,805
Sub Total - Deposits	**21,114**	**3,417**	**10,111**	**7,585**	**22,023**	**3,459**	**11,513**	**7,051**	**20,531**	**3,514**	**9,663**	**7,354**
Other Liabilities	577	304	79	194	506	313	127	66	437	265	144	28
Sub Total - Liabilities	**21,691**	**3,721**	**10,190**	**7,779**	**22,529**	**3,772**	**11,640**	**7,117**	**20,968**	**3,779**	**9,807**	**7,382**
Equity & Subordinated Debt	3,004	1,927	772	304	3,014	1,973	733	307	3,136	2,063	758	315
Total Liabilities and Capital	**24,695**	**5,649**	**10,963**	**8,084**	**25,543**	**5,745**	**12,373**	**7,425**	**24,104**	**5,842**	**10,566**	**7,697**

Investment Funds

Investment Fund Statistics

	2012-Q4	2012-Q3	2012-Q2	2012-Q1	2011-Q4	2011-Q3
Mutual Funds	499	529	529	533	542	525
Umbrella Funds	47	46	44	45	48	44
Segregated Account Companies	68	69	62	60	61	59
Unit Trusts	62	59	58	47	41	41
Umbrella Trusts	86	84	83	82	80	93
Total Number of Funds	762	787	776	767	772	762
Net Asset Value *(in billions)*	$ 187.88	$185.39	$184.26	$184.14	$190.19	$200.08

Investment Funds Applications Approved 2012



Insurance

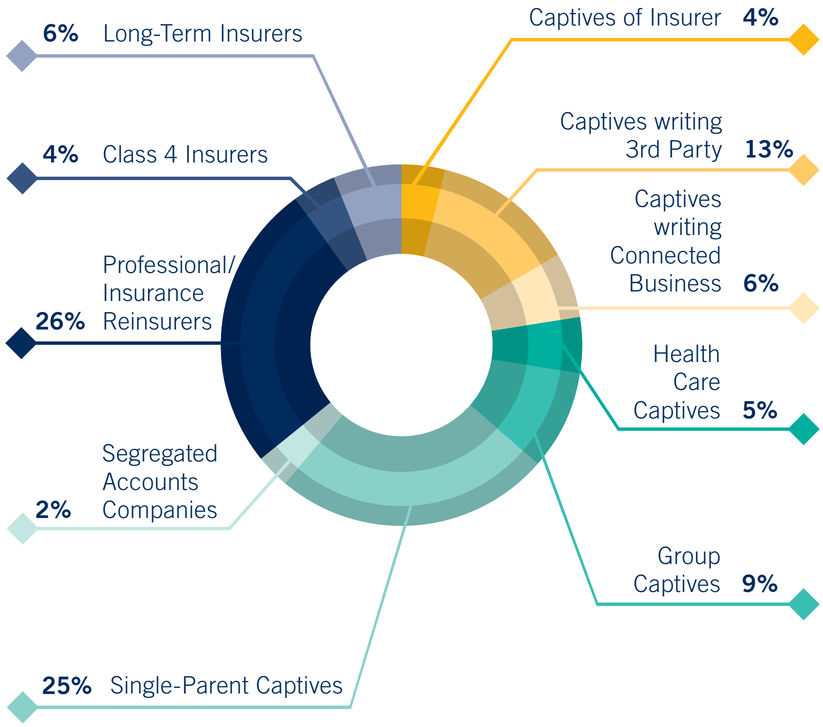
Analysis of all Insurers Registered

	2012	%	2011	%
Class 1	266	22.0%	272	22.1%
Class 2	307	25.4%	317	25.8%
Class 3	254	21.0%	273	22.2%
Class 3A	104	8.6%	109	8.9%
Class 3B	16	1.3%	15	1.2%
Class 4	31	2.6%	29	2.3%
Long-Term	0	0.0%	7	0.6%
Class A	2	0.2%	3	0.2%
Class B	0	0.0%	0	0.0%
Class C	79	6.5%	70	5.7%
Class D	6	0.5%	7	0.6%
Class E	14	1.2%	13	1.1%
Special Purpose Insurer	55	4.5%	29	2.3%
Dual Licences	75	6.2%	86	7.0%
Totals:	1,209	100%	1,230	100%

Class of Insurer Registered

	2012 Registrations	%	2011 Registrations	%
Class 1	4	7.5%	5	9.2%
Class 2	2	3.8%	4	7.4%
Class 3	6	11.3%	6	11.1%
Class 3A	4	7.5%	9	16.7%
Class 3B	0	0.0%	1	1.9%
Class 4	1	1.9%	2	3.7%
Long-Term (pre Dec. 2011)	0	0.0%	3	5.5%
Class A	0	0.0%	0	0.0%
Class B	0	0.0%	0	0.0%
Class C	9	17.0%	0	0.0%
Class D	0	0.0%	0	0.0%
Class E	0	0.0%	0	0.0%
Special Purpose Insurer	27	51.0%	23	42.6%
Dual Licences	0	0.0%	1	1.9%
Totals:	53	100%	54	100%

Actively Writing International Insurers by Company Type



Market Statistics by Company Type *as at 31st December 2011**

Company Type	No. of Licences**	Gross Premiums	Net Premiums	Total Assets	Capital and Surplus
Captives					
Captives of Insurer	40	$2,817,493,055	$2,100,589,996	$8,793,761,746	$3,943,380,733
Captives writing 3rd Party	113	$6,308,368,922	$5,016,210,025	$23,278,072,634	$12,405,681,769
Captives writing Connected Business	49	$1,314,072,459	$1,083,451,812	$4,703,333,726	$1,853,000,634
Health Care Captives	43	$755,561,676	$702,472,214	$4,429,412,251	$1,319,657,717
Group Captives	101	$3,506,971,372	$2,982,030,734	$20,896,756,195	$10,156,469,733
Single-Parent Captives	242	$4,641,994,521	$3,629,285,167	$18,085,715,611	$10,320,433,707
Segregated Accounts Companies	50	$985,644,086	$737,661,485	$5,146,192,164	$2,110,582,897
Sub-totals:	**638**	**$20,330,106,090**	**$16,251,701,433**	**$85,333,244,327**	**$42,109,207,191**
Professional Insurers/Reinsurers					
Professional Ins./Reins.	235	$24,747,675,032	$19,975,442,742	$83,586,734,516	$34,899,256,326
Class 4 Insurers	31	$31,919,762,073	$28,274,647,270	$147,198,043,392	$66,896,697,872
Long-Term Insurers	66	$30,605,140,066	$30,097,563,580	$136,115,458,595	$24,847,078,647
Sub-totals:	**332**	**$87,272,577,171**	**$78,347,653,592**	**$366,900,236,503**	**$126,643,032,845**
Totals: *(in $US)*	**970**	**$107,602,683,261**	**$94,599,355,025**	**$452,233,480,830**	**$168,752,240,036**

**Underwriting statistics quoted are from insurance company Statutory Financial Returns (SFRs) for 2011. Companies submit SFRs on a phased basis throughout the year following the financial year-end. The initial submission deadline for 2011 SFRs was April 2012. Due to this schedule the most recent complete year-end figures for this overview are from 2011.*

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

Explanatory Notes:

a) Captive of Insurer	Captive owned by a professional insurer and/or reinsurer.
b) Captive writing 3rd Party	(Re) insurer writing related party risks, but allowed to write up to 49% of its net premiums written arising from risks which are unrelated to the business of its owners and/or affiliates.
c) Captive writing Connected Business	(Re) insurer writing the risks related to or arising out of the business or operations of its owners and/or affiliates.
d) Health Care Captive	(Re) insurer owned by a hospital or health maintenance organisation and writing the risks of its owners and/or affiliates.
e) Group Captive	(Re) insurer with multiple owners, which include associations, agencies and/or more than one unrelated owner, writing the risks of such association, agency or owners and/or affiliates.
f) Single-Parent Captive	Single-parent captive writing only the risk of its owners and/or affiliates.
g) Segregated Accounts Company	Insurance Company providing captive facilities to others under a segregated account structure.
h) Professional Insurers/Reinsurers	Insurance Company writing unrelated risks as a direct writer and/or reinsurer.
i) Class 4 Insurer	Insurers and reinsurers capitalised at a minimum of $100 million underwriting direct excess liability and/or property catastrophe reinsurance risk.
j) Long-Term Insurer	Insurers writing Long-Term (or life) business.

Market Statistics by Region of Beneficial Owner/s *as at 31st December 2011*

Domicile of Owners	No. of Licences	Gross Premiums	Net Premiums	Total Assets	Capital and Surplus
Captives					
Africa/Middle East	7	$59,619,249	$27,225,178	$140,446,786	$48,990,189
Asia	27	$1,268,749,462	$1,034,572,610	$4,138,393,101	$2,061,852,894
Australia/New Zealand	9	$47,685,635	$42,449,091	$381,984,376	$348,951,465
Bermuda	40	$1,547,617,430	$943,190,959	$6,892,383,267	$6,099,768,315
Carribean/Latin America	26	$236,578,335	$122,462,689	$658,174,415	$393,072,574
Europe	85	$4,078,201,160	$3,054,517,017	$14,849,361,717	$7,840,982,665
North America	404	$15,462,599,925	$12,912,104,684	$70,514,200,937	$31,046,176,388
Sub-totals:	**598**	**$22,701,051,197**	**$18,136,522,227**	**$97,574,944,598**	**$47,839,794,488**
Professional Insurers/Reinsurers					
Africa/Middle East	3	$16,372,054	$16,115,142	$5,188,221,859	$329,374,788
Asia	9	$700,311,616	$607,617,141	$2,684,219,591	$1,416,860,439
Australia/New Zealand	2	$4,720,877,902	$4,202,459,993	$9,660,391,028	$2,529,791,489
Bermuda	68	$18,915,292,207	$16,988,344,889	$94,333,919,294	$35,327,941,917
Carribean/Latin America	17	$2,972,491,770	$2,766,720,277	$21,580,185,581	$7,011,564,011
Europe	69	$9,654,316,531	$7,830,320,983	$47,709,558,774	$17,370,493,448
North America	204	$47,921,969,984	$44,051,254,374	$173,502,040,106	$56,926,419,455
Sub-totals:	**372**	**$84,901,632,064**	**$76,462,832,798**	**$354,658,536,232**	**$120,912,445,548**
Totals: *(in $US)*	**970**	**$107,602,683,261**	**$94,599,355,025**	**$452,233,480,830**	**$168,752,240,036**

Market Statistics by Class of Insurer *as at 31st December 2011*

Class of Insurer	No. of Licences	Gross Premiums	Net Premiums	Total Assets	Capital and Surplus
Class 1	229	$4,022,388,450	$3,131,187,886	$15,972,191,179	$9,840,700,977
Class 2	236	$7,223,917,208	$5,729,490,182	$38,761,388,334	$20,091,797,933
Class 3	201	$8,198,178,892	$6,864,389,365	$29,857,222,562	$13,981,858,744
Class 3A	100	$11,493,710,332	$8,445,498,202	$32,517,381,610	$14,011,790,214
Class 3B	14	$10,127,509,160	$7,565,245,391	$27,549,098,196	$11,976,078,749
Class 4	31	$31,919,762,073	$28,274,647,270	$147,198,043,392	$66,896,697,872
Long-Term	3	$6,287,776	$6,287,776	$28,376,824	$19,051,440
Long-Term Class A	12	$9,451,546	$9,451,546	$427,633,270	$130,415,251
Long-Term Class B	8	$103,558,661	$103,558,661	$131,709,219	$68,396,332
Long-Term Class C	107	$23,687,761,625	$23,682,850,097	$107,169,293,691	$16,476,585,788
Long-Term Class D	9	$588,076,997	$588,076,997	$6,193,485,718	$1,398,134,143
Long-Term Class E	12	$10,073,975,058	$10,073,975,058	$44,037,773,752	$13,818,367,924
Special Purpose Insurer	8	$148,105,483	$124,696,594	$2,389,883,083	$42,364,669
Totals: *(in $US)*	**970**	**$107,602,683,261**	**$94,599,355,025**	**$452,233,480,830**	**$168,752,240,036**

Explanatory Notes:

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

b) Class 2: (a) A multi-owner captive insuring the risks of its owners or affiliates of the owners; or (b) A single parent or multi-owner captive: (i) insuring the risks arising out of the business or operations of the owners or affiliates, and/or (ii) deriving up to 20% of its net premiums from unrelated risks.

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

d) Class 3A: Small commercial insurers whose percentage of unrelated business represents 50% or more of net premiums written or loss and loss expense provisions and where the unrelated business net premiums are less than $50 million.

e) Class 3B: Large commercial insurers whose percentage of unrelated business represents 50% or more of net premiums written or loss and loss expense provisions and where the unrelated business net premiums are more than $50 million.

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

g) Long-Term:

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.

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

Financials

BERMUDA MONETARY AUTHORITY

BMA House

43 Victoria Street
Hamilton HM 12 Bermuda

P.O. Box 2447
Hamilton HM JX Bermuda

tel: (441) 295 5278
fax: (441) 292 7471
email: enquiries@bma.bm
website: www.bma.bm

30th April 2013

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

Dear Minister:

In accordance with section 28(1) of the Bermuda Monetary Authority Act 1969, I have the honour to submit to you a report of the operations of the Authority for the year 2012 together with the annual statement of accounts and the opinion of the Auditor General.

This document also contains the reports for the year 2012 which the Authority is required to make to you pursuant to:

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

Yours sincerely,

Jeremy Cox
Chief Executive Officer

BMA
BERMUDA MONETARY AUTHORITY

BMA House

43 Victoria Street
Hamilton HM 12 Bermuda

P.O. Box 2447
Hamilton HM JX Bermuda

tel: (441) 295 5278
fax: (441) 292 7471
email: enquiries@bma.bm
website: www.bma.bm

30th April 2013

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

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

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

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

The Hon. Gerald Simons
Chairman

Jeremy Cox
Chief Executive Officer

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

Tel: (441) 296-3148
Fax: (441) 295-3849
Email: oag@oagbermuda.bm
Website: www.oagbermuda.gov.bm

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

I have audited the accompanying financial statements of the Bermuda Monetary Authority, which comprise the statement of financial position as at December 31, 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my 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, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Hamilton, Bermuda
April 15, 2013

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

BERMUDA MONETARY AUTHORITY

Statement of Financial Position
As at December 31, 2012

(In thousands of Bermuda dollars)	Note	2012	2011
Assets			
Current assets			
Cash and cash equivalents	5	46,562	50,971
Accounts and other receivables	6	1,295	1,269
Prepayments		350	1,357
Stock of numismatic items	7	646	640
Stock of notes and coins for circulation	8	4,903	2,642
		53,756	56,879
Non-current assets			
Investments, held-to-maturity	3	95,031	95,410
Property and equipment	9	25,242	26,351
Intangible assets	10	3,353	3,493
		123,626	125,254
Total Assets		177,382	182,133
Liabilities			
Current liabilities			
Accounts and other payables	11	7,533	7,549
Notes and coins in circulation	12	129,515	133,100
		137,048	140,649
Equity			
Capital subscribed	13	20,000	20,000
General reserve	13	20,334	21,484
		40,334	41,484
Total Liabilities and Equity		177,382	182,133

Commitments (Note 19)

Gerald Simons
Chairman

Jeremy Cox
Chief Executive Officer

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

BERMUDA MONETARY AUTHORITY

Statement of Comprehensive Income
For the year ended December 31, 2012

(In thousands of Bermuda dollars)	Note	2012	2011
Revenues			
Supervisory and licensing fees	14	36,229	35,760
Incorporation fees, vault commission and other income		1,214	1,237
Net sale of special coins		35	118
Operating revenue		37,478	37,115
Investment income	15	3,570	3,632
Total revenues		41,048	40,747
Expenses			
Salaries and employee benefits	16	31,140	28,739
General expenses	17	6,351	5,795
Professional fees		1,793	3,582
Depreciation of property and equipment	9	1,323	1,816
Amortisation of intangible assets	10	1,180	759
Circulation note and coin expenses		411	744
Total expenses		42,198	41,435
Total comprehensive loss for the year		(1,150)	(688)

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, 2012

(In thousands of Bermuda dollars)	2012	2011
Capital	20,000	20,000
General Reserve		
Balance, beginning of year	21,484	22,172
Total comprehensive loss for the year	(1,150)	(688)
Balance, end of year	20,334	21,484
Equity	40,334	41,484

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

BERMUDA MONETARY AUTHORITY

Statement of Cash Flows
For the year ended December 31, 2012

(In thousands of Bermuda dollars)	Note	2012	2011
Cash flows from operating activities			
Total comprehensive loss for the year		(1,150)	(688)
Adjustment for:			
Non-cash items included in total comprehensive loss for the year	18	2,762	2,929
Change in operating assets	18	(1,286)	448
Change in operating liabilities	18	(16)	(496)
Net cash from operating activities		310	2,193
Cash flows from investing activities			
Additions of intangible assets		(1,051)	(2,188)
Additions of property and equipment		(214)	(381)
Purchase of investments		(26,593)	(16,000)
Proceeds from maturity of investments		26,724	16,767
Net cash used in investing activities		(1,134)	(1,802)
Cash flows from financing activity			
Net (decrease)/increase in notes and coins in circulation		(3,585)	6,379
Net cash (used in)/from financing activity		(3,585)	6,379
Net (decrease)/ increase in cash and cash equivalents		(4,409)	6,770
Cash and cash equivalents at beginning of year		50,971	44,201
Cash and cash equivalents at end of year	5	46,562	50,971
Operational cash flows from interest			
Interest received		3,749	3,993

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

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

1. General information

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

The primary responsibilities of the Authority are:

- acting as issuing authority for Bermuda dollar notes and coins;
- the supervision, regulation and inspection of all financial institutions operating in or from within Bermuda;
- the promotion of the financial stability and soundness of financial institutions;
- the supervision, regulation and approval of the issue of financial instruments by financial institutions or by residents;
- the fostering of close relations between financial institutions and between the financial institutions and Government;
- assisting with the detection and prevention of financial crime;
- the management of exchange control and the regulation of transactions in foreign currency or gold on behalf of the Government; and
- the provision of advice and assistance to the Government and public bodies on banking and other financial and monetary matters.

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

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 in accordance with International Financial Reporting Standards (IFRS).

These financial statements were authorised for issue by the Board of Directors (the "Board") on April 15, 2013.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

2.1 Basis of preparation (continued)

(b) Basis of measurement

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

(c) Use of estimates and judgements

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

2.2 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

2.3 Property and equipment

(a) Recognition and measurement

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

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

2.3 Property and equipment (continued)

a) Recognition and measurement (continued)

The Authority recognises land and buildings as office space. Changes in the expected useful life are accounted for 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

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

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

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

An assets' carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.4 Intangible assets

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

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

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 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.

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

2.5 Financial instruments
2.5.1 Classification

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

(a) Financial assets

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

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

2.5.1 Classification (continued)

(i) Loans and receivables

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

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

(ii) Held-to-maturity financial assets

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

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

(b) Financial Liabilities

The Authority classifies accounts and other payables and notes and coins in circulation as other financial liabilities. These are subsequently measured at amortised cost using the effective interest method.

2.5.2 Recognition and initial measurement

All financial assets and liabilities are initially recognised on the trade-date, which is the date on which the Authority commits to purchase or sell the asset. All financial instruments are measured initially at fair value plus transaction costs.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

2.5.3 Derecognition of financial assets and liabilities

(a) Financial assets

A financial asset is derecognized when:

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

(b) Financial liabilities

A financial liability is 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

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

2.5.4 Impairment of financial assets (continued)

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

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

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

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

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

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

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

2.7 Stock of notes, coins and numismatic items

2.7.1 Stock of notes and coins for/in circulation

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

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

2.7.2 Stock of numismatic items

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

2.8 Accounts and other receivables

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

2.9 Cash and cash equivalents

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

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

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

2.10 Accounts and other payables

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

2.11 Employee benefits

(a) Short-term employee benefits

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

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

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

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

(b) Post- employment benefits

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

(c) Other long-term employee benefits

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

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

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

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

2.12 Provisions

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. The Authority has not recorded a provision in 2012 nor 2011.

2.13 Revenue recognition

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

Supervisory fines are recognized into 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 means when the applications for incorporations are completed and approved.

Vault commission is recorded as revenue when earned.

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

2.14 Going concern

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

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

2.15 Events after the year-end reporting period

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

2.16 New and amended standards not yet adopted

The Authority did not adopt early the following standards and amendments that have been approved but are not yet effective until annual periods beginning after January 1, 2013:

- IAS 1 - Presentation of Items of Other Comprehensive Income (Amendment)
- IFRS 9 - Financial Instruments - Classification and Measurement (New)
- IFRS 13 - Fair Value Measurement (New)

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

3. Financial risk management

(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:

	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS				
Cash and cash equivalents	46,562	46,562	50,971	50,971
Accounts and other receivables	1,295	1,295	1,269	1,269
Investments, held-to-maturity	95,031	102,641	95,410	103,434
Total financial assets	142,888	150,498	147,650	155,674
FINANCIAL LIABILITIES				
Notes and coins in circulation	129,515	129,515	133,100	133,100
Accounts and other payables	7,533	7,533	7,549	7,549
Total financial liabilities	137,048	137,048	140,649	140,649

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(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 used in making the measurements:

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

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, 2012				
Investments, held-to-maturity	102,641	-	-	102,641
Total financial instruments	102,641	-	-	102,641
Financial instruments at fair value as at December 31, 2011				
Investments, held-to-maturity	103,434	-	-	103,424
Total financial instruments	103,434	-	-	103,424

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. 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 51% (2011 – 45%) 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, 2012 and 2011.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

3. Financial risk management (continued)

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

	2012	2011
Investments, held-to-maturity		
AAA **	46,715	51,275
AA+ **	48,316	44,135
** Moody's equivalent grade is Aaa.	95,031	95,410

Cash and cash equivalents		
Cash at bank and in-hand		
AAA	30	47
AA+	290	335
A+	352	(278)
A	52	45
A-	545	624
Not rated	193	198
	1,462	971
Overnight repurchase agreements		
AA+	45,100	50,000
	46,562	50,971

Investments, held-to-maturity

This account consists of:

	2012	2011
US Government and US Government Agencies	48,316	44,135
Supranational Bank	46,715	51,275
	95,031	95,410

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

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

3. Financial risk management (continued)

(c) Market risk

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

(i) Interest rate risk

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

The interest rate risk table below is based on the Authority's contracted portfolio (including term deposits which matured in 2011) as reported in the Authority's statement of financial positions. All financial instruments are shown at their repricing period which is equivalent to the remaining term to maturity.

Sensitivity to interest rate risk

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

		2012		2011
	+1	-1	+1	-1
Change in profit/equity due to movement of percentage point across yield curves				
US dollar overnight repurchase agreement with the US Federal Reserve	455	(69)	466	(28)
Bermuda dollar term deposits	-	-	72	(28)
US dollar quoted securities	932	(932)	899	(898)
Total	1,387	(1,001)	1,437	(954)

An increase in interest rates of 1% would result in additional income of $1,387 (2011 - $1,437). A decrease in interest rates of 1% would result in decrease in income of $1,001 (2011 - $954). As current interest rates on US dollar federal reserve bank deposits are below 1%, the valuation effect of a negative 1% shift in interest rates would be to take interest income to $nil for this class.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

3. Financial risk management (continued)

(ii) Currency risk

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

At December 31, 2012, the Authority did not hold a significant amount of foreign currency other than U.S. dollars. Given the small size of the net foreign currency exposure relative to the total assets of the Authority, currency risk is not considered material.

(iii) Price risk

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

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

(d) Liquidity risk

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

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

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

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(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 price.

As at December 31, 2012

	Total	No fixed maturity	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
FINANCIAL ASSETS						
Cash and cash equivalents	46,562	46,562	-	-	-	-
Investments (fair value)	102,641	-	-	9,137	39,278	54,226
Accounts and other receivables	1,295	1,295	-	-	-	-
	150,498	47,857	-	9,137	39,278	54,226
FINANCIAL LIABILITIES						
Notes and coins in circulation	129,515	129,515	-	-	-	-
Accounts and other payables	7,533	-	7,533	-	-	-
	137,048	129,515	7,533	-	-	-
Net maturity difference	13,450	(81,658)	(7,533)	9,137	39,278	54,226

As at December 31, 2011

	Total	No fixed maturity	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
FINANCIAL ASSETS						
Cash and cash equivalents	50,971	50,971	-	-	-	-
Investments (fair value)	103,434	-	-	10,157	33,576	59,701
Accounts and other receivables	1,269	1,269	-	-	-	-
	155,674	52,240	-	10,157	33,576	59,701
FINANCIAL LIABILITIES						
Notes and coins in circulation	133,100	133,100	-	-	-	-
Accounts and other payables	7,549	-	7,549	-	-	-
	140,649	133,100	7,549	-	-	-
Net maturity difference	15,025	(80,860)	(7,549)	10,157	33,576	59,701

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

3. Financial risk management (continued)

(e) Operational risk

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

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

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

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

4. Critical accounting estimates and judgements
4.1 Fair value estimation

Given the short-term nature of the Authority's financial assets and liabilities, the carrying value of cash and cash equivalents, accounts and other receivables/payables, and notes and coins in circulation are assumed to approximate their fair values.

4.2 Use of estimates and judgments

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

Estimates in these financial statements include:

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

Actual results could differ from these estimates.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

4.2 Use of estimates and judgments (continued)

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:

	2012	2011
Cash at bank and in hand	1,462	971
Overnight repurchase agreement with the US Federal Reserve	45,100	50,000
Total	46,562	50,971

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

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

6. Accounts and other receivables

This account consists of:

	2012	2011
Accounts receivable	1,257	1,355
Less: provision for impairment of receivables	(766)	(821)
Accounts receivable – net	491	534
Accrued interest	804	735
Current portion	1,295	1,269

The ageing analysis of these receivable is as follows:

	2012	2011
Up to 3 months	489	371
3 to 6 months	2	3
Over 6 months	-	160
Total	491	534

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

6. Accounts and other receivables (continued)

As at December 31, 2012, accounts receivable of $766 (2011 - $821) were impaired and fully provided for. The individually impaired receivables mainly relate to fees charged to regulated entities. A portion of these receivables is expected to be recovered. The ageing of these receivables is as follows:

	2012	2011
Up to 3 months	34	-
3 to 6 months	37	78
Over 6 months	695	743
Total	766	821

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

	2012	2011
Balance as at January 1	821	1,265
Provision for impairment of receivables	581	214
Receivables written off during the year as uncollectible	(636)	(658)
Balance as at December 31	766	821

The creation and release of provision for impairment of receivables have been included in 'general expenses' (note 17) in the statement of comprehensive income. The Authority provides 100% for all trade balances that are greater than 90 days past due. Amounts charged to the provision for impairment receivables are generally written off, when there is no expectation of recovering additional cash.

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

7. Stock of numismatic items

This account consists of:

	2012	2011
Commemorative notes and coins	362	464
Circulation notes and coins	21	22
Bullion for inventory production	295	184
Provisions	(32)	(30)
	646	640

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

8. Stock of notes and coins for circulation

This account consists of:

	2012	2011
Notes	4,068	1,796
Coins	835	846
	4,903	2,642

The cost of stocks recognised as expenses and included in 'circulation note and coin expenses' amounted to $411 (2011 - $744). Included in the 2011 figure was the destruction of $404 of legacy notes in preparation for future demonetisation.

9. Property and equipment

This account consists of:

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

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

9. Property and equipment (continued)

	Land and building	Computer equipment	Furniture and fixtures	Museum items	Total
At January 1, 2011					
Cost	30,092	2,738	2,720	65	35,615
Accumulated depreciation	(4,125)	(1,641)	(2,055)	-	(7,821)
Net book amount	25,967	1,097	665	65	27,794
Year ended December 31, 2011					
Additions	168	156	57	-	381
Disposals - cost	-	(210)	-	-	(210)
Disposals - accumulated depreciation	-	202	-	-	202
Depreciation	(923)	(548)	(345)	-	(1,816)
Closing net book amount	25,212	697	377	65	26,351
At December 31, 2011					
Cost	30,260	2,684	2,777	65	35,786
Accumulated depreciation	(5,048)	(1,987)	(2,400)	-	(9,435)
Net book amount	25,212	697	377	65	26,351

Depreciation of $1,323 (2011 - $1,816) has been charged in the statement of comprehensive income.

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

	2012	2011
Furniture and fixtures	2,046	1,887
Computer equipment	1,732	598

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

10. Intangible assets

This account consists of:

	Computer Software					
	2012			2011		
	Internally developed	Externally acquired	**Total**	Internally developed	Externally acquired	**Total**
At January 1						
Cost	4,277	867	**5,144**	2,113	843	**2,956**
Accumulated amortisation	(1,159)	(492)	**(1,651)**	(587)	(305)	**(892)**
Net book amount	3,118	375	**3,493**	1,526	538	**2,064**
Year ended December 31						
Additions	1,040	11	**1,051**	2,164	24	**2,188**
Disposals - cost	(11)	(17)	**(28)**	-	-	**-**
Disposals - accumulated amortisation	9	8	**17**	-	-	**-**
Amortisation	(1,004)	(176)	**(1,180)**	(572)	(187)	**(759)**
Closing net book amount	3,152	201	**3,353**	3,118	375	**3,493**
At December 31						
Cost	5,306	861	**6,617**	4,277	867	**5,144**
Accumulated amortisation	(2,154)	(660)	**(2,814)**	(1,159)	(492)	**(1,651)**
Net book amount	3,152	201	**3,353**	3,118	375	**3,493**

Amortisation of $1,180 (2011 - $759) is included in the statement of comprehensive income.

Gross carrying value for software fully depreciated and still in use in 2012 is $531 (2011 - $532).

There were no research and development costs in 2012 and 2011.

11. Accounts and other payables

This account consists of:

	2012	2011
Accrued expenses	5,332	5,660
Accounts payable	796	782
Amounts due to related parties (note 20)	800	775
Customer deposits and annual business fees payable	153	295
Deferred income	452	37
	7,533	7,549

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

12. Notes and coins in circulation

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

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

At December 31, 2012, the Authority was required to hold a reserve of external assets of at least $64,757 (2011 - $66,550) and the actual external assets held totalled $95,031 (2011 - $95,410).

As indicated in Note 3. (d), at December 31, 2012, the Authority's total financial assets exceeded its financial liabilities by $13,450 (2011 - $15,025).

13. Equity

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

(a) Capital

The Authority's authorised capital of $30,000 can be subscribed at such times and in such amounts as the Board, with the approval of the Minister of Finance (the "Minister"), may require.

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

(b) General Reserve

A general reserve of $20,334 (2011 - $21,484) has been established and maintained in accordance with Section 8 of the Act.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

14. Supervisory and licensing fees

This account consists of:

	2012	2011
Insurance fees	28,689	28,186
Bank and deposit company fees	4,441	4,338
Investment funds	1,386	1,417
Investment business licence fees	702	700
Trust company fees	604	682
Anti-money laundering (AML) fees	396	387
Insurance fines	11	-
AML enforcement fines	-	50
	36,229	35,760

In accordance with Section 24 (5) of the Proceeds of Crime Regulations (Supervision and Enforcement) Act 2008, application fees in the amount of $396 (2011 - $387) were recognised as revenue and expenses in the amount of $448 (2011 - $563) were incurred. AML fees are included in supervisory and licencing fees and AML expenses are included in salaries and employee benefits.

15. Investment income

This account consists of:

	2012	2011
Interest on investments, held-to-maturity	3,749	3,703
Interest earned on overnight repurchase agreement with the US Federal Reserve	69	28
Interest on term deposits	-	247
Net amortisation/accretion of premiums/discounts on investments, held-to-maturity	(248)	(346)
	3,570	3,632

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

16. Salaries and employee benefits

This account consists of:

	2012	2011
Salaries and bonuses	25,771	24,041
Payroll tax	2,218	2,107
Pension costs	1,119	1,010
Health insurance	861	725
Directors' fees	342	303
Social insurance costs	280	246
Life insurance	54	46
Other benefits	495	261
	31,140	28,739

The Authority has 163 and 155 employees at December 31, 2012 and 2011, respectively.

Employee benefits include the following:

(a) Pension plans

The Authority provides various pension schemes to its eligible employees:

(i) Defined contribution plan

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

Employee contributions to the Plan are 5% of gross salary matched by the Authority. These contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The Authority's contributions to the Plan during the year were $1,007 (2011 - $878).

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

16. Salaries and employee benefits (continued)

(ii) Defined benefit plan

The Authority contributes to the Public Service Superannuation Fund (the "Fund"), which is a defined benefit plan, is administered by the Government and covers the remainder of the Authority's eligible employees, all of whom were previous employees of the Government. Contributions of 8% (2011 – 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 $113 (2011 - $132).

(b) Other employee benefits

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

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

Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation liability as at December 31, 2012 is $443 (2011 - $500) and is included in accounts and other payables.

Certain employees are entitled to pre-retirement leave based upon their years of service at the time of retirement. The present value of the pre-retirement leave obligation depends on a number of factors that are determined on an actuarial basis. Two key assumptions used in calculating this liability include the discount rate and salary inflation. Any changes in these assumptions will affect the carrying amount of the liability. During the year, no pre-retirement leave benefits were paid. The liability as at December 31, 2012 is $307 (2011 - $203) and is included in accounts and other payables.

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

17. General expenses

This account consists of:

	2012	2011
Premises and office	3,234	3,340
Conferences, seminars, education and training	1,094	1,005
Provision for impairment of receivables	581	214
Recruitment and repatriation	580	727
Communication	362	328
Public relations	136	74
Net foreign exchange loss	75	5
Advertising	36	20
Loss on retirement of intangible assets	11	-
Provision for (write-back of) impairment on numismatic inventory	1	(153)
Loss on retirement of property and equipment	-	8
Other	241	227
	6,351	5,795

18. Cash generated from operations

	2012	2011
Non-cash items included in total comprehensive loss for the year		
Depreciation of property and equipment (note 9)	1,323	1,816
Amortisation of intangible assets (note 10)	1,180	759
Amortisation/accretion of premiums/discounts on Investments, held-to-maturity	248	346
Loss on retirement of intangible assets	11	-
Loss on retirement of property and equipment	-	8
	2,762	2,929
Change in operating assets		
Stock of notes and coins in circulation	(2,261)	546
Stock of numismatic items	(6)	(89)
Accounts and other receivables	(26)	1,109
Prepayments	1,007	(1,118)
	(1,286)	448
Change in operating liabilities		
Accounts and other payables	(16)	(496)
	(16)	(496)

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

19. Commitments

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

Contractual commitments

	2012	2011
2012	-	754
2013	1,104	346
2014	470	346
2015	380	346
2016	380	346
Thereafter	1,902	1,385
	4,236	3,523

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

	2012	2011
Property and equipment	-	-
Intangible assets	180	408
	180	408

20. Related-party transactions

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

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

BERMUDA MONETARY AUTHORITY
Notes to the Financial Statements
For the year ended December 31, 2012
(In thousands of Bermuda dollars)

20. Related-party transactions (continued)

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

	2012	2011
Staff expenses:		
Payroll tax	2,218	2,107
Pension costs - PSSF	113	132
Social insurance	280	246
Premises expense - land tax	197	214
Professional fees - audit	80	80
Other general expenses - immigration fees	58	43
Insurance fines collected by the Authority	30	78
Office expense - postage	14	19

Key management compensation

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

	2012	2011
Salaries, bonuses and other short-term employee benefits	3,320	3,297
Post-employment benefits	170	171

Contact Information

Bermuda Monetary Authority

BMA House

43 Victoria Street
Hamilton HM 12 Bermuda

P.O. Box 2447
Hamilton HM JX Bermuda

tel: (441) 295 5278
fax: (441) 292 7471
email: enquiries@bma.bm
website: www.bma.bm

For general information regarding:	
Incorporation of companies, establishment of partnerships or the issue of permits to overseas companies and overseas partnerships,transfer of ownership and confidential enquiries, contact:	**Leslie Robinson** *Assistant Director,* *Licensing & Authorisation* EMAIL: lrobinson@bma.bm
Banks and Deposit companies, contact:	**Marcia Woolridge-Allwood** *Director,* *Banking, Trust, Corporate Service & Investment* EMAIL: mwa@bma.bm
Trust companies and investment services, contact:	**Marcia Woolridge-Allwood** *Director,* *Banking, Trust, Corporate Service & Investment* EMAIL: mwa@bma.bm
Insurance business, contact:	**Shelby Weldon** *Director,* *Licensing & Authorisation* EMAIL: sweldon@bma.bm **Craig Swan** *Director,* *Insurance Supervision* EMAIL: cswan@bma.bm
Media requests, general information, copies of BMA reports and other documents, contact:	**Pat Phillip-Bassett** *Deputy Director,* *Corporate Governance & Communications* EMAIL: pbassett@bma.bm
Information on Bermuda notes and coins, contact:	**Terry Pitcher** *Head of Finance & Currency Operations* EMAIL: tpitcher@bma.bm

BERMUDA MONETARY AUTHORITY ANNUAL REPORT 2012

BMA HOUSE
43 Victoria Street | Hamilton HM 12 | Bermuda

P.O. Box 2447 | Hamilton HM JX | Bermuda

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

www.bma.bm