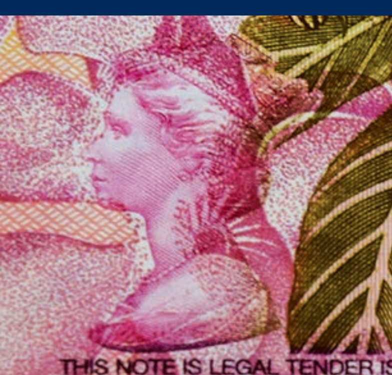
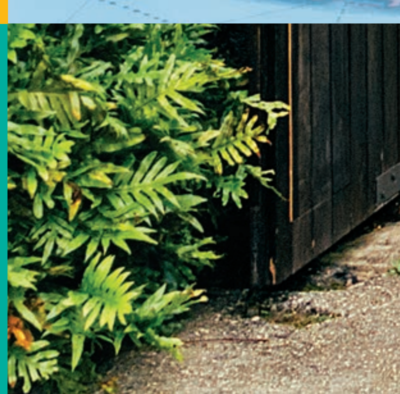
BMA
BERMUDA MONETARY AUTHORITY

2018 Annual Report






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.

Contents

About Us

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

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

In addition, the BMA issues Bermuda's national currency, manages exchange control transactions, assists other authorities in Bermuda with the detection and prevention of financial crime, and advises the Bermuda Government and other public bodies on banking and other financial and monetary matters.

> "The role of the regulator must be to strike the balance between financial stability and economic growth. We must remain the ever-vigilant gatekeeper... and we must take care not to stand in the way of progress".

Jeremy Cox
Chief Executive Officer

CEO's Report

I can look back at 2018 as a year of perseverance, growth and accomplishments. A year of multifaceted, ground-breaking initiatives that challenged the Bermuda Monetary Authority to its core, and I can state with assurance that we rose to the challenge. One thing I know for sure is that this journey is never-ending. It will continue to be a perpetual movement forward that is rooted in strength, continuous improvements and transformations; encouraging innovation while maintaining the delicate balance as the ever-vigilant gatekeeper.

We have seen a wind of change that swept through the industries that we regulate. Innovation and technology have acted as a transformational tsunami reaching not only the shores of Bermuda, but around the world. It was also a year of international assessments, building the right framework for new legislation and repositioning the BMA to meet the demands of these challenging times.

With incredible times, comes incredible achievements. Holding true as we faced the challenges and change, remaining focused and driven – marking our moment in time.

Caribbean Financial Action Task Force (CFATF) Mutual Evaluation Review of Bermuda

In 2018, the Caribbean Financial Action Task Force (CFATF) undertook the fourth round Mutual Evaluation Review of Bermuda's AML/ATF framework against the Financial Action Task Force (FATF) international standards. The BMA recognises the importance of external peer reviews to ensure that Bermuda's regulatory standards are consistently aligned with international standards for best practice. Throughout this process, we actively engaged in supporting Bermuda's National Anti-Money Laundering Committee (NAMLC) and worked with other key stakeholders in Bermuda. Our jurisdiction continues to interface with the external CFATF assessors in the final stages of their report and ultimately through Bermuda's response to its recommendations. The external review process in 2018 was helpful as it identified areas where the BMA can further strengthen its role in implementing Bermuda's AML/ATF framework.

Sandbox and Innovation Hub

In April 2018, the BMA published a second consultation paper proposing the launch of two parallel innovation tracks: an Insurance Regulatory Sandbox – designed for entities seeking to perform activities that would require a licence under the Insurance Act 1978; and an Innovation Hub – for both Insurtech service providers not requiring a licence and prospective licensees not yet ready for the live regulatory Sandbox environment. Effective 1 July 2018, the BMA launched the Insurance Regulatory Sandbox and Innovation Hub. The Sandbox grants a licence to innovators so that they can engage in a proof of concept exercise in a live, but controlled, environment. The Innovation Hub affords a means for innovators to enter into dialogue with the BMA to obtain guidance with respect to regulatory matters relevant to new insurance technologies.

European Union (EU) Code of Conduct

After June 2018, the EU Code of Conduct Group (COCG), began its discussion with Bermuda on addressing economic substance criterion 2.2. The economic substance requirements affected several sectors such as banking, insurance, and fund management. Investment funds formed part of the discussions with the EU resulting in changes to the Investment Funds Act (IFA). The BMA had identified this sector in its business plan and was prepared and positioned to address it, starting with a Discussion Paper, which was published in March 2018. The BMA has been working closely with Government, Attorney General's Chambers and industry stakeholders on this initiative. In December 2018, the Government produced a Bill, which was approved by the Legislature, to meet the requirements of the EU COCG.

FinTech (Supervision) and Cyber (Supervision) Department

In the first half of 2018, the BMA developed a legislative framework for digital assets. Although the Digital Asset Business Act (DABA) received assent from His Excellency, the Governor, in June 2018, the work of the Authority had just begun. In April 2018, the BMA began publishing the rules documentation for Cybersecurity, Client Disclosure and Prudential Standards (Annual Return). A digital asset Code of Practice was also published, outlining governance and risk management standards to be complied with to meet the minimum criteria for licensing. In September 2018, a strategic objective was met when the BMA began formalising the department with the addition of a FinTech Senior Advisor. The year ended with the BMA publishing a supplemental Code of Practice with emphasis on digital asset custody. Currently, the BMA is working in conjunction with service providers to develop blockchain forensic tools adapted to our mandate to protect the public and prevent money laundering and terrorist financing. It should be noted that the digital asset business regime also has a Sandbox and Innovation Hub similar to the insurance one.

In November 2018, the BMA met another strategic objective with the addition of the Cyber Risk Specialist role. This role is required to ensure that the BMA has a robust regulatory approach towards cybersecurity and technology risk in licensed entities. Appreciating the increasing complexity of cybersecurity, the BMA has enhanced both regulatory reporting requirements and on-site examinations in this area.

European Insurance and Occupational Pensions Authority (EIOPA)

The European Insurance and Occupational Pensions Authority (EIOPA) held a bilateral meeting in September 2018 to discuss topics of mutual interest. Regulation of respective insurance solvency regimes and developing the Insurance Capital Standard of the International Association of Insurance Supervisors were on the agenda and reviewed in detail. Regular supervisory-related discussions also occurred throughout the year, as part of the supervisory colleges hosted by the BMA of which EIOPA is a member. The BMA also hosted discussions with the EIOPA Oversight Team in July 2018, which were primarily centred on the BMA's insurance supervisory review process, with a specific focus on its supervisory approach, practices and tools implemented following the Full Solvency II equivalence that was granted in November 2015.

INTEGRA®

In late October 2018, the BMA launched INTEGRA®, an integrated portal configured for the specific purpose of collecting exchange control applications, as well as beneficial ownership information filings. This new system provides an innovative solution to the application process, replacing the Corporate Registration Processing (CRP) system.

A key element of meeting challenges today is not to lose sight of our role as a regulator and to keep our eye on the ball – which is not as easy as it sounds, given the pace, complexity and the ever-changing dynamics sweeping across all sectors, domestically and internationally. We have met the noted challenges, and we will continue to do so as we enter our 50th anniversary year, 2019.

Jeremy Cox, CEO
31 December 2018

2018 Business Plan Milestones Completed

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

- Completed preparations for Caribbean Financial Action Task Force's (CFATF) Mutual Evaluation Review (MER) of Bermuda's AML/ATF framework including:
  - Increased AML/ATF focused resources, including expanding the department and adding Deputy Director
  - Number of on-sites increased from 30 in 2017 to 69 in 2018
  - Continued improvements made to internal supervisory policies and procedures covering licensing and authorisation, entity level risk assessment, enforcement and ongoing monitoring
  - Legislative amendments more fully aligned national AML/ATF legislative framework with FATF recommendations covering: lending/financial guarantees/leasing; private trust companies; enforcement powers; beneficial ownership; and supervision of financial groups

Banking, Trust, Corporate Services & Investment

- Issued discussion paper proposing amendments to Investment Business, Investment Funds and Fund Administration regimes
- Issued discussion paper about regulation of financial holding companies
- Consulting on the update and issuance of guidance covering the outsourcing of critical functions by banks and other licensees

Insurance

- Enhanced Bermuda Solvency Capital Return (BSCR)
- Liquidation waterfall to grant preferential treatment to policyholders
- Created Regulatory Sandbox and Innovation Hub
- Launched BMA College Data Room

Other

- Created Digital Asset Business (DAB) regime, including:
  - Drafting of Digital Asset Business Act 2018
  - DAB Statement of Principles
  - AML/ATF Guidance Notes for DABs
  - DAB Code of Practice
  - DAB licence application Information Bulletin
- Replaced legacy Corporate Registration Portal (CRP) with INTEGRA®
- Re-engineered supervisory fees to align fees with the actual cost of supervision

Executive Team
(as at 31 December 2018)

Craig Swan
Managing Director, Supervision (Insurance)

Marcia Woolridge-Allwood
Senior Advisor – Banking, Trust, Corporate Services & Investment

George Pickering
Senior Advisor, Financial Stability

Jeremy Cox
CEO

Shanna Lespere
Chief Operating Officer

Shauna MacKenzie
Senior Advisor, Legal Services & Enforcement

Chairman's Report

January 2009 was an interesting time for me to join the Board of a financial services regulator. Major aftershocks from the financial crisis were beginning to ripple across the global economy. Satoshi Nakamoto mined the first bitcoin during the same week the US Congress confirmed Barack Obama as President-elect. We were living in interesting times.

Since joining the BMA's Board of Directors nine years ago, the international standard-setting community responded to the financial crisis by rolling out substantive new requirements designed to enhance financial stability.

Although Bermuda has always been isolated through its natural geography, in an increasingly interconnected world, Bermuda had no choice but to comply with these new requirements. As the island's only financial services regulator, the BMA was forced to play a leading role in responding to the new landscape. During the last decade, the BMA has, for example:

- Implemented Basel II and Basel III standards across Bermuda's banking sector
- Achieved qualified jurisdiction status from the National Association of Insurance Commissioners in the US
- Had its enhanced commercial insurance regime recognised as fully equivalent to Europe's Solvency II standards

The BMA's drive to align itself internationally has been vital to Bermuda's financial stability. As such, in 2018 the Board focused on its own Corporate Governance practices. The project looked at every aspect of how the Board conducted its business. From how it on-boarded and off-boarded Board members, to how Board meetings were structured, to the Board's relationships with both BMA executives and the Minister of Finance; no stone was left unturned. This critical initiative will continue under the Board's Corporate Governance & Ethics Committee and its Chair, Michael Leverock.

Other work conducted by the Board in 2018 included oversight of major initiatives led by the executive team, including keeping up to date with the Caribbean Financial Action Task Force's mutual evaluation review of Bermuda's AML/ATF regime, and the creation of Bermuda's first Digital Asset Business regime.

In terms of changes to the Board's composition, James Newsome and Francine Mason were valuable additions in 2018. Effective 31 December 2018, we said goodbye to Allan Marshall and Peter Hardy. I thank them for their service. Effective the 2018 year-end, I too stepped down after six years as Chair.

Reflecting back over my time at the BMA, I would say that one of the organisation's main characteristics is its commitment to operate at international standards and be recognised as a world-class regulator.

Serving on the Board of the BMA has been an honour and a real privilege. It has given me a unique perspective of financial services during a critical period in Bermuda's modern history. I continue to be impressed by and thankful for the dedication and support of the Board and the expertise and commitment of the staff of the Authority at all levels. I wish the BMA all the best in its future endeavours.

The Hon. Gerald Simons, OBE, Chairman
31 December 2018

Board of Directors

(as at 31 December 2018)

Pictured from the left:

Francine Mason

Partner, Rawlinson & Hunter

Peter Hardy, OBE

Group Corporate Secretary, Colonial Group (retired)

Robin Masters

Treasurer & Chief Investment Officer, ACE Limited (retired)

James Newsome

Founding Partner, Delta Strategy Group

The Hon. Gerald Simons, OBE

Chairman

Allan Marshall

Deputy Chairman

Jeremy Cox

CEO

Sharon Beesley

CEO, Beesmont Law Limited

Michael Leverock

President, Leverock Advisors & Associates

Tracy Tepper

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

Not pictured:

Karel Van Hulle

Professor at KU Leuven and Goethe University Frankfurt, Member of the IRSG of EIOPA and Member of the Public Interest Oversight Board

Walter Bell

Chairman, Swiss Re America Holdings Corporation (retired)

Board Committees 2018

(as at 31 December 2018)

Non-Executive Directors

Gerald Simons (CHAIRMAN)
Allan Marshall (DEPUTY CHAIRMAN)
Sharon Beesley
Walter Bell
Peter Hardy
Michael Leverock
Francine Mason
Robin Masters
James Newsome
Tracy Tepper
Karel Van Hulle

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

Audit & Risk Management

Tracy Tepper (CHAIR)
Michael Leverock
Allan Marshall

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

Investment

Allan Marshall (CHAIR)
Robin Masters
Jeremy Cox

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

Human Capital

Gerald Simons (CHAIR)
Walter Bell
Michael Leverock
Tracy Tepper

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

Corporate Governance & Ethics

Michael Leverock (CHAIR)
Peter Hardy
Gerald Simons
Jeremy Cox

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

Legislative & Policy

Sharon Beesley (CHAIR)
Peter Hardy
Robin Masters
Shauna MacKenzie

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

Hallmark

We are trusted for our integrity and our innovative, progressive approach to financial regulation and financial stability. That is our hallmark.

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

As indicated in the 2018 Business Plan, a significant milestone of 2018 was the work that was conducted by the Caribbean Financial Action Task Force (CFATF) to prepare for the fourth-round mutual evaluation review (MER) of Bermuda's AML/ATF framework. This was a major undertaking for all entities under the aegis of Bermuda's National Anti-Money Laundering Committee (NAMLC), but in particular for the BMA, given its key supervisory role in Bermuda. Throughout the year, significant resource was expended in preparing and providing subsequent updates to our written submissions as well as preparing the internal BMA team and a significant number of private sector companies for on-site interviews.

Throughout the MER process, the newly-expanded AML team continued to deliver its core tasks of risk-based, on-site supervision and support for ongoing legislative change and outreach. In direct response to early feedback on our legislative framework from the MER, support was also provided to effect the expeditious passage of a number of technical legislative updates. Finally, the AML team provided its support for the creation and initial implementation of the Digital Asset Business regulatory regime.

Legislative Amendments and Guidance Notes

Over the course of 2018, the Authority continued to work closely with NAMLC to strengthen the domicile's AML/ATF legislative framework. A number of legislative amendments were introduced to more fully align the national AML/ATF legislative framework with FATF recommendations. The amendments consisted of items related not only to self-identified gaps, but also from the initial assessment from our MER technical submissions. The major amendments addressed the following areas: lending/financial guarantees/leasing; private trust companies; enforcement powers; beneficial ownership; and supervision of financial groups.

The Authority published five key documents during 2018. These included the AML/ATF Sectoral Guidance Notes for Corporate Service Providers, revisions to the AML/ATF Sectoral Guidance Notes for Money Service Business, and the issuance of Sector-Specific Guidance Notes for Digital Asset Business. The Authority's "Enforcement Guide – Statement of Principles and Guidance on the Exercise of Enforcement Powers" provides a single, unified document on this important topic. Finally, a brief interpretive note, "Guidance Note for the Proceeds of Crime (AML/ATF Supervision and Enforcement) Act 2008", was published to provide appropriate guidance for recent changes to registration requirements for AML/ATF purposes.

Stakeholder Engagement

In addition to actively participating in NAMLC's legislative and policy, supervisory, and operational working group committees, the Authority increased its collaboration with other competent domestic authorities and agencies by continuing its quarterly meetings with the Financial Intelligence Agency (FIA), Bermuda Police Service and the AML/ATF supervisor for Bermuda's Barristers and Accountants. All required Memorandums of Understanding were

OUR VALUE PROPOSITION

Stability:
A stable environment in which financial services can flourish.

completed to ensure the free flow of information between appropriate parties. In addition, the Authority collaborated with the FIA and BPS on matters related to the introduction of Digital Asset Business to Bermuda.

During the second quarter, the BMA provided significant support to NAMLC to finalise the public "Assessment of Bermuda's National Money Laundering and Terrorist Financing Risk" and the "Bermuda National Anti-Money Laundering/Anti-Terrorist Financing Policy". These two documents provide the foundation for Bermuda's own understanding of the risks we face, and the key policy responses to those risks. The Authority then conducted significant industry outreach to communicate the National Risk Assessment, so that the private sector were also fully aware of the national picture to inform their ongoing review and tuning of their own AML/ATF programmes.

Banking, Trust, Corporate Services & Investment

Banking

During 2018, the Authority continued with enhancements to the Basel III framework, which was introduced for Bermuda banks in 2015 and updated in November 2017. Some of the new enhancements included the introduction of the Net Stable Funding Ratio (NSFR), a revised approach to Interest Rate Risk in the Banking Book (IRRBB) and revised Pillar 3 disclosure standards.

NSFR was implemented in January 2018 and was not subject to transitional arrangements, hence all banks were required to meet the 100% minimum by the first submission. The Pillar 3 requirement, also referred to as 'Market Discipline', is designed to complement the minimum capital requirements and supervisory review process by developing a set of public disclosure requirements. After a period of consultation with industry, the Authority issued revised Pillar 3 disclosure standards and related templates, which became effective on 30 June 2018.

The Authority's revised approach to IRRBB came into effect for the reporting period ended June 2018. The revision required banks to devise their own internal measurement systems gauging the level of interest rate risk on their balance sheet for both changes in the Economic Value of Equity (EVE) and Net Interest Income (NII). There was an expectation that banks would seek to develop a model that was proportionate to the size and complexity of their balance sheets. Banks were also required to comply with required Basel standards in relation to interest rate shocks and stress scenarios. Results from these measurements were reported to the Authority as part of their Capital Assessment and Risk Profile (CARP) submission.

The following represents some of the changes that took effect on 1 January 2018 as part of the five-year transitional arrangements noted in the framework:

- Capital Conservation Buffer (CCB) increased by 0.625% to 1.88%, which resulted in the minimum regulatory Common Equity Tier 1 (CET1) plus CCB capital adequacy ratio increasing to 6.38%
- Liquidity Coverage Ratio (LCR) increased to 90% from 80%

During 2018, banks reporting under International Financial Reporting Standards (IFRS) adopted IFRS 9, the new Financial Instruments accounting standard replacing IAS 39. IFRS 9 revises the methods by which institutions calculate credit losses and related provisions from the previous incurred loss methodology of IAS 39 to a more forward-looking expected credit loss methodology. As a means to avoid potential cliff effects on local banks' regulatory capital resources, the Authority issued transitional arrangements for the regulatory treatment of the new accounting provisions.

On 17 August 2018, the Banks and Deposit Companies Act 1999 was amended to introduce a new restricted banking licence class. During the year, the Authority responded to a number of requests for information about the new licence classification.

Trust and Corporate Service Providers (TCSP)

The Authority continued to participate in the Group of International Finance Centre Supervisors (GIFCS) TCSP working group, which focused on compliance with the Standard on the Regulation of Trust and Corporate Service Providers introduced in 2014. During the year, the TCSP working group focused on developing a framework for TCSP supervisory colleges and building on work completed in 2017. Two additional TCSP supervisory colleges were held in Bermuda in November 2018, resulting in additional amendments being recommended to improve the Supervisory College protocol document. The working group also developed a methodology that evaluated member jurisdictions' compliance with the Standards.

Investment

Following on from efforts noted in the Authority's 2017 Annual Report, the BMA issued a Discussion Paper (DP) on "Proposed Enhancements to Investment Business, Investment Funds and Fund Administration Regimes" in March 2018.

The DP initiated dialogue regarding potential legislative and regulatory changes to the BMA's investment regimes.

In July 2018, the BMA issued a Stakeholder Letter to industry. The letter responded to major issues raised from the DP and stated that the BMA would move forward with developing a standalone legislative framework for fund administrators. The BMA is preparing a Consultation Paper for 2019 release on this standalone regime for fund administrators.

Outsourcing

In November 2018, the Authority consulted on new outsourcing guidance. This guidance would apply to Relevant Licensed Entities (RLEs), defined as 'any Bank, Credit Union, Trust Company, Corporate Service Provider, Money Service Business, Investment Business or Fund Administrator licensed by the Bermuda Monetary Authority.' This guidance would also apply to the Bermuda Stock Exchange. It is proposed the new guidance will be introduced in 2020.

Insurance

Continued Implementation of Enhanced Commercial Regime

The Authority continued to monitor the robustness, risk-sensitivity, sophistication and comparability of Bermuda's capital requirements to ensure that these were in line with best practice of similar solvency regimes. As such, the Authority continued the restructuring process initiated in 2016, of certain aspects of its Bermuda Solvency Capital Requirement (BSCR) standard formula.

In March 2018, to incorporate market feedback and the results of the previous trial-run exercise using financial data as of 31 December 2016, the Authority released a revised version of the consultation document on the changes to the BSCR. In May 2018, the Authority conducted a final round of field-testing on the proposed changes using financial data as of 31 December 2017. Final discussions with industry associations were held, and overall the market accepted the proposed set of changes. The Authority published the new rules in July 2018, which entered into force in January 2019. In November 2018, the Authority released the associated final BSCR Models and Handbooks, effectively closing this regulatory initiative.

Insurance Brokers and Insurance Agents

Following the pre-consultation with industry bodies in 2017, the Authority issued a Consultation Paper in August 2018 to establish its regulatory regime for insurance brokers and agents. The Insurance (Prudential Standards) (Insurance Brokers and Agents Annual Return) Rules 2018 (Prudential Rules) were issued in 2018. An Insurance Brokers and Insurance Agents Code of Conduct was issued in early 2019. The Code establishes duties, requirements and standards to be complied with by registered insurance brokers and agents while the Prudential Rules prescribe the prudential standards and reporting requirements of insurance brokers and agents.

Policyholder Protection

Following industry consultation in 2017 and early 2018, legislative changes were made to the Insurance Act 1978 to ensure that policyholders' liabilities would receive preferential treatment in the event of liquidation or winding up of a Bermuda (re)insurer. The preferential treatment includes a priority in the payment of policyholders' claims.

Regulatory Insurtech Sandbox

The Authority recognises the growing importance of disruptive technological innovation in the (re)insurance and wider financial services industry and the critical role that innovation plays in promoting efficiency and enhancing competitiveness in the market. The Authority is committed to the viability of the Bermuda (re)insurance market and, given it is a recognised centre of excellence in the area of innovation, providing a regulatory environment that both appropriately protects policyholders, and promotes and is conducive to the use of technology.

In April 2018, the Authority issued a Consultation Paper outlining two parallel innovation tracks: an Insurance Regulatory Sandbox (Sandbox) and an Innovation Hub (Hub), both initially targeted at insurance technology (insurtech) companies. The Sandbox is open for companies that are looking to be subsequently licensed as insurance entities under Section 4 (Regular Insurers) or Section 10 (Insurance Intermediaries) of the Insurance Act 1978 (the Act). It will allow companies to test new technologies and offer innovative products, services, and delivery mechanisms to a limited number of policyholders (or other clients) in a controlled environment for a limited period of time. The Hub is open to other industry participants who desire to work closely with the Authority and receive regulatory guidance on standards and expectations related to innovative insurance solutions, including activities that are not directly regulated by the Authority.

A Guidance Note on the Insurance Regulatory Sandbox and Innovation Hub was issued in September 2018 following the receipt of industry comments. Concurrently, legislative amendments were made to the Act to facilitate the Authority's regulation and supervision of (re)insurers carrying business in an innovative or experimental manner in the Sandbox.

Special Purpose Insurers (SPIs)

The main focus on SPIs during 2018 was the revision of Guidance Notes issued in October 2009. The revised Guidance Notes were designed to address and clarify the Authority's expectations about market trends and practices that have evolved since the establishment of the SPI regime ten years ago. Following pre-consultation with the industry task force, the updated Guidance Note will be issued for public consultation in 2019. Work has begun on the publication of rules for SPI filing requirements and legislating the alternative capital schedule. These initiatives are to be put in place during 2019, taking full effect in 2020.

Technology Risk

In 2017, the Authority included questions in its 2017 year-end Commercial Insurer Capital and Solvency Return (CSR) filing designed to assess information security, cybersecurity and data privacy preparedness of (re)insurers. This information request was enhanced in the 2018 filing to include all financial services in Bermuda, which will allow broader market information and thematic assessments of the technology risk posture of licensed entities.

Cyber Underwriting

Recognising that the global cyber (re)insurance market is rapidly expanding, and this being a new line of business, the Authority also requested Bermuda Commercial Insurers to provide cyber underwriting data and estimated cyber aggregate exposures as part of their 2017 year-end CSR filing. The information requested through that data call included underwriting data for cyber policies and confirmations of cyber exclusion clauses per line of business.

BMA College Data Room

An online data room created to share supervisory college data in a protected environment became fully operational in 2018. The data room has become a virtual community that facilitates secure exchange information with other regulators and aligns the Authority with other reputable international regulators.

Holding Company Supervision

In an effort to remain in line with international regulatory standards, the Authority has developed a group-wide supervision framework for its insurance groups, which leverages its power over the local regulated company to indirectly influence the parent or head of the group. The Authority also performs consolidated supervision for its banking groups, including those which have operations in other jurisdictions. The Authority is of the view that it needs a more formalised approach to financial group supervision, including a more effective framework that allows for the consideration of financial holding companies, including licensing, regulation and supervision. To this end, the Authority issued a Discussion Paper on Regulation of Financial Holding Companies in May 2018 to elicit discussion about and receive feedback on the structure of a regime for the regulation of financial holding companies in Bermuda.

OUR VALUE PROPOSITION

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

The Authority held various discussions with industry groups regarding the proposed changes to the Segregated Account Companies (SAC) supervisory regime. A SAC data call was received in June 2018.

Thought-Leadership Publications

The Authority published various thought-leading reports in 2018, such as:

- BMA Insurance Digest on Group Supervision
- Cyber Report 2018
- Alternative Capital Report 2018
- Captive Report 2018
- “Feedback on the 2016 Financial Condition Report (FCR) Filings and Guidance to the Market for 2017 Year-end Filing”

Financial Stability

During 2018, the Authority’s work on financial stability developed under five areas. The first area, macroprudential surveillance, focused on monitoring developments in the various financial sectors under the BMA’s mandate, undertaking surveillance of Bermuda’s financial economy and real economy, and putting outcomes of these surveillance activities into the public domain. As such, the Authority continued to report about Bermuda’s banking sector (Quarterly Banking Digest), Insurance Linked Securities sector (Bermuda ILS Market Report) as well as contributing data and analysis to the BMA’s Regulatory Update. In addition, surveillance analysis was published in respect to catastrophe risks exposures (BMA Catastrophe Risk in Bermuda Report), portfolio investments of Bermuda’s financial sector (Bermuda Coordinated Portfolio Investment Survey Report), and the Bermuda International Insurance Sector (Macroprudential Risk – Annual Statutory Filings Report).

The second area focused on international engagement. The BMA continued with its active participation in the Financial Stability Board’s (FSB) Regional Consultative Group Americas (RGCA), and in the FSB RCGA Shadow Banking Working Group. As has been the case in previous years, comprehensive information on Bermuda’s shadow banking sector was contributed to, and published by, the FSB. Moreover, the BMA continued to be actively engaged in macroprudential work carried out by the International Association of Insurance Supervisors (IAIS), as Vice Chair of the Macroprudential Committee and as a Member of the Macroprudential Policy and Surveillance Working Group. In addition, during 2018, the BMA joined the OECD Insurance and Private Pensions Committee. Finally, the BMA continued its dialogue with credit-rating agencies in respect of sovereign and financial firms’ ratings developments.

A third area involved the continued development of Bermuda’s recovery and resolution framework. During 2018, the Authority finalised a comprehensive framework implementation plan and commenced work to roll it out. The implementation plan included working with the Banking Liaison Panel (BLP), a statutory body contemplated in the Banking (Special Resolution Regime) Act 2016. In addition, the Authority continued contributing to the IAIS Resolution Working Group. In this respect, BMA staff joined the expert group of IAIS drafters that developed the IAIS Application Paper on Resolution Planning.

The fourth area covered the Secretariat role provided by the Authority to the Financial Policy Council (FPC) and the Financial Stability Committee (FSC). The BMA arranged and coordinated all FPC and FSC meetings in 2018 and was responsible for the economic, financial, and risk monitoring papers discussed at FPC meetings.

Finally, the Financial Stability Department continued to act as the BMA's research resource, carrying out a variety of in-house research projects as well as representing Bermuda in domestic and international research initiatives. Examples of work carried out under this workstream include a study on lending practices in Bermuda, detailed Balance of Payments work for the IMF, and a comparative analysis of FinTech developments in selected advanced economies.

International Participation

The BMA continued its active engagement in international fora throughout the course of 2018. In addition, the BMA welcomed regulatory counterparts from overseas jurisdictions to the island for various meetings.

The BMA met with senior representatives of the National Association of Insurance Commissioners (NAIC) on 3 August 2018 in Boston, exchanging views on recent developments in the Innovation and Technology space and the work of the NAIC to update their Model Law and Regulation on Credit for Reinsurance.

The BMA engaged with the Chair of the European Insurance and Occupational Pensions Authority (EIOPA) and his wider team on 10 September by conference call; discussion topics included the Solvency II review process and amendments to the European regime regarding Powers, Governance and Funding of European Supervisory Authorities (ESAs) and related impacts on equivalence assessments of third countries.

In addition to the above, the BMA participated in the following regulatory meetings:

Banking:

- Group of International Finance Centre Supervisors (GIFCS) Plenary Meeting, London, 1-2 May
- World Bank Conference, Washington DC, 5-9 May
- Supervisory College Bank of England, London, England, 18 July
- Banking Supervisory College, Bermuda, 7-8 November
- GIFCS Plenary Meeting, Abu Dhabi, 27 November
- International Conference of Banking Supervisors (ICBS) Conference, Dubai, The United Arab Emirates, 28-29 November

TCSP:

- GIFCS Plenaries in London and Abu Dhabi in May and November respectively
- TCSP Regulatory Colleges, Bermuda, 5-6 November

Investment:

- Caribbean Group of Securities Regulators (CGSR) Annual Conference and Workshop, Nassau, The Bahamas, 23-25 May
- International Organization of Securities Commissions (IOSCO) Conference, Budapest, Hungary, 7-11 May

Gatekeeper

As a strong and pragmatic regulator, we protect, enhance and influence standards, encouraging a steady pace for growth and a global presence.

2 Legislative Developments

During 2018, the BMA assisted with the drafting of the following legislation:

- **Digital Asset Business Act 2018 (Act)** and the following related Rules: **Digital Asset (Prudential Standards) (Annual Return) Rules 2018; Digital Asset (Client Disclosure) Rules 2018 and Digital Asset (Cybersecurity) Rules 2018**
  - The Act received assent on 25 June 2018 and the relevant Rules have been approved
  - The Act made consequential amendments to the following legislation:
    - The Bermuda Monetary Authority Act 1969 by adding such licensees to the Third Schedule and making provision for fees under the Fourth Schedule
    - The Anti-Terrorism (Financial and Other Measures) Act 2004, Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing Supervision and Enforcement) Act 2008, Proceeds of Crime Act 1997, Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing) Regulations 2008 by inserting provisions to ensure such licensees are captured for the purposes of supervision under relevant AML/ATF laws in Bermuda
- **Insurance Amendment Act 2018**, which makes provision for the new "Insurtech Regime." The regime was introduced to require the registration of "innovative insurers" (via two new insurer classes: long-term or general business innovative insurers) to be registered carry on "innovative insurance business" and the registration of "innovative intermediaries" (i.e., such persons proposing to carry on insurance agent/broker/manager business in an innovative manner)
  - Consequential amendments were also proposed to the Fourth Schedule to the Bermuda Monetary Authority Act 1969 to make provision for application, annual, licensing and modification fees; and the Insurance Accounts Regulations 1980 and Insurance Returns and Solvency Regulations 1980 to impose statutory filings and additional technical requirements deemed appropriate by the Authority in order to effectively and proactively administer the new regime
- **Insurance Amendment (No.2) Act 2018**: proposed the introduction of a legislative framework to address protection of policyholders during the winding up of an insurer. This amendment was adopted and imposed on those insurers carrying on long-term business upon assent and as of 1 January 2019 on composite (or dual registrants) and general business insurers
- **Insurance Amendment (No. 3) Act 1978** to align certain requirements in relation to new fees to be introduced under the Bermuda Monetary Authority Act 1969 and to make provision for technical rules to be introduced in relation to brokers and agents (passed 31 December 2018)
- **Investment Funds Amendment Act 2018**: Amendments were made and came into force at the end of 2018 to allow for a Class A Exempt Fund under section 6A of the Investment Funds Act 2006, to seek an exemption from the appointment of a custodian or prime broker if certain criteria prescribed by the Authority were met by such Fund

OUR VALUE PROPOSITION

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

- An amendment to the **Fourth Schedule to the Bermuda Monetary Authority Act 1969** to amend existing fees and introduce new fee obligations (passed on 31 December 2018)
- **Regulations** for a new coin to be introduced in 2019 to commemorate the 50th Anniversary of the operations of the Authority, and a five-year commemorative coin "flower series" to commence in 2019 and end in 2025 (both operational as of 6 November 2018)
- New prudential rules, which were introduced in December 2018, to make provision for annual reporting by agents and brokers pursuant to an **Insurance (Prudential Standards) (Agents and Brokers Annual Return) Rules 2019** in relation to *inter alia*; corporate governance, cyber security and Anti-Money Laundering and Anti-Terrorist Financing
- An amendment made in December 2018 to the **Insurance (Prudential Standards) (Insurance Managers Annual Return) Rules 2017**, to introduce additional annual reporting requirements to be made by insurance managers regarding cyber security and Anti-Money Laundering and Anti-Terrorist Financing

OUR VALUE PROPOSITION

Value for money:
Efficient and effective supervision at a reasonable cost proportionate to risk.

Focusing on our strength

As we transition into our 50th year, our focus remains on the strengthening of our performance, relationships and operations. Our value lies in our reputation as an international finance centre with an outstanding regulatory framework that aligns with the evolving standards to combat threats to the integrity of the international financial system.

Banking Supervision

Asset Quality

2018 saw the industry's non-performing loans (NPLs) fall around 7% to a year-end total of approximately $652 million, representing 9% of gross loans. Banks have also continued to maintain a risk averse strategy towards credit expansion, as evidenced in the 7% decline in gross loan balances for the year.

Balance Sheet

On a consolidated basis, total industry assets decreased 5%, or approximately $1.15 billion, for a 2018 year-end total of $20.6 billion. Driving this change were gross loans, investments, and other assets, which registered declines of 5%, 10% and 1%, which were partially offset by an 11% increase in cash and deposits.

In terms of balance sheet structure, investments retained the largest share of total assets at 43% (unchanged from 2017), followed by loans at 37% (39% in 2017), with the remaining comprised of cash and deposits at 18% (15% in 2017) and other assets at 2% (3% in 2017).

Deposit liabilities fell approximately $1.1 billion, or 6%, between the 2017 and 2018 year-ends for a final total of $18 billion ($19.2 billion in 2017). Demand deposits recorded a $0.9 billion, or 10%, decline in 2018 followed by a $0.6 billion, or 9%, fall in savings deposits. Time deposits recorded a $0.4 billion, or 13%, growth in 2018.

As at the end of 2018, the largest component of deposit liabilities was demand deposits at 49% (51% in 2017), followed by savings deposits at 33% (34% in 2017) and time deposits at 16% (15% in 2017).

Other liabilities of $527 million represents a $108 million, or 17%, decline for the year.

Earnings and Profitability

2018 total income for the sector of $889 million represents a $45 million, or 5%, increase from 2017's year-end results. Over the same 12-month period, non-interest operating expenses registered a $26 million, or 5%, increase for a total 2018 year-end figure of $546 million. Staffing related expenses comprised 54% of the total amount.

Net-interest income (NII) continues to be the largest component of the sector's income streams with a 2018 NII of $606 million comprising 68% (65% in 2017) of total income for the year. This is followed by banking income at 17% (20% in 2017), non-banking income at 15% (14% in 2017) and dividends/other income accounting for less than 1% (1% in 2017).

Because of these movements, 2018 saw the sector's overall profitability improve by $23 million, or 7%, to $345 million compared to the 2017 results.

Capital Adequacy

Capital adequacy in the Bermuda banking sector, as measured by the risk asset ratio (RAR), consistently exceeded minimum requirements as prescribed by the Authority on an annual basis. RAR for the sector was 24.1% at the end of the year compared to 21% at the end of 2018. The aggregated common equity tier 1 (CET 1) capital ratio was 22.6% (19.9% in 2017), which exceeds the current minimum requirements. For the Basel III leverage ratio, the industry aggregate was 8.9% versus the 5% minimum standard.

Risk-weighted assets for the 2018 year-end of $8.3 billion represented a $0.5 billion, or 6%, decline.

Credit Union Supervision

The Bermuda Credit Union is currently the sole credit union in Bermuda. The Authority continued its ongoing supervision of this entity throughout 2018 in accordance with the provision of the Credit Union Act 2010.

Bermuda Stock Exchange (BSX)

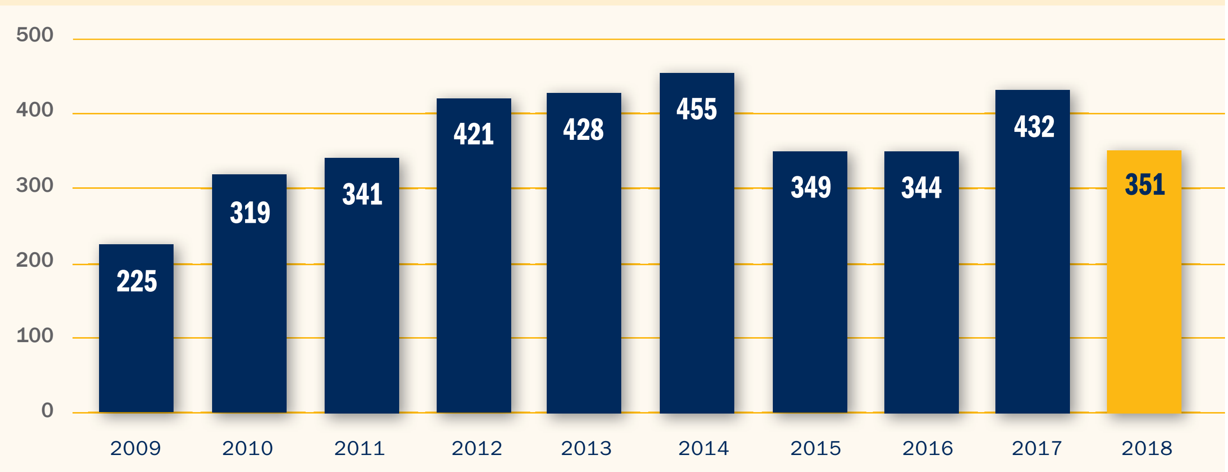
The BSX ended the year with a total market capitalisation of $351 billion, of which approximately $2.4 billion represented the domestic market. Total trading volume for 2018 was 3.9 million shares with a corresponding share value of $49.7 million, compared to 3.8 million shares and a corresponding value of $40.1 million for 2017.

The RG/BSX Index closed the year at 1,958.99 for a decrease of 11.0% when compared to 2017. At year-end there were a total of 988 listed securities compared to 867 in 2017.

2018 saw continued growth in Insurance Linked Securities (ILS) listings, with 125 new listings with a combined nominal value of $11.2 billion. This represented growth of 20% in terms of the number of new securities listed in the year and a 3% decline in nominal value. At year-end, the total number of ILS securities listed stood at 302 with a total nominal value of $30.9 billion. International debt listing activity grew to 201 securities in 2018, up 20% from 168* the previous year with nominal value growing from $4.6 billion in 2017 to $7.0 billion in 2018. De-listings in the year followed a normal pattern and were mainly comprised of time-listed securities, which matured as part of the normal course of business.

** restated by BSX*

BERMUDA STOCK EXCHANGE – MARKET CAPITALISATION (US$ BILLIONS)



Insurance Supervision

Overview – Market Results

The Authority's reputation as a leading risk-based regulator continues to positively influence companies when electing their jurisdiction of choice, with one new (re)insurance group registering in 2018. The Authority acts as group supervisor when the primary operations of a (re)insurance group structure are controlled and managed from Bermuda. A total of 79 new insurance entities registered in 2018: 75 new (re)insurers and four new intermediaries. Special Purpose Insurers (SPIs) comprised around 38% (28 companies) of the new (re)insurers. General business captives accounted for a further 24% of the new (re)insurers (18 new Class 1, Class 2 and Class 3 firms). The long-term (life) sector also recorded six new Class E companies.

Group Supervision

A range of supervisory activities in relation to insurance groups took place during 2018. The Authority conducted 11 group on-site reviews and 19 supervisory colleges covering groups for which the Authority is group supervisor. In addition, the Authority was host supervisor for a further 27 colleges. During the colleges, the Authority presented and received detailed analyses, and coordinated supervisory plans with overseas regulators for insurance groups with Bermuda-related operations. Work continued to establish Memoranda of Understanding (MOUs) with relevant jurisdictions in relation to group supervisory colleges.

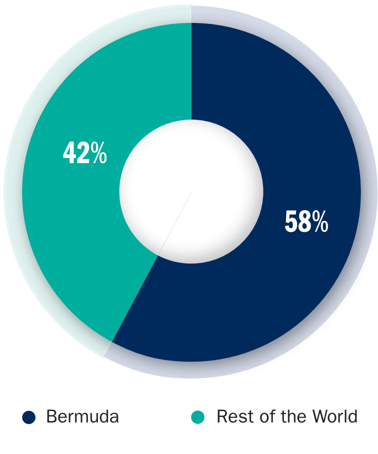
Alternative Capital in Bermuda

Alternative capital has continued its steady growth within the global reinsurance market. As at 31 December 2017, industry estimates placed alternative capital at approximately $89 billion, or about 15%, of overall global reinsurance capital ($81 billion, or 14%, of global reinsurance capital in 2016).

Bermuda (re)insurers maintained a significant share in the global alternative capital business during 2017, reinforcing Bermuda's leadership position in this sector. For the period ended 31 December 2017, Bermuda's share of total capacity was $51.9 billion, or approximately 58%, of the global alternative capital market.

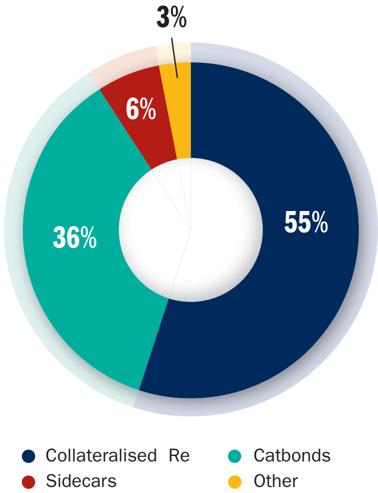
While alternative capital arrangements were used in a number of ways, two structures dominated the Bermuda market place as at 31 December 2017: catastrophe bonds (or cat bonds) and collateralised reinsurance with $18.9 billion (36%) and $28.5 billion (55%) of capacity, respectively.

BERMUDA ALTERNATIVE CAPITAL BUSINESS VS GLOBAL ALTERNATIVE CAPITAL BUSINESS



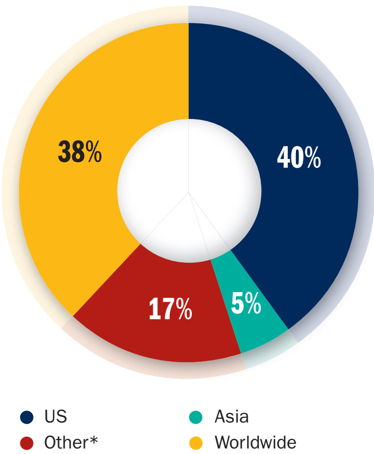
Source: BMA staff calculations and industry reports

BREAKDOWN OF BERMUDA ALTERNATIVE CAPITAL MARKET



Statistics are quoted from Alternative Capital Schedules and Statutory Financial Returns, which were submitted to the BMA by 30 June 2018.

BREAKDOWN OF REGIONAL COVER BY PERCENTAGE OF EXPOSURE



* Other includes multiple regions including the UK and Europe

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

The Authority is responsible for supervising more than 1,300 licensed or registered entities for AML/ATF purposes. The Authority continued in 2018 to refine its financial sector risk assessment framework and further develop its risk-based approach to supervision to include:

- Prioritised supervision of the Corporate Service Provider and Insurance Manager sectors, both of which are relatively new to the AML regime
- Continuation of supervision of the firms representing the highest AML/ATF risk across each sector
- Enhancements to the risk-based methodology using data and analysis gathered during on-site and off-site examinations

The output from Bermuda's national risk assessments and the Authority's risk assessment processes informed the supervisory focus on the banking, corporate service provider and long-term direct (life) insurance sectors.

The Authority conducted 69 supervisory on-site examinations at regulated financial institutions across all financial sectors. The Authority conducted nine on-site examinations for banks and one for the credit union. The Authority also introduced close and continuous supervision by establishing regular supervisory meetings with the banking sector, and held meetings with other industry groups during 2018.

Corporate Service Providers was an area of particular focus for the Authority, with 32 on-sites conducted for this sector.

The Authority conducted 12 on-site examinations in the insurance sector, with four for insurance managers, and eight long-term direct insurers, determined by prior on-site exams. In addition, 58 off-site reviews were performed for insurance managers.

In the securities sector, on-site examinations were conducted at eight fund administrators and four investment businesses.

In the trust sector, two on-site examinations were conducted. One on-site was conducted with additional quarterly desk-based reviews carried out for the money service business sector.

Additionally, the Authority reviewed eight applications for licensing and authorisation purposes.

CFATF Fourth Round Mutual Evaluation Review

2018 was a landmark year for the jurisdiction from the AML/ATF perspective, as Bermuda underwent its CFATF fourth round Mutual Evaluation Review (MER). The Authority worked closely with the National Anti-Money Laundering Committee (NAMLC) throughout the year to achieve all required deliverables and milestones for the MER and a number of supporting documents that are key to Bermuda's AML/ATF framework.

The MER process itself required four primary deliverables during 2018. These were:

1. NAMLC's written submission describing Bermuda's Technical Compliance to the FATF's 40 recommendations – provided in March and then subsequently reviewed and updated twice during the course of the summer following feedback from the Assessors
2. NAMLC's written submission describing Bermuda's work to achieve and demonstrate effectiveness against the 11 Immediate Outcomes outlined in the FATF methodology – provided in May and subsequently followed-up with detailed responses to queries from the Assessors in early third quarter
3. A two-week on-site visit by the Assessors from 24 September to 5 October, during which interviews were conducted with the BMA, other public sector agencies and a significant number of private sector companies
4. The review of the first draft of the MER report, which was received on 16 November and responded to four weeks later

The time and effort expended by the Authority to support the MER process was substantial, with many members of the team going above and beyond in order to provide the significant amounts of data, drafting, revisions and responses to follow-up questions to support our submissions. In addition, the important and timely work undertaken in the Authority to respond to initial feedback on our technical compliance, in the form of legislative amendments through early 2018, was noteworthy and very valuable to Bermuda's overall positioning for the MER.

Enforcement Activity

The Authority continued to be active in the enforcement of regulatory obligations in 2018.

The revised and consolidated 'Statement of Principles and Guidance on the Exercise of Enforcement Powers' was posted on the Authority's website and is now being applied. This explains when and in what circumstances the Authority will consider taking enforcement action, and describes how enforcement action is taken within the Authority.

OUR VALUE PROPOSITION

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

In 2018, the Authority cancelled the insurance brokerage registration of Intrepidus Insurance Services (Bermuda) Limited (the Company) pursuant to the provisions of sections 42(1)(b)(i), (v),and (ix) of the Insurance Act 1978 (the Act).

The Authority was satisfied that the Company:

- Provided false, misleading or inaccurate information for the purposes of the Act
- Had not complied with a requirement made of it under this Act
- Had not fulfilled the Minimum Criteria

The Authority took this action to safeguard the interests of former, current and potential clients of the Company. It viewed the above breaches as serious because of their nature and extent, and because they demonstrated systemic weaknesses of the Company's internal controls in all regards.

The breaches outlined above became known after the Authority received a complaint about the Company's business practices and conduct. Based upon the findings of its investigation, the Authority no longer had confidence in the Company's ability to manage its affairs to the benefit of its clients or satisfy the Minimum Criteria as detailed in Schedule 1 of the Act. The cancellation of the Company's registration highlights the importance of the Authority's role in protecting the reputation of the jurisdiction and protecting the interests of clients of the Authority's regulated entities.

Also in 2018, the Chief Enforcement Officer was appointed Vice Chair of the International Association of Insurance Supervisors' (IAIS) Financial Crime Task Force. The IAIS is a global standard-setting body that promotes effective and globally consistent supervision of the insurance industry. Its Financial Crime Task Force is comprised of representatives with experience in policy and/or supervisory measures to combat financial crime from the likes of the US, Brazil, Canada, France, Germany, Switzerland and Singapore.

Members of the Enforcement Department contributed to preparations for the CFATF assessment, including drafting, consultation with NAMLC and the Ministry of Finance, and the provision of statistics and providing critical content to ensure that the jurisdiction demonstrated sound technical compliance and effectiveness.

Throughout 2018, 'policing the perimeter' has become increasingly important to protect the reputation of the Authority. During the course of the year, the Enforcement Department was successful in preventing unauthorised activity and removing misleading content from the web.

SUMMARY OF SUPERVISORY ACTIVITY ACROSS SECTORS FOR 2018

Sector	Focus of supervisory activity	Supervisory activity
All sectors: Anti-Money Laundering/ Anti-Terrorist Financing (AML/ATF)	• Risk-based approach to AML/ATF supervision underpinned by the output of the National Risk Assessment • Compliance of AML/ATF regulated entities assessed under the AML legislation • Regular supervisory meetings including with the banking sector, other financial sectors and industry groups • Ongoing remediation programmes across a number of regulated financial institutions	Examinations guided by the risk-based approach included: • 69 on-site examinations: o Nine for Banks o Eight for Fund Administrators o Four for Insurance Managers o Four for Investment Businesses o Eight for Long-Term Insurers

Sector	Focus of supervisory activity	Supervisory activity
All sectors: Anti-Money Laundering/ Anti-Terrorist Financing (AML/ATF)	• Met with regulated entities regarding the results of the Sectoral Risk Assessment in February and for the NRA in May • Further developed Risk Based Modelling for AML/ATF Supervision • Commenced the supervisory regime for the activities of lending/leasing/financial guarantees and excepted private trust companies • Delivery of the Year One components of the three-year strategic plan 2017-2020	o One for Money Service Businesses o Two for Trust companies o 32 for Corporate Service Providers o One for Credit Unions • 58 off-site reviews included: o 58 for Insurance Managers • Ongoing remediation of regulated entities
Banking	• Pillar II supervisory reviews of all licensed banks based on their submission of Capital Assessment and Risk Profile reports • On-site reviews of full banking group operations on a rotational basis	• Two on-site reviews • One college as group supervisor
Credit Union	• Off-site review assessing compliance with the requirements of the legislation	• Ongoing
Corporate Service Provider Business	• Reviewing all licensing applications for compliance with the Corporate Service Provider Business Act 2012, Code of Practice and Corporate Governance Policy	• 18 on-site reviews • One thematic review
Insurance	• Commercial: on-site inspections focused on risk management, corporate governance and capital adequacy • Captive: supervision continued	• 11 group on-sites • 22 solo on-sites • Two Insurance Managers on-sites • 22 supervisory colleges as group supervisor • 20 colleges as host supervisor
Investment Business	• On-site inspections focused on corporate governance, enterprise risk, and compliance with the Investment Business Act 2003, General Business Conduct and Practice – Code of Conduct, and Advertising Code of Conduct • Assessing the ongoing financial viability of the firms	• 19 on-site reviews • One thematic review
Money Service Business	• Off-site review assessing compliance with the requirements of the legislation	• Ongoing
Stock Exchange	• Stock Exchanges are financial institutions within the meaning of the Bermuda Monetary Act 1969 and are subject to supervision, regulation and inspection	• One Prudential Meeting
Trust	• On-site inspections focused on corporate governance, enterprise risk and compliance with the Trusts (Regulation of Trust Business) Act 2001 and the Code of Practice	• 10 on-site reviews • One Thematic review • Two colleges as host and chair supervisor

FORMAL USE OF POWERS IN 2018

Banking and Deposit Companies Act 1999

Section	Provision	Use in 2018
35	To vet licensed institutions who give written notice to the Authority when a person becomes a director or senior executive	41 notifications received; Authority conducted the appropriate vetting
25	Notification of new or increased control	Zero notifications received
42	Investigation	One Notice issued

Trusts (Regulation of Trust Business) Act 2001

Section	Provision	Use in 2018
24	Notification of new or increased control	Zero notifications received
34	Notification of change of controller or officer	16 notifications received; Authority conducted the appropriate vetting
28A and 33B	Warning & Decision	One issued

Investment Business Act 2003

Section	Provision	Use in 2018
28	Notification of new or increased control	Three notifications received; no objections provided
43	Notification of change of controller or officer	45 notifications received; Authority conducted the appropriate vetting
52A (1) and 52B(1)	Warning	One issued

Investment Funds Act 2006 – Fund Administrators

Section	Provision	Use in 2018
45A	Notification of new or increased control	Seven notifications received; no objections provided
46	Notification of change of director, senior executive and controller	20 notifications received; Authority conducted the appropriate vetting

Corporate Service Provider Business Act 2012

Section	Provision	Use in 2018
22	Notification of new or increased control	Six notifications received; no objection provided
45	Notification of change of director, senior executive and controller	40 notifications received; Authority conducted the appropriate vetting

Licensing

The Authority reviewed 137 applications in 2018, 94 insurance related, 40 BTCSI related and three Digital Asset Business related.

Insurance applications

Of the 94 insurance-related applications, 89 were approved; three were deferred and two were declined. Of the successful applications, 40 were for general business insurers ranging from Class 1 to Class 4, 17 were for Long-Term (life) Insurers ranging from Class A to Class E, and 28 were for Special Purpose Insurers (SPIs). The remaining four insurance-related approvals were for insurance intermediaries, inclusive of brokers and agents.

Banking, trust and investment applications

Of the 40 BTCSI-related applications, 38 were approved and two were declined. Among the successful applications there were: 33 limited Corporate Service Providers, one Money Service Business, one Fund Administrator and three Investment Business applications. Two CSP applications were declined.

Digital Asset Business (DAB) applications

During 2018, the BMA reviewed three DAB licence applications and three were deferred.

Summary – Approved Applications

Class 1	9
Class 2	6
Class 3	3
Class 3A	16
Class 3B	2
Class 4	4
Class B	1
Class C	8
Class E	8
Special Purpose Insurer	28
Insurance Broker	3
Insurance Agent	1
Limited CSP Business	33
Money Service Business	1
Investment Business	3
Fund Administrator	1
Total	**127**

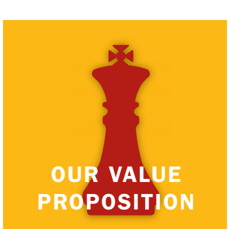
SUMMARY OF BTCSI-RELATED LICENCEE STATUS (AS AT YEAR-END 2018)

Sector	Licensing Activity	
Banking	Total licencees at end of the year:	Four (no change from 2017)
Trust	Total licencees at end of the year:	27 (28 in 2017)
	Licences surrendered:	One (One in 2017)
	New licences issued:	Zero (One in 2017)
	New Private Trust Companies:	11 (20 in 2017)
Investment Business	Total licencees at end of the year:	55 (52 in 2017)
	Licences surrendered:	Zero (Three in 2017)
	New licences issued:	Three (One in 2017)
	Declined Licence:	Zero (One in 2017)
Investment Funds	New authorised funds:	Ten (14 in 2017)
	New exempt A funds:	Ten (25 in 2017)
	New exempt B funds:	Four (13 in 2017)
	Total number of funds:	513 (543 in 2017)
Fund Administration	Total licencees at end of the year:	28 (29 in 2017)
	Licences surrendered:	Two (One in 2017)
	New licences issued:	One (One in 2017)
Corporate Service Provider Business	Total licencees at end of the year:	92 (62 in 2017)
	Licences surrendered:	Three (Zero in 2017)
	New limited licences issued:	33 (62 in 2017)
	New unlimited licences issued:	Zero (Zero in 2017)
	Declined Licence:	Two (Zero in 2017)
Credit Union	Total at end of the year:	One (no change from 2017)
Money Service Business	Total licencees at end of the year:	Three (Two in 2017)
	New licences issued:	One (Zero in 2017)
Stock Exchanges	Total at end of the year:	One (no change from 2017)

COMPANIES, PARTNERSHIPS AND PERMITS STATISTICS – APPLICATIONS APPROVED

	Q3-17	Q4-17	Q1-18	Q2-18	Q3-18	Q4-18
Companies*	204	228	193	208	213	131
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	18	39	30	76	24	87
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	0	0	0	0	0	1
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	2	16	2	20	2	8
Total Applications Approved	**224**	**283**	**225**	**304**	**239**	**227**

*Companies' include – Continuations into Bermuda, Exempted, Exempted Limited by Guarantee, Local (including 60/40), Local Limited by Guarantee and LLCs.



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

Thought leadership

Thought leadership and advocacy are the principles by which we work in synergy with international standard-setting bodies.

The Authority's multi-year Information Technology (IT) Strategy – Vision 20/20 – aligns with the organisation's mission to "provide effective and efficient supervision and regulation".

Vision 20/20's overarching objective is to unite the three key domains of *people*, *processes* and *technology* to effectively facilitate and support operational efficiency and operative data governance. In 2018, the following major milestones were accomplished:

Launch of INTEGRA®

Harnessing technology to make financial supervision more efficient and effective, the Authority successfully launched INTEGRA® in 2018. The first of several milestones on the roadmap to implementing an improved regulatory system, INTEGRA® will strengthen the Authority's entire supervisory lifecycle with effective data collection, data quality controls, reporting and analysis. The first phase of INTEGRA® refined the Beneficial Ownership Registry to meet international law enforcement agency requirements. The next phase of this project is already in progress.

Replacing Legacy Systems

Because of launching INTEGRA® , the Authority was successful in rationalising its Corporate Registration Processing (CRP) system in 2018.

New BMA Website

In order to improve the Authority's web presence, much of 2018 was spent managing the project to redevelop the Authority's website. The new website's design and functionality will greatly enhance the end-user experience and is mobile device friendly. The new www.bma.bm is scheduled to launch in April 2019.

Infrastructure Enhancements

In 2018, the Authority completed a number of technology initiatives to augment its infrastructure. Highlights of work conducted in 2018 include:

- Enhancement to end-user computing
- Network infrastructure improvements
- Continued data security infrastructure improvements

Leadership Development and Mentoring

The Authority continued its focus on its leadership development and mentoring programmes in 2018. During the year, a number of the Authority's managers participated in a recently launched management programme.

In addition to the comprehensive suite of pre-existing, leadership training offerings, the newest addition was a six-month intensive programme designed to support the ongoing development of middle and senior managers in the areas of coaching, performance management and leadership effectiveness. To date, 21 managers from across the organisation have completed the programme.

In order to facilitate improved succession planning efforts, enhanced industry-specific coaching and mentoring programmes were also introduced to support the ongoing development of the Authority's technical supervisory staff. Given today's rapid pace of technological progress, staff from the Authority require increased technical competencies like never before.

Given the success of these initiatives, the programmes will continue as a core developmental opportunity to support supervisory staff members.

Project Management Office (PMO)

The primary purpose of the Authority's PMO is to ensure that projects and programmes within the Authority are run in a standardised way. With so many business changes occurring within the organisation, it was important that this change was managed in a controlled way. The PMO helps to accomplish this goal by supporting the BMA's many project teams and working groups, as well as assisting with the decision-making process associated with project funding, resource utilisation and prioritisation.

The PMO concluded a number of highly-visible projects during 2018, including:

- INTEGRA® Beneficial Ownership implementation
- CFATF assessment preparations
- EIOPA touch-base preparations

With 2019 shaping up to be another busy year for the Authority, the PMO team stand ready to execute and deliver projects and initiatives that support the organisation's Strategic Objectives with more certainty to ensure they achieve their expected outcomes.

BMA MANAGEMENT TEAM (AS AT 31 DECEMBER 2018)	
Jeremy Cox	Chief Executive Officer
Supervision	
Craig Swan	Managing Director, Supervision (Insurance)
Marcia Woolridge-Allwood	Senior Advisor, Banking, Trust, Corporate Services & Investment
Moad Fahmi	Senior Advisor, Supervision (Financial Technology)
Ricardo Garcia	Chief Actuary
Laila Burke	Deputy Director, Insurance
Eric Donkoh	Deputy Director, Insurance
Duncan Evans	Deputy Director, Banking, Trust, Corporate Services & Investment
Gerald Gakundi	Deputy Director, Insurance
Gary Thomas	Deputy Director, Actuarial Services, Long-Term
Tamara Anfossi	Assistant Director, Trust & Corporate Service Providers
Timae Flood	Assistant Director, Insurance
Shaka James	Assistant Director, Banking, Trust, Corporate Services & Investment
Ralf Kuerzdoerfer	Assistant Director, Insurance
Graham Lamb	Assistant Director, Insurance
Matias Leppisaari	Market Risk Expert
Martin Maringi	Assistant Director, Insurance
Richard May	Actuarial Advisor, Actuarial Services
Georgina Mkoba	Assistant Director, Insurance

Moses Muoki	Assistant Director, Insurance
George Petropoulos	Assistant Director, Actuarial Services, Property & Casualty
Jeferino dos Santos	Assistant Director, Actuarial Services, Property & Casualty
Gina Smith	Assistant Director, Actuarial Services, Property & Casualty
Keyon Swaby	Assistant Director, On-Site, Banking, Trust, Corporate Services & Investment
Kofi Takyi	Assistant Director, Insurance
Donald Treanor	Assistant Director, Actuarial Services, Property & Casualty

Financial Stability & Anti-Money Laundering

George Pickering	Senior Advisor, Financial Stability
Chris Brown	Deputy Director, AML
Marcelo Ramella	Deputy Director, Financial Stability
Bruce Law	Assistant Director, AML
Leo Mucheriwa	Assistant Director, Financial Stability

Licensing & Authorisations

Melissa Burgess	Assistant Director, Authorisations
Sharon Suess	Acting Assistant Director, Corporate Authorisations

Policy, Legal & Enforcement

Shauna MacKenzie	Senior Advisor
Garrett Byrne	Chief Enforcement Officer
Yvette Pierre	Deputy Director, Policy
Dina Wilson	Deputy Director, Legal Services
Kevin Anderson	Assistant Director, Policy
Ifor Hughes	Assistant Director, Policy
Natalie Stevenson	Assistant Director, International Affairs

Operations

Shanna Lespere	Chief Operating Officer
Mesheiah Crockwell	Director of Human Resources
Sheridan Smith	Director, Management Services/Information Technology
Marianne Suschak-Matvey	Deputy Director, Communications
Terry Pitcher	Deputy Director, Head of Finance & Currency Operations
Michael Albouy	Assistant Director, Project Management Office
Elizabeth Amyoony	Assistant Director, Human Resources
Michael Bean	HR Manager
Julie Dill	Assistant Director, Human Resources
Adrian Mendoza	Financial Controller
Stuart Roberts	Assistant Director, Communications

Organisational Development

Verna Hollis-Smith	Assistant Director

Statistics

Financial Highlights 2018

The Authority's net deficit amounted to $1.76 million in 2018, up from $1.63 million net deficit in the previous year. Total revenue increased by 1.79% year-on-year to $48.62 million, up from $47.76 million. The increase is mainly due to a $2.12 million increase in revenue from contracts with licensees and customers due to increased revenue from supervisory and licensing fees. The increase in revenues from investments is due to increased Federal Reserve Bank of New York interest rates. The Authority's held-to-maturity portfolio of investments remained at a very high quality with all securities maintaining a rating of AA+ or better.

Expenses increased by 2.0% to $50.38 million, up from $49.39 million in the prior year. The increase is mainly due to $2.26 million of increased salaries and employee benefits and marginal increases in general expenses and amortisation of intangible assets. These were offset by decreases in all other expense categories and releases of provisions for impairment of financial assets.

As at 31 December 2018, the organisation's headcount increased from 187 to 196 year-over-year. This planned increase was necessary to support the broadening scope of the Authority's supervisory mandate. In the coming year, headcount is expected to further increase to support additional supervisory and operational needs. The resourcing focus for the coming year will be on the continued development of staff's technical proficiency and ensuring adequate resources and support for key regulatory and supervisory initiatives.

Currency

CURRENCY NOTES ISSUED AND REDEEMED (BERMUDA DOLLAR)

	Notes Issued				Notes Issued &	Net Issues During Month	
Month	New	Reissued	Total	Notes Redeemed	O/S at End of Month	Change	% Change
January	305,117	3,940,000	4,245,117	9,289,000	118,944,072	(5,043,883)	-4.07%
February	460	5,710,000	5,710,460	5,095,195	119,559,337	615,265	0.52%
March	157	3,340,000	3,340,157	3,192,460	119,707,034	147,697	0.12%
April	7,160	5,280,000	5,287,160	4,867,380	120,126,814	419,780	0.35%
May	7,234	6,815,000	6,822,234	5,360,000	121,589,048	1,462,234	1.22%
June	224	4,530,000	4,530,224	3,480,990	122,638,282	1,049,234	0.86%
July	1,566,443	12,290,000	13,856,443	5,587,995	130,906,730	8,268,448	6.74%
August	335	800,000	800,335	9,564,000	122,143,065	(8,763,665)	-6.69%
September	508,162	6,095,000	6,603,162	6,890,000	121,856,227	(286,838)	-0.23%
October	896,146	3,400,000	4,296,146	6,800,000	119,352,373	(2,503,854)	-2.05%
November	1,447,515	3,520,000	4,967,515	5,322,970	118,996,918	(355,455)	-0.30%
December	860,217	8,700,000	9,560,217	3,703,270	124,853,865	5,856,947	4.92%
Year							
2018	5,599,170	64,420,000	70,019,170	69,153,260	124,853,865	865,910	0.70%
2017	10,760,088	83,115,000	93,875,088	91,233,963	123,987,955	2,641,125	2.18%

CURRENCY COINS ISSUED AND REDEEMED (BERMUDA DOLLAR)

Month	Coins Issued	Coins Issued & O/S at End of Month	Net Issues During Month Change	% Change
January	9	16,746,138	9	0.00%
February	1	16,746,139	1	0.00%
March	10,517	16,756,656	10,517	0.06%
April	20	16,756,676	20	0.00%
May	135,007	16,891,683	135,007	0.81%
June	11	16,891,694	11	0.00%
July	76,518	16,968,212	76,518	0.45%
August	9	16,968,221	9	0.00%
September	173	16,968,394	173	0.00%
October	2,427	16,970,821	2,427	0.01%
November	90,641	17,061,462	90,641	0.53%
December	4	17,061,466	4	0.00%
Year				
2018	315,337	17,061,466	315,337	1.88%
2017	593,099	16,746,129	593,099	3.67%

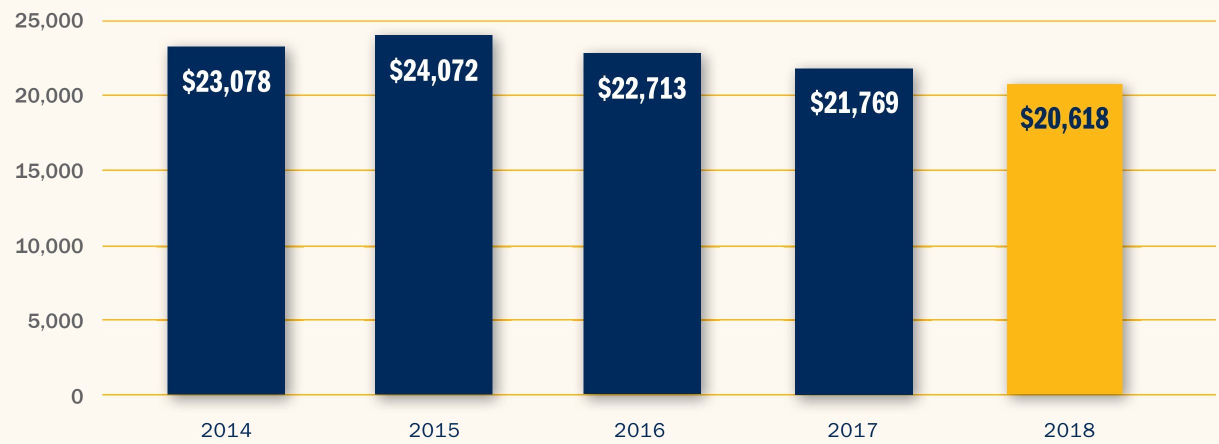
Banking

BERMUDA MONEY SUPPLY

(BD$ millions)	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17
Notes & Coins in Circulation*	142	139	140	136	141
Deposit liabilities:	3,442	3,461	3,453	3,426	3,429
Total	3,584	3,600	3,593	3,562	3,570
Less: Cash at Banks and Deposit Companies	43	40	39	37	43
BD$ Money Supply	3,541	3,560	3,554	3,525	3,540
% Change on Previous Period	-0.51%	-0.44%	1.06%	1.47%	-0.25%
% Change Year on Year	0.04%	2.11.%	2.52%	2.68%	3.53%

Totals may not add due to rounding.
* This table includes the supply of Bermuda dollars only.
United States currency is also in circulation in Bermuda but the amount has not been quantified.

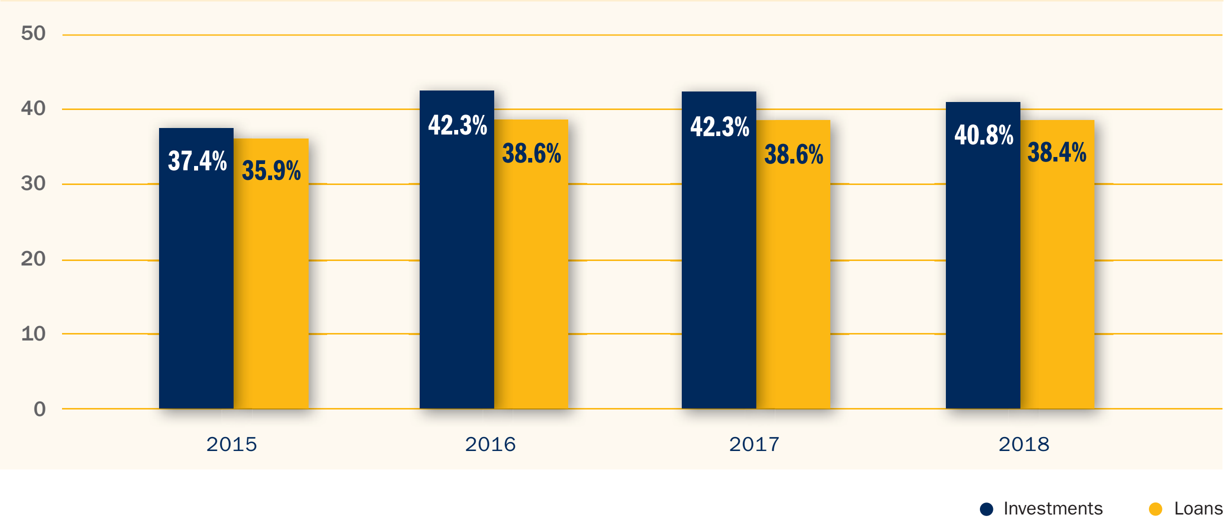
BERMUDA BANK AND DEPOSIT COMPANIES TOTAL ASSETS (BD$ MILLIONS)



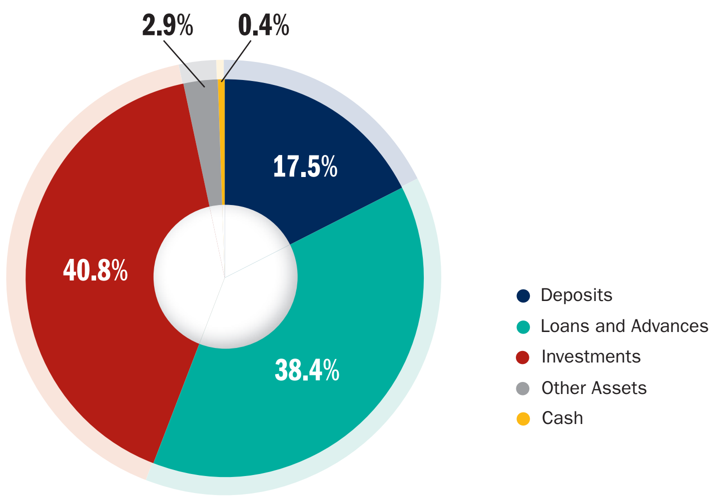
BANKING SECTOR ASSETS & DEPOSITS (BD$ MILLIONS)

	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17
Total Assets	20,618	19,904	21,621	21,349	21,768	21,392
Quarterly Changes (%)	3.6%	-7.9%	1.3%	-1.9%	1.8%	-2.4%
Total Deposits	18,036	17,257	19,051	18,786	19,153	18,802
Quarterly Changes (%)	4.5%	-9.4%	1.4%	-1.9%	1.9%	-2.2%

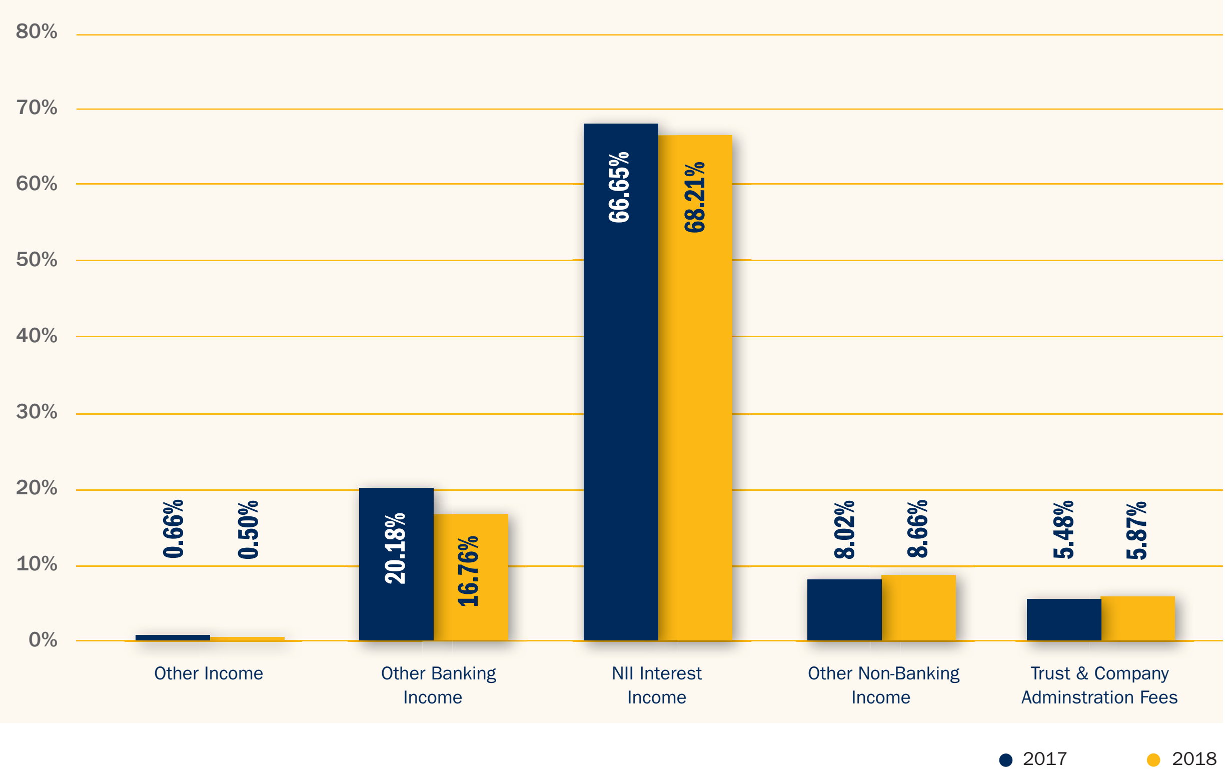
LOANS AND INVESTMENTS AS A PROPORTION OF TOTAL ASSETS



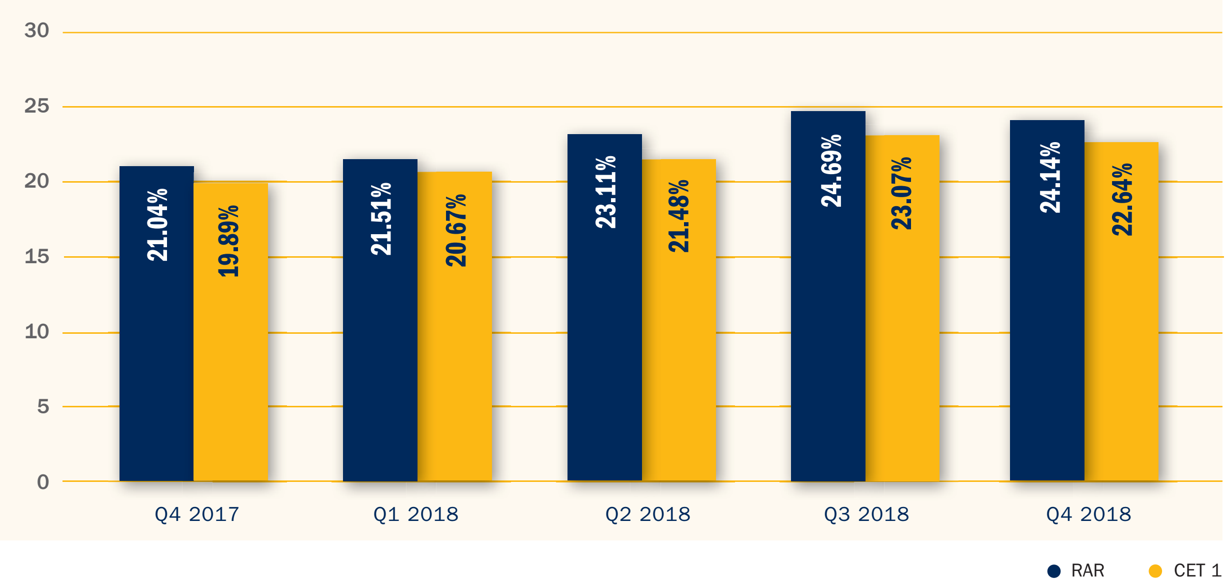
COMPOSITION OF BANKS' ASSETS (AS AT 31 DECEMBER 2018)



BANKS AND DEPOSIT COMPANIES REVENUES (CONSOLIDATED)



BANKING SECTOR CONSOLIDATED RISK ASSET RATIO



COMBINED BANKS AND COMPANIES FOREIGN CURRENCY POSITION

(BD$ millions)	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17
Total Foreign Currency Assets	16,847	16,106	17,759	17,481	17,851	17,441
Less: Other Assets	235	251	284	274	243	258
Less: Foreign Currency Loans to Residents	1,215	1,211	1,234	1,053	1,118	1,023
Net Foreign Currency Assets	15,397	14,645	16,241	16,153	16,490	16,160
Foreign Currency Liabilities	14,851	14,134	15,861	15,653	16,032	15,522
Add: BD$ Deposits of Non-Residents	88	89	92	130	169	184
Net Foreign Currency Liabilities	14,939	14,223	15,953	15,783	16,201	15,706
Net Foreign Currency Position	458	422	288	370	289	454

Totals may not add due to rounding.

BD$ DEPOSIT AND LOAN PROFILE – COMBINED BANKS AND DEPOSIT COMPANIES (UNCONSOLIDATED)

(BD$ millions)	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17
Deposit Liabilities	3,451	3,480	3,472	3,438	3,441	3,518
Less: Loans, Advances and Mortgages	(3,430)	(3,518)	(3,515)	(3,576)	(3,578)	(3,608)
Surplus/(deficit) deposits	21	(39)	(43)	(137)	(138)	(90)
Percentage of Deposit Liabilities Loaned	99.4%	101.1%	101.2%	104.0%	104.0%	102.5%

COMBINED BALANCE SHEET OF BERMUDA BANKS AND DEPOSIT COMPANIES (CONSOLIDATED)

	Q4 2018				Q3 2018				Q2 2018			
(BD$ millions)	Total	BD$	US$	Other	Total	BD$	US$	Other	Total	BD$	US$	Other
ASSETS												
Cash	83	43	25	16	87	40	30	16	87	39	34	15
Deposits	3,606	28	2,448	1,130	2,067	8	1,090	969	3,283	18	2,117	1,148
Investments	8,416	39	7,185	1,192	9,018	39	7,749	1,229	9,202	47	7,761	1,394
Loans & Advances	7,919	3,304	2,913	1,702	8,121	3,350	3,141	1,630	8,396	3,389	3,199	1,808
Premises and Equipment	320	219	90	11	321	222	88	11	327	146	109	72
Other Assets	273	139	70	64	290	138	81	71	1,215	1,211	1,234	1,053
Total Assets	20,618	3,772	12,731	4,116	19,904	3,798	12,180	3,927	21,621	3,861	13,312	4,448
LIABILITIES												
Demand Deposits	8,756	1,066	6,208	1,482	8,436	1,083	6,207	1,146	9,694	1,073	7,415	1,206
Savings	5,881	1,555	2,443	1,884	5,730	1,572	2,526	1,632	6,487	1,596	3,105	1,786
Time Deposits	3,398	821	1,755	822	3,091	806	1,482	803	2,870	786	1,343	741
Sub-Total Deposits	18,036	3,442	10,406	4,188	17,257	3,461	10,216	3,580	19,051	3,454	11,864	3,733
Other Liabilities	527	270	180	77	611	273	250	88	536	272	190	74
Sub-Total Liabilities	18,563	3,712	10,586	4,265	17,869	3,734	10,466	3,668	19,588	3,727	12,054	3,808
Equity & Subordinated Debt Debt	2,055	1,973	108	(26)	2,035	1,986	76	(27)	2,033	1,965	92	(24)
Total Liabilities and Capital	20,618	5,685	10,694	4,239	19,904	5,720	10,542	3,641	21,621	5,692	12,145	3,783

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

COMBINED BALANCE SHEET OF BERMUDA BANKS AND DEPOSIT COMPANIES (CONSOLIDATED)

	Q1 2018				Q4 2017				Q3 2017			
(BD$ millions)	Total	BD$	US$	Other	Total	BD$	US$	Other	Total	BD$	US$	Other
ASSETS												
Cash	84	37	31	16	87	43	27	17	90	36	36	17
Deposits	2,769	14	1,222	1,534	3,243	12	1,995	1,236	2,390	17	1,293	1,079
Investments	9,313	39	7,689	1,585	9,323	39	7,860	1,424	9,410	40	7,766	1,604
Loans & Advances	8,553	3,423	3,424	1,707	8,514	3,464	3,317	1,733	8,886	3,499	3,515	1,871
Premises and Equipment	326	217	95	15	343	232	97	14	346	237	94	16
Other Assets	304	140	82	82	258	124	76	59	270	121	65	83
Total Assets	21,349	3,869	12,543	4,938	21,769	3,914	13,372	4,483	21,392	3,951	12,770	4,671
LIABILITIES												
Demand Deposits	9,065	1,053	6,574	1,437	9,696	1,092	7,344	1,260	9,913	1,144	7,494	1,275
Savings	6,520	1,589	3,024	1,907	6,444	1,572	3,045	1,828	6,114	1,586	2,772	1,755
Time Deposits	3,201	784	1,452	966	3,012	766	1,360	886	2,775	776	1,190	808
Sub-Total Deposits	18,786	3,426	11,050	4,310	19,153	3,429	11,749	3,975	18,802	3,507	11,457	3,839
Other Liabilities	573	280	132	161	635	327	205	103	484	256	97	131
Sub-Total Liabilities	19,358	3,706	11,182	4,471	19,787	3,756	11,954	4,078	19,286	3,763	11,554	3,970
Equity & Subordinated Debt Debt	1,991	1,943	72	(24)	1,982	1,908	95	(22)	2,106	1,994	140	(27)
Total Liabilities and Capital	21,349	5,648	11,254	4,447	21,769	5,664	12,048	4,056	21,912	5,724	11,991	4,197

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

Investment Funds

INVESTMENT FUNDS STATISTICS

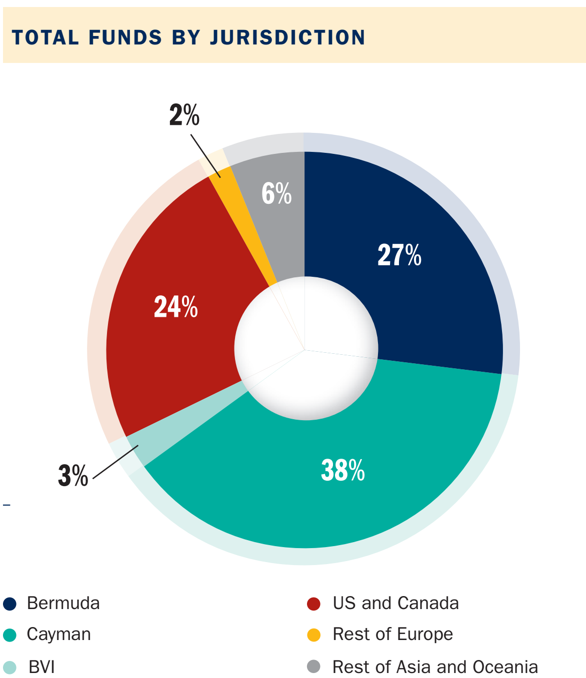
Fund Count Statistics	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17
Administered Funds	6	6	6	6	6	7
Class A Exempt Funds	67	66	64	64	61	41
Class B Exempt Funds	39	41	40	39	38	27
Exempted Funds	5	8	9	14	19	54
Institutional Funds	258	259	262	264	270	278
Standard Funds	138	145	146	146	149	153
Total Number of Funds	513	525	527	533	543	560
Net Asset Value ($BD billion)	157.24	165.04	168.19	144.66	161.54	162.50

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

- **Administered Funds** must be licensed under Part III of the Act and participants are required to invest a minimum amount of $50,000; or the fund must be listed on a Stock Exchange recognised by the Authority for the purpose of Section 11 of the Act.
- **Class A Exempt Funds:** A fund is automatically registered as a Class A Exempt fund after self-certifying that the following requirements of subsection 6A(2) of the Act have been met:
  - the fund is open to qualified participants
  - the operator of the fund has appointed an investment manager for the fund that is either:
    - licensed in Bermuda;
    - authorised or licensed by a foreign regulator recognised by the Authority; or
    - for the purposes of the Act, is carrying on business in or from Bermuda, or in a jurisdiction recognised by the Authority, being a person who:
      - has gross assets under management of an amount that is not less than $100 million; or
      - is a member of an investment management group that has consolidated gross assets under management of an amount that is not less than $100 million.
- **Class B Exempt Funds** are open to qualified participants. The fund can apply to be exempted from the requirement for authorisation where the qualification requirements of subsection 7(2) of the Act have been met.
- **Exempted Funds:** Section 9 of the Act pertaining to exempt funds was repealed due to the introduction of two new exempt funds classifications – i.e., Class A and Class B above. Therefore, exempted funds are currently in the process of being re-classified.
- **Institutional Funds** are targeted at institutional/sophisticated investors and are restricted to qualified participants investing at least $100,000. They are required to have an officer, trustee, or resident representative in Bermuda, being a person who has access to the books and records of the fund.
- **Standard Funds** do not fit within any other class of fund. Such funds are not restricted to sophisticated investors and may include a more significant retail element among their investors. Consequently they are subject to more comprehensive and regulation and supervision.

* During Q4-2018 the Economic Substance Act 2018 (the Substance Act) was passed. The Substance Act included consequential amendments to the Act introducing a registration regime for previously Exempted and Excluded funds. The consequential amendments to the Act became operational on 31 December 2018 and these statistics will be reflected in future BMA Reports.

Total Funds By Jurisdiction



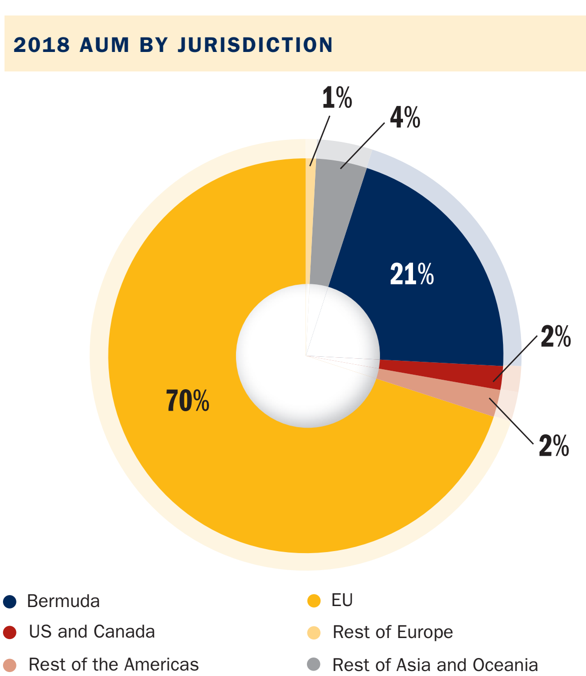
Fund Administrator Licensee Aggregate 2018 Data

An aggregate total of US$195.5B in Assets under Administration (AUA) was reported by Bermuda Fund Administrator licensees as at 31 December 2018, down 7% from the restated aggregate total for 2017 of $210.8B.*

The total number of funds administered decreased by 0.19% from 2,154 to 2,150 of which 571 are local incorporated funds with Bermuda-licensed Fund Administrators. The jurisdictional breakdown reflects the total fund clients for year-end 2018.

* 2017 Assets under Administration restated from $189.0B to $210.8B an increase of $21.8B

Total Assets Under Management (AUM) By Jurisdiction



Investment Business Licensee Aggregate 2018 Data: AUM

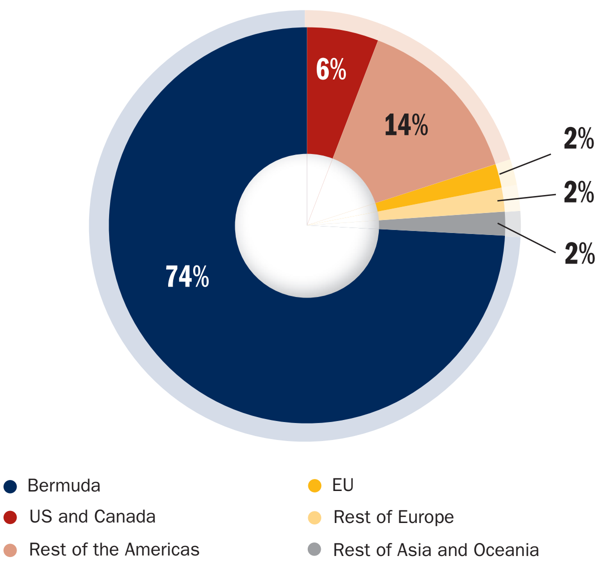
Reported licensee aggregate Assets under Management as at 31 December 2018 was US$172.1B compared to the US$191B reported for 2017, a decrease of 10%.

A significant proportion of these assets 70% pertains to European Union clients, and 21% are Bermuda based clients.

The graphic shows the total market share of AUM by jurisdiction for the year 2018.

Investment Business Licensee Aggregate 2018 Data: Assets under Administration (AUA)

TOTAL AUA BY JURISDICTION



Reported licensee aggregate AUA for the year 2018 was US$42.7B compared to the US$66.0B reported for 2017, a decrease of 35%

A significant portion of these assets 74% pertains to Bermudian clients, with clients in the Rest of the Americas a distant second at 14%.

The graphic shows the total market share of AUA by jurisdiction for the year 2018.

Note: *For Investment Business Licensees, Assets under Administration are classified as assets managed on behalf of investors on a non-discretionary basis

Insurance

ANALYSIS OF ALL INSURERS REGISTERED

Class of Insurer by Licence	2018	%	2017	%
Class 1	215	17.8%	218	18.3%
Class 2	277	22.9%	267	22.4%
Class 3	223	18.4%	239	20.1%
Class 3A	129	10.7%	126	10.6%
Class 3B	26	2.2%	25	2.1%
Class 4	43	3.6%	40	3.4%
Class A	7	0.6%	7	0.6%
Class B	8	0.7%	8	0.7%
Class C	91	17.5%	94	7.9%
Class D	9	0.7%	10	0.8%
Class E	41	3.4%	31	2.6%
Special Purpose Insurer	140	11.6%	126	10.6%
Totals:	1,209	100%	1,191	100%

ANALYSIS OF ADDITIONS TO THE REGISTER

Class of Insurer by Licence	2018	%	2017	%
Class 1	8	10.7%	12	9.5%
Class 2	8	10.7%	1	9.5%
Class 3	2	2.7%	4	9.5%
Class 3A	10	13.3%	6	16.7%
Class 3B	1	1.3%	4	0.0%
Class 4	3	4.0%	1	4.8%
Class A	0	0.0%	0	2.4%
Class B	1	1.3%	0	0.0%
Class C	8	10.7%	1	2.4%
Class D	0	0.0%	0	2.4%
Class E	6	8.0%	5	2.4%
Special Purpose Insurer	28	37.3%	24	40.5%
Totals:	75	100%	58	100%

MARKET STATISTICS BY CLASS OF INSURER

For the year ended 31 December 2017*

Class of Insurer	No. of Licences	Gross Premiums (USD)	Net Premiums (USD)	Total Assets (USD)	Capital & Surplus (USD)
Class 1	218	2,517,864,581	2,053,182,642	28,853,228,552	24,788,133,771
Class 2	273	8,402,858,547	7,006,083,116	56,425,440,613	32,533,018,415
Class 3	228	18,274,928,345	15,772,004,516	86,026,449,326	24,412,069,860
Class 3A	127	14,401,488,705	11,314,325,665	37,801,380,852	19,384,143,056
Class 3B	28	15,919,596,295	11,342,249,848	37,959,692,092	15,564,092,295
Class 4	40	47,088,689,592	39,223,391,753	183,172,682,239	81,700,667,008
Long-Term Class A	7	538,643,145	328,857,619	4,500,659,085	1,507,815,339
Long-Term Class B	8	148,731,476	148,731,476	284,991,154	92,667,375
Long-Term Class C	91	4,083,337,728	3,910,183,582	68,665,609,063	7,993,061,314
Long-Term Class D	10	771,533,506	470,388,506	5,634,707,488	734,980,049
Long-Term Class E	35	33,835,924,139	31,336,700,604	290,810,058,846	53,885,217,685
Special Purpose Insurer	133	4,483,131,476	3,836,854,939	37,461,947,632	6,822,347,851
Total	1,198	150,466,727,537	126,742,954,265	837,596,846,940	269,418,214,019

*Underwriting statistics quoted are from insurance company Statutory Financial Returns (SFR). Companies submit filings on a phased basis throughout the year following the financial year-end. The initial submission deadline for 2017 SFRs was April 2018. Due to this schedule the most recent complete year-end figures for this overview are from 2017 year end.

- **Class 1:** Single-parent captive insuring the risks of its owners or affiliates of the owners.
- **Class 2:** (a) A multi-owner captive insuring the risks of its owners or affiliates of the owners; or (b) A single parent or multi-owner captive: (i) insuring the risks arising out of the business or operations of the owners or affiliates, and/or (ii) deriving up to 20% of its net premiums from unrelated risks.
- **Class 3:** Captive insurers underwriting more than 20% and less than 50% unrelated business.
- **Class 3A:** Small commercial insurers whose percentage of unrelated business represents 50% or more of net premiums written or loss and loss expense provisions, and where the unrelated business net premiums are less than $50 million. Class 3A insurers are required to hold capital greater of: (a) minimum risk based capital calibrated to a level of 99% Tail Value-at-Risk over a one year time horizon, (b) $1,000,000, (c) 20% of net premiums written for the financial period for the first $6 million and 15% of the excess, and d) 15% of the net loss provisions.
- **Class 3B:** Large commercial insurers whose percentage of unrelated business represents 50% or more of net premiums written or loss and loss expense provisions, and where the unrelated business net premiums are more than $50 million. Class 3B insurers are required to hold capital the greater of: (a) minimum risk based capital calibrated to a level of 99% Tail Value-at-Risk over a one year time horizon, (b) $1,000,000, (c) 20% of net premiums written for the financial period for the first $6 million and 15% of the excess, and d) 15% of the net loss provisions.

- **Class 4:** Large commercial insurers and reinsurers underwriting direct excess liability and/or property catastrophe reinsurance risk. Class 4 insurers are required to hold the greater of: (a) minimum risk based capital calibrated to a level of 99% Tail Value-at-Risk over a one year time horizon, (b) $100,000,000, (c) 50% of net premiums written for the financial period and 15% of the excess, and d) 15% of the net loss provisions.
- **Long-Term (life insurance):**
  - **Class A:** A single-parent Long-Term captive insurance company underwriting only the Long-Term business risks of the owners of the insurance company and affiliates of the owners.
  - **Class B:** Multi-owner Long-Term captives owned by unrelated entities, underwriting only the Long-Term business risks of the owners and affiliates of the owners and/or risks related to or arising out of the business or operations of their owners and affiliates. A single-parent and multi-owner Long-Term captives writing no more than 20% of net premiums from unrelated risks.
  - **Class C:** Long-Term insurers and reinsurers with total assets of less than $250 million; and not registrable as a Class A or Class B insurer. Class C insurers are required to hold capital the greater of: (a) minimum risk based capital calibrated to a level of 99% Tail Value-at-Risk over a one year time horizon, (b) $500,000, and (c) 1.5% of Total Assets less any Segregated Account balances.
  - **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 D insurers are required to hold capital the greater of: (a) minimum risk based capital calibrated to a level of 99% Tail Value-at-Risk over a one year time horizon, (b) $4,000,000, and (c) 2.0% of Total Assets less any Segregated Account balances for the first $250 million in assets and 1.5% of Total Assets in excess of $250 million.
  - **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. Class E insurers are required to hold the greater of: (a) minimum risk based capital calibrated to a level of 99% Tail Value-at-Risk over a one year time horizon, (b) $8,000,000, and (c) 2.0% of Total Assets less any Segregated Account balances for the first $500 million in assets and 1.5% of Total Assets in excess of $500 million.
- **Special Purpose Insurers (SPI):** A SPI assumes insurance or (re)insurance risks and has fully collateralised its exposure to such risks.

MARKET STATISTICS BY REGION OF BENEFICIAL OWNER/S

For the year ended 31 December 2017

Domicile of Owners	No. of Licences	Gross Premiums (USD)	Net Premiums (USD)	Total Assets (USD)	Capital & Surplus (USD)
CAPTIVES					
Africa/Middle East	10	103,437,583	21,161,344	219,146,291	160,104,050
Asia	28	1,214,037,451	1,119,483,466	1,342,582,412	921,672,856
Australia/New Zealand	11	67,102,834	21,055,391	327,959,176	238,690,546
Bermuda	70	4,844,383,949	2,840,716,003	32,635,996,569	11,095,815,519
Caribbean/Latin America	38	199,489,956	142,623,887	1,370,992,921	866,878,756
Europe	109	12,433,347,946	11,599,644,717	56,838,744,353	31,106,395,014
North America	468	11,021,226,377	9,564,174,561	83,355,347,008	38,944,148,019
Sub-Totals:	734	29,883,026,094	25,308,859,369	176,090,768,730	83,333,704,760
COMMERCIAL INSURERS/REINSURERS					
Africa/Middle East	6	1,822,331,780	846,078,382	4,951,657,941	1,525,252,943
Asia	17	3,020,522,464	2,703,100,386	23,143,077,567	5,620,768,201
Australia/New Zealand	3	6,149,082,841	3,841,014,713	22,366,351,421	2,351,949,613
Bermuda	170	37,452,954,672	34,369,179,622	241,515,266,457	73,300,378,801
Caribbean/Latin America	30	5,182,974,062	4,307,987,912	34,684,185,231	13,993,709,122
Europe	80	18,551,304,309	14,298,301,013	74,514,777,465	23,260,091,892
North America	158	48,404,531,315	41,068,432,868	260,330,762,128	66,032,358,688
Sub-Totals:	464	120,583,701,442	101,434,094,896	661,506,078,210	186,084,509,259
Totals	1,198	150,466,727,537	126,742,954,265	837,596,846,940	269,418,214,019

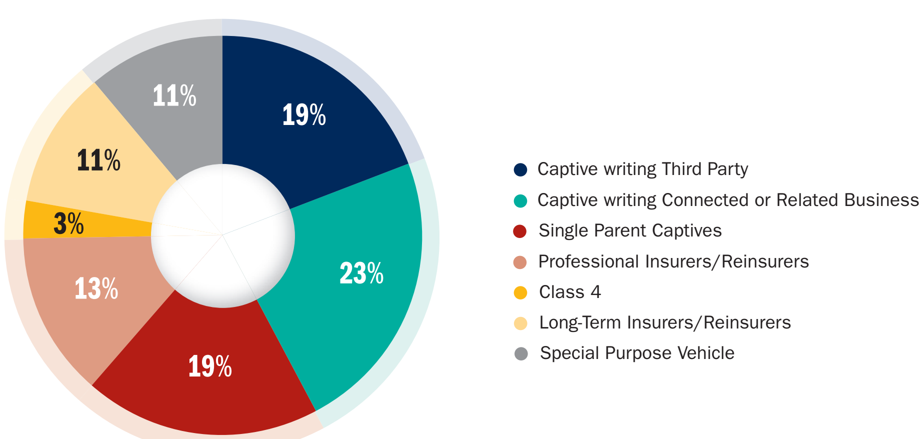
MARKET STATISTICS BY COMPANY TYPE

For the year ended 31 December 2017

Domicile of Owners	No. of Licences	Gross Premiums (USD)	Net Premiums (USD)	Total Assets (USD)	Capital & Surplus (USD)
CAPTIVES					
Captive writing Third Party	228	18,274,928,345	15,772,004,516	86,026,449,326	24,412,069,860
Captive writing Connected or Related Business	281	8,551,590,023	7,154,814,592	56,710,431,766	32,625,685,790
Single Parent Captives	225	3,056,507,726	2,382,040,261	33,353,887,637	26,295,949,110
Sub-Totals	734	29,883,026,094	25,308,859,369	176,090,768,729	83,333,704,760
COMMERCIAL INSURERS/REINSURERS					
Professional Insurers/Reinsurers	155	30,321,085,001	22,656,575,513	75,761,072,944	34,948,235,351
Class 4	40	47,088,689,592	39,223,391,753	183,172,682,239	81,700,667,008
Long-Term Insurers/Reinsurers	136	38,690,795,373	35,717,272,692	365,110,375,397	62,613,259,049
Special Purpose Vehicle	133	4,483,131,476	3,836,854,939	37,461,947,632	6,822,347,851
Sub-Totals	464	120,583,701,442	101,434,094,896	661,506,078,211	186,084,509,259
Totals	1,198	150,466,727,537	126,742,954,265	837,596,846,940	269,418,214,019

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

ACTIVELY WRITING INSURERS BY COMPANY TYPE



Financials

30 April 2019

BMA House

43 Victoria Street
Hamilton HM 12 Bermuda

P.O. Box 2447
Hamilton HM JX Bermuda

Tel: (441) 295 5278
Fax: (441) 292 7471
Email: enquiries@bma.bm
Website: www.bma.bm

The Hon. Curtis L. Dickinson, 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 2018 together with the annual statement of accounts and the opinion of the Auditor General.

This document also contains the reports for the year 2018 which the Authority is required to make to you pursuant to:

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

Yours sincerely,

Jeremy Cox
Executive Chair

30 April 2019

BMA House

43 Victoria Street
Hamilton HM 12 Bermuda

P.O. Box 2447
Hamilton HM JX Bermuda

Tel: (441) 295 5278
Fax: (441) 292 7471
Email: enquiries@bma.bm
Website: www.bma.bm

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

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

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

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

Yours sincerely,

Jeremy Cox
Executive Chair

Donald Scott
Deputy Chair

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

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INDEPENDENT AUDITOR'S REPORT

Opinion

I have audited the financial statements of the Bermuda Monetary Authority, which comprise the statement of financial position as at December 31, 2018, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bermuda Monetary Authority as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in Bermuda and Canada. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Bermuda Monetary Authority in accordance with the ethical requirements that are relevant to my audit of the financial statements in Bermuda, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Bermuda Monetary Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bermuda Monetary Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bermuda Monetary Authority's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that incudes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Bermuda and Canada will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in Bermuda and Canada, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements (whether due to fraud or error), design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than from one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;

- Obtain an understanding of internal control relevant to the audit 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 Bermuda Monetary Authority's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bermuda Monetary Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bermuda Monetary Authority to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the financial statements (including the disclosures), and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, related safeguards.

A further description of the auditor's responsibilities for the audit of the financial statements is located at the Office of the Auditor General website at: www.oagbermuda.bm. This description forms part of our auditor's report.

Heather M.

Hamilton, Bermuda
April 15, 2019

Heather Thomas, CPA, CFE, CGMA
Auditor General

BERMUDA MONETARY AUTHORITY

Statement of Financial Position
As at December 31, 2018

(In thousands of Bermuda dollars)	Note	2018	2017 Restated (Note 2.14(b))
Assets			
Current assets			
Cash and cash equivalents	3, 5	44,996	46,682
Accounts and other receivables	3, 6	1,834	893
Prepayments	18	982	518
Stock of numismatic items	7	810	845
Stock of notes and coins for circulation	8	4,896	5,015
Investments, at amortised cost	3	5,012	10,020
		58,530	63,973
Non-current assets			
Investments, at amortised cost	3	103,110	98,759
Property and equipment	9	21,729	22,633
Intangible assets	10	5,574	4,179
		130,413	125,571
Total Assets		188,943	189,544
Liabilities			
Current liabilities			
Accounts and other payables	3, 11, 18	6,783	6,612
Deferred income	3, 12	488	431
Notes and coins in circulation	3, 13	141,915	140,734
		149,186	147,777
Equity			
Capital subscribed	14	20,000	20,000
General reserve	14	19,757	21,767
		39,757	41,767
Total Liabilities and Equity		188,943	189,544

Commitments (Note 21)

Jeremy Cox
Executive Chairman

Donald Scott
Deputy Chairman

The accompanying notes are an integral part of these financial statements

Statement of Comprehensive Income
For the year ended December 31, 2018

(In thousands of Bermuda dollars)	Note	2018	2017 Restated (Note 2.14(b))
Revenues			
Revenue from contracts with licensees and customers	15	44,638	42,514
Revenue from fines, penalties and other income	16	400	1,889
Operating revenue		45,038	44,403
Investment income	17	3,578	3,358
Total revenues		48,616	47,761
Expenses			
Salaries and employee benefits	18	38,552	36,293
General expenses	19	7,067	6,953
Professional fees		2,719	4,192
Depreciation of property and equipment	9	1,267	1,319
Circulation note and coin expenses	8	390	641
Amortisation of intangible assets	10	631	630
Release of provision for impairment of accounts receivable	6	(210)	(635)
Release of provision for impairment of investments and cash and cash equivalents	3	(36)	-
Total expenses		50,380	49,393
Total comprehensive loss for the year		(1,764)	(1,632)

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

The accompanying notes are an integral part of these financial statements

BERMUDA MONETARY AUTHORITY

Statement of Changes in Equity
For the year ended December 31, 2018

(In thousands of Bermuda dollars)	2018	2017
Capital	20,000	20,000
General Reserve		
Balance, beginning of year	21,767	23,399
Adjustment on initial application of IFRS 9 (Note 2.14)	(246)	-
Adjusted balance, beginning of year	21,521	23,399
Total comprehensive loss for the year	(1,764)	(1,632)
Balance, end of year	19,757	21,767
Equity	39,757	41,767

The accompanying notes are an integral part of these financial statements

BERMUDA MONETARY AUTHORITY

Statement of Cash Flows
For the year ended December 31, 2018

(In thousands of Bermuda dollars)	Note	2018	2017
Cash flows provided by / (used in) operating activities			
Total comprehensive loss for the year		(1,764)	(1,632)
Adjustment for:			
Non-cash items included in total comprehensive income for the year	20	1,940	1,653
Change in operating assets	20	(1,068)	1,552
Change in operating liabilities	20	228	782
Net cash (used in) / provided by operating activities		(664)	2,355
Cash flows (used in) / provided by investing activities			
Additions of intangible assets	10	(2,026)	(2,563)
Additions of property and equipment	9	(363)	(635)
Purchase of investments		(9,876)	(12,550)
Proceeds from maturity of investments		10,062	13,085
Net cash used in investing activities		(2,203)	(2,663)
Cash flows provided by financing activities			
Net increase in notes and coins in circulation circulation		1,181	3,234
Net cash provided by financing activities		1,181	3,234
Net (decrease) increase in cash and cash equivalents		(1,686)	2,926
Cash and cash equivalents at beginning of year		46,682	43,756
Cash and cash equivalents at end of year	5	44,996	46,682
Operational cash flows from interest			
Interest received	17	2,913	3,227

The accompanying notes are an integral part of these financial statements

1. General information

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

The primary responsibilities of the Authority are:

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

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

2. Summary of significant accounting policies

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

2.1 Basis of preparation

(a) Statement of compliance

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

These financial statements were authorised for issue by the Board of Directors (the "Board") on April 15, 2019.

2.1 Basis of preparation (continued)

(b) Basis of measurement

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

(c) Use of estimates and judgements

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

2.2 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

2.3 Property and equipment

(a) Recognition and measurement

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

2.3 Property and equipment (continued)

(a) Recognition and measurement (continued)

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

(b) Subsequent costs

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

(c) Depreciation and impairment

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

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

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

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

2.4 Intangible assets

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

2.4 Intangible assets (continued)

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

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

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

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

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

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

2.5 Financial instruments

2.5.1 Recognition and initial measurement

Accounts and other receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Authority becomes a party to the contractual provisions of the instrument. Financial assets (except accounts and other receivables) and financial liabilities are initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue. Accounts and other receivables are initially measured at the transaction price.

2.5.2 Classification and subsequent measurement

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

(i) Financial assets – Policy applicable from January 1, 2018

The Authority classifies its financial assets at amortised cost. The Authority's financial assets classified at amortised cost consist of cash and cash equivalents, accounts and other receivables and investments (Investments in US Government, US Government Agency and Supranational Bank debt securities). The Authority determines the classification at initial recognition and re-evaluates this designation at every reporting date. Financial assets are not reclassified subsequent to their initial recognition unless the Authority changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss, or fair value though other comprehensive income:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

<u>Business model assessment: Policy applicable from January 1, 2018</u>

The Authority makes an assessment of the objective of the business model in which the financial asset is held at a portfolio level because this best reflects how the Authority is managed and the information is provided to management. The information considered includes the stated policies and objectives of the portfolio and the operation of those policies in practice.

<u>Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from January 1, 2018</u>

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time.

2.5.2 Classification and subsequent measurement (continued)

(a) Financial assets (continued)

In assessing whether the contractual cash flows are solely payments of principal and interest, the Authority considers the contractual terms of the instrument. These include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Authority considers:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable-rate features;
- Prepayment and extension features; and
- Terms that limit the Authority's claim to cash flows.

A prepayment feature is consistent with solely payment of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest in the principal amount outstanding.

(ii) Financial assets – Subsequent measurement and gains and losses: Policy applicable from January 1, 2018

The Authority's financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

(iii) Financial assets – classification and subsequent measurement policy applicable before January 1, 2018

The Authority classified its financial assets as held to maturity and loans and receivables before January 1, 2018. They were measured at amortised cost using the effective interest method.

(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.

2.5.3 Derecognition of financial assets and liabilities

(a) Financial assets

A financial asset is derecognised when:

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

(b) Financial liabilities

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

2.5.4 Impairment of financial assets

Policy applicable from January 1, 2018

The Authority recognises loss allowance for Expected Credit Losses (“ECLs”) on financial assets measured at amortised cost. The Authority measures loss allowances at an amount equal to 12-month ECLs for all investments and cash and cash equivalents that are determined to have a low credit risk at the reporting date and for which credit risk has not increased significantly since initial recognition.

Loss allowances for accounts and other receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Authority considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Authority’s historical experience and informed credit assessment and including forward-looking information.

The Authority assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due and is in default when the financial asset is more than 90 days past due.

2.5.4 Impairment of financial assets (continued)

The Authority considers an investment to have a low credit risk when the credit risk rating is equivalent to the globally understood definition of "investment grade". The Authority considers this to be BBB- or higher per Standard & Poor's. However, to mitigate credit risk exposure, the Authority only invests in US dollar traded papers which are not less than AA by at least one of Fitch, Moody's or Standard & Poor's.

Policy applicable from January 1, 2018 (continued)

Lifetime ECLs are the ECLs that result from possible default events over the expected life of a financial asset. 12-month ECLs are the portion of the ECLs that result from default events that are possible within the 12 months after the report date (or shorter period if the expected life of the instrument is less than 12 months).

Measurement of ECLs

ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. ECLs are discounted at the effective interest rate of the financial assets.

Credit-impaired financial assets

At each reporting date, the Authority assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- 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.

2.5.4 Impairment of financial assets (continued)

Policy applicable from January 1, 2018 (continued)

Presentation of allowance for ECLs in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amounts of the assets. 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 or an improvement in the ECLs), 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. For accounts and other receivables, the gross carrying amount is written off when the Authority has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof. For individual licensees, the Authority has a policy of writing off the gross carrying amount when the licensee ceases operation and is deregistered by the Authority and the Bermuda Registrar of Companies ("ROC"). The Authority expects no significant recovery from the amount written off.

Policy applicable prior to January 1, 2018

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

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

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

2.5.4 Impairment of financial assets (continued)

Policy applicable prior to January 1, 2018 (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.

2.6 Impairment of property, equipment and intangible assets

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

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

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

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

2.7 Stock of notes, coins and numismatic items

2.7.1 Stock of notes and coins for/in circulation

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

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

2.7.2 Stock of numismatic items

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

2.8 Cash and cash equivalents

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

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

2.9 Employee benefits

(a) Short-term employee benefits

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

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

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

2.9 Employee benefits (continued)

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

(b) Post-employment benefits

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

(c) Other long-term employee benefits

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

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

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

2.10 Provisions

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. The Authority has not recorded a provision in 2018 nor 2017.

2.11 Revenue recognition

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

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

Investment income is recognised using the effective interest method.

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

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

Vault commission is recorded as revenue when earned.

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

2.12 Going concern

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

2.13 Events after the year-end reporting period

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

2.14 Changes in significant accounting policies

Except for the changes below, the Authority has consistently applied its accounting policies to all periods presented in the financial statements.

The Authority has initially applied IFRS 15 (see a) and IFRS 9 (see b) from January 1, 2018. A number of other new standards are also effective from January 1, 2018 but they do not have a material effect on the Authority's financial statements.

Due to the transition methods chosen by the Authority in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards, except for separately presenting impairment loss on trade receivables and contract assets (see b).

2.14 Changes in significant accounting policies (continued)

(a) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgments.

The Authority has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. January 1, 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have generally been applied to comparative information.

Described below are the main revenue streams that constitute contracts with licensees and customers:

(i) Supervisory and licensing fees

Under IAS 18, revenue from these contracts was invoiced for a calendar year or part thereof and was recognized over the calendar year period to which it related. Under IFRS 15, the same treatment is maintained.

(ii) Incorporation fees and specific application fees

Under IAS 18, revenue for these contracts was invoiced and recognised when the related service was rendered at a point in time. This was when the applications for incorporations were completed and approved. Under IFRS 15, the same treatment is maintained.

(iii) Revenue from currency warehousing contracts (vault commission)

Under IAS 18, revenue from currency warehousing contracts was invoiced for a calendar year or part thereof and revenue was recognised over the calendar year period to which it related. Under IFRS 15, the same treatment is maintained.

(iv) Revenue from contracts with customers (sale of numismatic items)

Under IAS 18, the sale of special coins was recognised as revenue when ownership of the goods was passed to the customer. Under IFRS 15, the same treatment is maintained as revenue is recognised at the point in time when the same performance obligation is satisfied.

IFRS 15 did not have a significant impact on the Authority's accounting policies with respect to other revenue streams. For additional information about the Authority's accounting policies relating to revenue recognition, see note 15(d).

2.14 Changes in significant accounting policies (continued)

(b) IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: *Recognition and Measurement*.

As a result of the adoption of IFRS 9, the Authority has adopted consequential amendments to IAS 1 *Presentation of Financial Statements*, which require impairment of financial assets to be presented in a separate line item in the statement of comprehensive income. Previously, the Authority's approach was to include the impairment of trade receivables in general expenses. Consequently the Authority has reclassified the prior year decrease in impairment of $635 recognised under IAS 39, from general expenses to "Release of provision for impairment of accounts receivables" in the statement of comprehensive income for the year.

Additionally the Authority has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures.*

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

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

The adoption of IFRS 9 has not had a significant effect on the Authority's accounting policies related to financial liabilities.

For an explanation of how the Authority classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see note 2.5.2.

(In thousands of Bermuda dollars)

2.14 Changes in significant accounting policies (continued)

(b) IFRS 9 Financial Instruments (continued)

(i) Classification and measurement of financial assets and financial liabilities (continued)

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Authority's financial assets and financial liabilities as at January 1, 2018.

Financial assets

	Original classification under IAS 39	New classification under IFRS 9	Note	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortised cost		46,682	46,681
Investments	Held-to-maturity	Amortised cost	(a)	108,779	108,534
Accounts and other receivables	Loans and receivables	Amortised cost		893	893
Total financial assets				156,354	156,108

(a) Investments that were previously classified as held-to-maturity are now classified at amortised cost. The Authority intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. An increase of $245 in the allowance for impairment was recognised in opening retaining earnings at January 1, 2018 on transition to IFRS 9.

Financial liabilities

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Accounts and other payables	Other financial liabilities	Other financial liabilities	6,612	6,612
Deferred income	Other financial liabilities	Other financial liabilities	431	431
Notes and coins in circulation	Other financial liabilities	Other financial liabilities	140,734	140,734
Total financial liabilities			147,777	147,777

(In thousands of Bermuda dollars)

2.14 Changes in significant accounting policies (continued)

(b) IFRS 9 Financial Instruments (continued)

(i) Classification and measurement of financial assets and financial liabilities (continued)

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on January 1, 2018.

Financial assets

	Original classification under IAS 39	Reclassifi -cation	Remeasu re -ment	IFRS 9 carrying amount at January 1, 2018
Amortised cost				
Cash and cash equivalents				
Brought forward:Loans and receivables	46,682			
Remeasurement			(1)	
Carried forward: Amortised cost				46,681
Investments				
Brought forward: Held-to-maturity	108,779			
Remeasurement			(245)	
Carried forward: Amortised cost				108,534
Total amortised cost	155,461	-	(246)	155,215

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an ECL model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses may be recognised earlier than under IAS 39.

(In thousands of Bermuda dollars)

2.14 Changes in significant accounting policies (continued)

(b) IFRS 9 Financial Instruments (continued)

(i) Classification and measurement of financial assets and financial liabilities (continued)

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Authority has determined that the application of IFRS 9's impairment requirements at January 1, 2018 results in an additional allowance for impairment as follows:

Loss allowance at December 31, 2017 under IAS 39	-
Additional impairment recognised at January 1, 2018 on:	
Accounts and other receivables as at December 31, 2017	-
Additional accounts and other receivables recognised on adoption of IFRS 15	-
Investments at amortised cost	245
Cash and Cash equivalents	1
Loss allowance at January 1, 2018 under IFRS 9	246

Additional information about how the Authority measures the allowance for impairment is described in note 2.5.4.

The following table summarises the impact of adopting IFRS 9 on the Authority's statement of comprehensive income for the year ended December 31, 2017. There was no significant impact on the Authority's statement of cash flows.

	As reported	Adjustments	Amounts without adoption of IFRS 9
Total revenues	47,761	-	47,761
Salaries and employee benefits	36,293	-	36,293
General expenses	6,953	(635)	6,318
Professional fees	4,192	-	4,192
Depreciation of property and equipment	1,319	-	1,319
Circulation note and coin expenses	641	-	641
Amortisation of intangible assets	630	-	630
Release of provision for Impairment of receivables	(635)	635	-
Total expenses	49,393	-	49,393
Total comprehensive (loss) for the year	(1,632)	-	(1,632)

2.14 Changes in significant accounting policies (continued)

(c) Other standards

There were a number of amendments to standards that were effective for periods beginning on or after January 1, 2018. These have been listed below:

- Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- Transfers of Investment Property (Amendments to IAS 40).

The adoption of the above amendments does not have a material impact on the financial statements.

2.15 New and amended standards not yet adopted

A number of new or amended standards are effective for annual periods beginning on or after January 1, 2019 and early adoption is permitted; however, the Authority has not early adopted the following new or amended standards in preparing these financial statements.

(i) IFRS 16 Leases

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

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

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

(In thousands of Bermuda dollars)

2.15 New and amended standards not yet adopted (continued)

(ii) Other Standards

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

- Sale of Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- Long-term interests in Associates and joint Ventures (Amendments to IAS 28)
- Annual improvements for IFRSs 2015 – 2017 Cycle – Amendments to IFRSs 3 & 11, IASs 12 & 23
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- IFRIC 23 Uncertainty over Income Tax Treatments.

3. Financial risk management

(a) Fair value of financial instruments

(i) Carrying amount and fair value of financial instruments

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

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS				
Current financial assets				
Cash and cash equivalents	44,996	44,996	46,682	46,682
Accounts and other receivables	1,834	1,834	893	893
Investments, amortised cost	5,012	5,061	10,020	10,093
Non-current financial assets				
Investments, amortised cost	103,110	100,761	98,759	97,383
Total financial assets	154,952	152,652	156,354	155,051
FINANCIAL LIABILITIES				
Notes and coins in circulation	141,915	141,915	140,734	140,734
Accounts and other payables	6,783	6,783	6,612	6,612
Deferred income	488	488	431	431
Total financial liabilities	149,186	149,186	147,777	147,777

(In thousands of Bermuda dollars)

3. Financial risk management (continued)

(a) Fair value of financial instruments (continued)

(ii) Financial instruments at fair value

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

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

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

	Level 1	Level 2	Level 3	Total
Financial instruments at fair value as at December 31, 2018				
Investments, current, amortised cost	5,061	-	-	5,061
Investments, non-current, amortised cost	100,761	-	-	100,761
Total financial instruments	105,822	-	-	105,822
Financial instruments at fair value as at December 31, 2017				
Investments, current, held-to-maturity	10,093	-	-	10,093
Investments, non- current, held-to-maturity	97,383	-	-	97,383
Total financial instruments	107,476	-	-	107,476

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 counterparty's ability to meet its obligations. The Authority is exposed to credit risk arising from investments in US Government, US Government Agency and Supranational Banks' debt securities and accounts and other receivables. The Authority manages credit risk by adhering to the fund management policy guidelines set forth by the Board's Investment Committee. The Authority is exposed to a concentration of credit risk as 65% (2017 – 74%) of its income earning assets are in US Government and US Government Agency securities

The Authority held no past due investments as at December 31, 2018 and 2017.

3. Financial risk management (continued)

(b) Credit risk (continued)

The Authority limits its exposure to credit risk from accounts receivables by establishing payment terms as follows;

All annual fees for regulated entities are legislated and due in accordance with the following Acts:

- The Banks and Deposit Companies Act 1999: Annual fees in respect of this Act are due on or before March 31 of the calendar year.
- The Banks and Deposit Companies (Fees) Act 1975: Annual fees in respect of this Act are due on or before January 31 of the calendar year.
- Money Service Business Act 2016: Annual fees in respect of this Act are due on or before March 31 of the calendar year.
- Corporate Service Provider Business Act 2012: Annual fees in respect of this Act are due on or before March 31 of the calendar year.
- Credit Unions Act 2010: Annual fees in respect of this Act are due on or before March 31 of the calendar year.
- Digital Asset Business Act 2018: Annual fees in respect of this Act are due on or before March 31 of the calendar year.
- Insurance Act 1978: Application and Registration Fees in respect of this Act are due upon application. Annual fees in respect of this Act are due on or before March 31 of the calendar year.
- Investment Funds Act 2006: Annual fees in respect of this Act are due on or before March 31 of the calendar year.
- Trust (Regulation of Trust Business) Act 2001: Annual fees in respect of this act are due on or before March 31 of the calendar year.
- Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing Supervision and Enforcement) Act 2008: Application fees in respect to this Act are due upon application. The first annual fee is payable upon registration. Succeeding annual fees in respect to this Act are due on or before March 31 of the calendar year.

On initial application of IFRS 9 and for the year ended December 31, 2018, the Authority did not recognise any additional impairment on accounts receivable.

(In thousands of Bermuda dollars)

3. Financial risk management (continued)

(b) Credit risk (continued)

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to the external credit rating and default rates published by Standard and Poor's :

	2018	2017
Investments, amortised cost		
AAA **	37,576	27,817
AA+ **	70,546	80,962
** Moody's equivalent grade is Aaa.	108,122	108,779
Cash and cash equivalents		
Cash at bank and in-hand		
AA+	338	265
AA	345	316
A-	790	356
BBB	300	627
Not rated	23	18
	1,796	1,582
Overnight repurchase agreements		
AA+	43,200	45,100
	44,996	46,682

Investments, amortised cost

This account consists of:

	2018	2017
US Government and US Government Agencies	70,546	80,962
Supranational Bank	37,576	27,817
	108,122	108,779

Impairment on cash and cash equivalents and investments held at amortised cost was measured on a 12-month ECL basis. This conclusion was based on the fact that:

- the Authority considers that its cash and cash equivalents and investments have a low credit risk based on the external credit ratings of the counterparties;
- there was no significant change in the credit rating of any of the counterparties over the last 12 months.

(In thousands of Bermuda dollars)

3. Financial risk management (continued)

(b) Credit risk (continued)

The Authority held cash and cash equivalents of $44,996 at December 31, 2018 (2017- $46,682). The cash and cash equivalents are held with bank and financial institution counterparties, which are rated BBB to AA+, based on Standards and Poor's ratings.

Impairment on cash and cash equivalents has been measured on a 12-month ECL basis and reflects the short maturities of the exposures. The Authority considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

The Authority uses a similar approach for assessment of ECLs for cash and cash equivalents to those used for debt securities.

On initial application of IFRS 9, the Authority recognised an impairment allowance as at January 1, 2018 in the amount of $1. The amount of the allowance did not change significantly at December 31, 2018.

The following table presents an analysis of the credit quality of investments at amortised cost (2017 - held-to-maturity). It indicates whether assets measured at amortised cost were subject to a lifetime ECL allowance and, in the latter case, whether they were credit-impaired.

	2018 At amortised cost	2017 Held-to-maturity
Investments		
AAA	37,689	27,817
AA+	70,642	80,962
Gross carrying amount	108,331	108,779
Less allowance	(209)	-
	108,122	108,779

The Authority did not have any investments that were past due or impaired at December 31, 2017.

(In thousands of Bermuda dollars)

3. Financial risk management (continued)

(b) Credit risk (continued)

The movement in the allowance for impairment for investments at amortised cost (2017 - held-to-maturity) during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

	2018 12-month ECL Credit impaired	2017 Held-to-maturity
Balance at January 1 under IAS 39	-	-
Adjustment on initial application of IFRS 9	245	-
Balance at January 1 under IFRS 9	245	-
Adjustment on impairment allowance	(36)	-
Balance at December 31	209	-

The decline in the loss allowance was mainly due to decrease in credit risk as the lifetime of securities shortens.

Amortisation or accretion of the premiums/discounts on investments is included in "Investment income" (Note 17) in the statement of comprehensive income.

(c) Market risk

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

(i) Interest rate risk

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

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

(In thousands of Bermuda dollars)

3. Financial risk management (continued)

(c) Market risk (continued)

Sensitivity to interest rate risk

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

		2018		2017
	+1%	-1%	+1%	-1%
Change in comprehensive (loss)/income/equity due to movement of percentage point across yield curves:				
US dollar overnight repurchase agreement with the US Federal Reserve	541	(541)	524	(443)
US dollar quoted securities	1,073	(1,073)	1,076	(1,076)
Total	1,614	(1,614)	1,600	(1,519)

An increase in interest rates of 1% would result in additional income of $1,614 (2017 - $1,600). A decrease in interest rates of 1% would result in a decrease in income of $1,614 (2017- $1,519).

(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, 2018 and 2017, the Authority did not hold a significant amount of foreign currency other than US dollars, which are par with Bermuda dollars. Given the small size of the net foreign currency exposure relative to the total assets of the Authority, currency risk is not considered material.

(iii) Price risk

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

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

(In thousands of Bermuda dollars)

3. Financial risk management (continued)

(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 and investments. In the event of an unexpected redemption of bank notes, the Authority has the ability to settle the obligation by selling its assets.

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

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

As at December 31, 2018

	Total	No fixed maturity	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
FINANCIAL ASSETS						
Cash and cash equivalents	44,996	44,996	-	-	-	-
Investments (fair value)	105,822	-	-	5,061	51,183	49,578
Accounts and other receivables	1,834	1,834	-	-	-	-
Total financial assets	152,652	46,830	-	5,061	51,183	49,578
FINANCIAL LIABILITIES						
Notes and coins in circulation	141,915	141,915	-	-	-	-
Accounts and other payables	6,783	6,783	-	-	-	-
Deferred income	488	488	-	-	-	-
Total financial liabilities	149,186	149,186	-	-	-	-
Net maturity difference	3,466	(102,356)	-	5,061	51,183	49,578

(In thousands of Bermuda dollars)

3. Financial risk management (continued)

(d) Liquidity risk (continued)

As at December 31, 2017

	Total	No fixed maturity	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
FINANCIAL ASSETS						
Cash and cash equivalents	46,682	46,682	-	-	-	-
Investments (fair value)	107,476	-	10,079	13	27,262	70,122
Accounts and other receivables	893	893	-	-	-	-
Total financial assets	155,051	47,575	10,079	13	27,262	70,122
FINANCIAL LIABILITIES						
Notes and coins in circulation	140,734	140,734	-	-	-	-
Accounts and other payables	6,612	6,612	-	-	-	-
Deferred income	431	431	-	-	-	-
Total financial liabilities	147,777	147,777	-	-	-	-
Net maturity difference	7,274	(100,202)	10,079	13	27,262	70,122

(e) Operational risk

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

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

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

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

4. Critical accounting estimates and judgements

4.1 Fair value estimation

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

4.2 Use of estimates and judgements

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

Estimates in these financial statements include:

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

Actual results could differ from these estimates.

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

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

(In thousands of Bermuda dollars)

5. Cash and cash equivalents

This account consists of:

	2018	2017
Cash at bank and in hand	1,796	1,582
Overnight repurchase agreement with the US Federal Reserve	43,200	45,100
Total	44,996	46,682

Cash at bank earns interest at an effective rate of 2.14% (2017 – 1.04%)

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:

	2018	2017
Accounts receivable	1,729	942
Less: provision for impairment of receivables	(545)	(755)
Accounts receivable – net	1,184	187
Accrued interest	650	706
Total	1,834	893

The ageing analysis of these receivables are as follows:

	2018	2017
Up to 3 months	1,184	187
Total	1,184	187

(In thousands of Bermuda dollars)

6. Accounts and other receivables (continued)

As at December 31, 2018, accounts receivable of $545 (2017 - $755) were impaired and fully provided for. The individually impaired receivables mainly relate to fees charged to regulated entities. The ageing of these receivables is as follows:

	2018	2017
Up to 3 months	14	18
3 to 6 months	36	42
Over 6 months	495	695
Total	545	755

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

	2018	2017
Balance as at January 1	755	1,390
Release of provision for impairment of receivables	(210)	(635)
Balance as at December 31	545	755

The creation and release of the provision for impairment of receivables has been presented as a separate line in the statement of comprehensive income. The Authority provides 100% for all trade balances that are greater than 90 days past due. Amounts charged to the provision for impairment of accounts receivable are generally written off when there is no expectation of recovery. No ECL was recognised on the balances less than 90 days due. However, a specific provision was made against late penalty fees less than 90 days past due.

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:

	2018	2017
Commemorative notes and coins	761	783
Circulation notes and coins	19	19
Bullion for inventory production	179	165
Provisions	(149)	(122)
	810	845

(In thousands of Bermuda dollars)

8. Stock of notes and coins for circulation

This account consists of:

	2018	2017
Notes	4,458	4,671
Coins	438	344
	4,896	5,015

The cost of stocks recognised as expenses and included in “circulation note and coin expenses” amounted to $390 (2017 - $641).

9. Property and equipment

This account consists of:

	Land, building and improvements	Computer equipment	Furniture and fixtures	Museum items	Total
At January 1, 2018					
Cost	31,111	3,014	2,987	72	37,184
Accumulated depreciation	(9,592)	(2,062)	(2,897)	-	(14,551)
Net book amount	21,519	952	90	72	22,633
Additions	-	362	1	-	363
Disposals – cost	-	(129)	-	-	(129)
Disposals - accumulated depreciation	-	129	-	-	129
Depreciation charge	(776)	(426)	(65)	-	(1,267)
Closing net book amount	20,743	888	26	72	21,729
At December 31, 2018					
Cost	31,111	3,247	2,988	72	37,418
Accumulated depreciation	(10,368)	(2,359)	(2,962)	-	(15,689)
Net book amount	20,743	888	26	72	21,729

(In thousands of Bermuda dollars)

9. Property and equipment (continued)

This account consists of:

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

Depreciation of $1,267 (2017- $1,319) has been charged in the statement of comprehensive income.

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

	2018	2017
Furniture and fixtures	2,910	2,512
Computer equipment	1,365	1,360

(In thousands of Bermuda dollars)

10. Intangible assets

This account consists of:

	Computer Software					
	2018			2017		
	Internally developed	Externally acquired	**Total**	Internally developed	Externally acquired	**Total**
At January 1						
Cost	5,738	6,373	**12,111**	5,758	3,951	**9,709**
Accumulated amortisation	(5,737)	(2,195)	**(7,932)**	(5,622)	(1,841)	**(7,463)**
Net book amount	1	4,178	**4,179**	136	2,110	**2,246**
Additions	-	2,026	**2,026**	-	2,563	**2,563**
Disposals – cost	(64)	(294)	**(358)**	(20)	(141)	**(161)**
Disposals - accumulated amortisation	64	294	**358**	20	141	**161**
Amortisation charge	(1)	(630)	**(631)**	(135)	(495)	**(630)**
Closing net book amount	-	5,574	**5,574**	1	4,178	**4,179**
At December 31						
Cost	5,674	8,105	**13,779**	5,738	6,373	**12,111**
Accumulated amortisation	(5,674)	(2,531)	**(8,205)**	(5,737)	(2,195)	**(7,932)**
Net book amount	-	5,574	**5,574**	1	4,178	**4,179**

Amortisation of $631 (2017 - $630) is included in the statement of comprehensive income.

The cost of software fully amortised and still in use in 2018 is $6,706 (2017 - $6,817).

There were no research and development costs charged to the statement of comprehensive income in 2018 and 2017.

11. Accounts and other payables

This account consists of:

	2018	2017
Accrued expenses	4,951	5,027
Accounts payable	240	61
Amounts due to related parties (Note 22)	1,592	1,524
	6,783	6,612

(In thousands of Bermuda dollars)

12. Deferred income

This account consists of:

	2018	2017
Advances from licensees	404	383
Incorporation and specific application fees	47	11
Jardine property takeover fees	37	37
	488	431

13. Notes and coins in circulation

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

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

At December 31, 2018, the Authority was required to hold a reserve of external assets of at least $70,958 (2017 - $70,367) and the actual external assets held totalled $152,005 (2017 - $154,460).

As indicated in Note 3(d), at December 31, 2018, the fair value of the Authority's total financial assets exceeded its financial liabilities by $3,466 (2017- $7,274).

14. Equity

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

(a) Capital

The Authority's authorised capital of $30,000 can be subscribed at such times and in such amounts as the Board, with the approval of the Minister of Finance (the "Minister"), may require. As at December 31, 2018 capital of $20,000 (2017- $20,000) has been subscribed.

The Authority is not in violation of any externally imposed capital requirements at the statement of financial position date. See Note 13 - notes and coins in circulation.

(In thousands of Bermuda dollars)

14. Equity (continued)

(b) General Reserve

A general reserve of $19,757 (2017 - $21,767) has been established and maintained in accordance with Section 8 of the Act.

15. Revenue from contracts with licensees and customers

The effect of initially applying IFRS 15 on the Authority's revenue from contracts with customers is described in Note 2.14.

(a) Revenue streams

The Authority generates revenue primarily from supervisory and licensing fees. Other sources of revenue include investment income, vault commission, incorporation fee and sale of numismatic items.

	2018	2017
Revenue from contracts with licensees and customers		
Contracts with licensees	44,505	42,340
Contracts with customers	58	44
Other contracts	75	130
	44,638	42,514
Other revenue		
Investment income (Note 17)	3,578	3,358
Revenue from fines, penalties and other income (Note 16)	400	1,889
	3,978	5,247
Total revenues	48,616	47,761

(In thousands of Bermuda dollars)

15. Revenue from contracts with licensees and customers (continued)

(b) Disaggregation of Revenue from contracts with licensees and customers

In the following tables, revenue from contracts with licensees and customers is disaggregated by type of fees and timing of revenue recognition.

(i) Type of fees

	2018	2017
Licensing fees		
Insurance fees	36,637	34,672
Bank and deposit company fees	4,558	4,553
Investment funds	987	1,044
Investment business licence fees	653	647
Trust company fees	557	619
Anti-money laundering fees (“AML fees”)	336	351
Corporate Service Provider fees (“CSP fees”)	317	1
Digital Asset Business Act Fees	7	-
Credit Union licence fees	3	3
	44,055	41,890
Other revenue		
Vault commission	450	450
Jardine property takeover	75	75
Sale of numismatic items	58	44
Staff secondment fees	-	55
	583	624
Total revenues	44,638	42,514

(ii) Timing of revenue recognition

	2018	2017
At a point in time		
Incorporation and specific application fees	3,323	2,718
Sale of numismatic items	58	44
	3,381	2,762
Over time		
Supervisory and licensing fees (annual business fees)	40,732	39,172
Vault commission	450	450
Other contracts	75	130
	41,257	39,752
Total revenues	44,638	42,514

(In thousands of Bermuda dollars)

15. Revenue from contracts with licensees and customers (continued)

(c) Contract balances

	2018	2017
Contract assets		
Receivables which are included in "trade and other receivables" (Note 6)	1,184	187
	1,184	187
Contract liabilities		
Deferred income (Note 12)	488	431
	488	431

(d) Performance obligations and revenue recognition policies

(i) Contracts with licensees

Revenue stream	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from January 1, 2018)	Revenue recognition under IAS 18 (applicable before January 1, 2018)
Supervisory and licensing fees	Supervisory and licensing fees are invoiced for a calendar year or part thereof. The Authority renders the performance obligation throughout the calendar year in form of licensing and provision of supervisory duties. Payment is due by the last working day of January for the banks and due by March 31, for the rest of the licensees.	Revenue is recognised over the calendar year period to which it relates.	Revenue is recognised over the calendar year period to which it relates.
Incorporation fees and specific application fees	Incorporation fees and specific application fees relate to applications for incorporations or any other specific applications by the registrants. The performance obligation is satisfied when the applications are completed and approved. Payment is due on demand as soon as the invoice is raised after the performance obligation has been satisfied.	Revenue is recognised at the point in time when the Authority's performance obligation has been satisfied.	Incorporation fees are recorded as revenue when the related service is rendered, which is when the applications for incorporations are completed and approved.

15. Revenue from contracts with licensees and customers (continued)

(d) Performance obligations and revenue recognition policies (continued)

(i) Contracts with licensees (continued)

Revenue stream	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from January 1, 2018)	Revenue recognition under IAS 18 (applicable before January 1, 2018)
Currency warehousing contracts (vault commission)	The performance obligation is the warehousing and vault facility services provided by the Authority to the respective Banks throughout the year. The payment is due on the last working day of January of every calendar year.	Revenue is recognised over the calendar year period to which it relates.	Revenue is recognized over the calendar year period to which it relates.

(ii) Contracts with customers

Revenue stream	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from January 1, 2018)	Revenue recognition under IAS 18 (applicable before January 1, 2018)
Sale of numismatic items	The performance obligation is the provision of special coins to customers in exchange for a consideration. The payment is due at a point in time when the performance obligation is satisfied.	Revenue is recognized at a point in time when the performance obligation is satisfied.	Revenue is recognized when ownership of the goods has passed to the buyer.

(In thousands of Bermuda dollars)

16. Revenue from fines, penalties and other income

This account consists of:

	2018	2017
Late penalty fees	229	195
Insurance fines	154	119
Miscellaneous Income	17	75
Anti-money laundering fines (“AML fines”)	-	1,500
	400	1,889

In accordance with Section 24 (5) of the Proceeds of Crime Regulations (AML and ATF Supervision and Enforcement) Act 2008, AML fees in the amount of $336 (2017 - $351) were recognized as revenue and expenses in the amount of $2,277 (2017 - $1,567) were incurred.

AML fines in the amount of $nil (2017 -$1,500) were recognised as other income.

17. Investment income

This account consists of:

	2018	2017
Interest on investments, amortised cost	2,857	3,227
Interest earned on overnight repurchase agreement with the US Federal Reserve	982	468
Net amortisation/accretion of premiums/discounts on Investments, amortised cost	(261)	(337)
	3,578	3,358

(In thousands of Bermuda dollars)

18. Salaries and employee benefits

This account consists of:

	2018	2017
Salaries and bonuses	31,453	29,533
Payroll tax	3,308	3,134
Pension costs	1,302	1,271
Health insurance	1,213	1,150
Life insurance	434	416
Directors' fees	396	403
Social insurance costs	356	335
Other benefits	90	51
	38,552	36,293

The Authority has 196 employees at December 31, 2018 (2017 – 184).

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 balance of prepaid contributions as at December 31, 2018 amounted to $33 (2017 - $nil) and is included in prepayments. The Authority's contributions to the Plan during the year were $1,297 (2017 - $1,205).

18. Salaries and employee benefits (continued)

(ii) Defined benefit plan

The Authority contributes to the Public Service Superannuation Fund ("PSSF" or the "Fund"), which is a defined benefit plan, administered by the Government and covers the remainder of the Authority's eligible employees, all of whom were previous employees of the Government. Contributions of 8% (2017 – 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 $93 (2017 - $127).

(b) Other employee benefits

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

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

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

Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation liability as at December 31, 2018 was $575 (2017- $536) and is included in accounts and other payables.

Certain employees are entitled to special retirement benefits based upon their years of service at the time of retirement. The present value of the special retirement benefits obligation depends on a number of factors that are determined on an actuarial basis. Two key assumptions used in calculating this liability include the discount rate and salary inflation. Any changes in these assumptions will affect the carrying amount of the liability. During the year, special retirement benefits of $nil (2017 – $104) were paid or about to be paid out. The liability as at December 31, 2018 was $292 (2017 - $266) and is included in accounts and other payables.

(In thousands of Bermuda dollars)

19. General expenses

This account consists of:

	2018	2017
Premises and office	4,082	3,830
Conferences, seminars, education and training	1,249	1,088
Recruitment and repatriation	442	343
Communication	381	416
Annual business fees written off	331	795
Other	320	275
Net foreign exchange loss	82	56
Public relations	80	78
Advertising	73	70
Provision for impairment on numismatic items	27	2
	7,067	6,953

20. Cash generated from operations

	2018	2017
Non-cash items included in total comprehensive loss for the year		
Depreciation of property and equipment (Note 9)	1,267	1,319
Amortisation of intangible assets (Note 10)	631	630
Amortisation/accretion of premiums/discounts on investments, amortised cost (Note 17)	261	337
Provision for impairment of cash and cash equivalents and investments (Note 3)	(36)	-
Provision for impairment of receivables (Note 6)	(210)	(635)
Provision for impairment on numismatic items (Note 19)	27	2
	1,940	1,653

(In thousands of Bermuda dollars)

20. Cash generated from operations (continued)

	2018	2017
Change in operating assets		
Stock of notes and coins for circulation	119	567
Stock of numismatic items	8	13
Accounts and other receivables	(731)	693
Prepayments	(464)	279
	(1,068)	1,552

	2018	2017
Change in operating liabilities		
Accounts and other payables	171	595
Deferred income	57	187
	228	782

21. Commitments

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

Annual contractual commitments are as follows:

	2018	2017
2018	-	1,671
2019	1,205	495
2020	768	447
2021	259	442
2022	167	-
Thereafter	324	11
	2,723	3,066

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

	2018	2017
Intangible assets	24	772
	24	772

(In thousands of Bermuda dollars)

22. Related-party transactions

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

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

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

	2018	2017
Staff expenses:		
Payroll tax	3,308	3,134
Social insurance	356	335
Pension costs - PSSF	93	127
Premises expense - land tax	225	222
Professional fees – audit	96	93
Other general expenses - immigration fees	135	80
Office expense - postage	3	5

At December 31, 2018, payroll tax amounting to $1,592 (2017 - $1,524) remains outstanding (Note 11).

Board and key management compensation

The Directors of the Board of the Authority are appointed by the Minister to serve for fixed periods of time. The Board, through its Human Capital Committee, oversees the appointment, performance and compensation of the executive leadership team. Board members are paid an annual fee of $20 (2017 - $20), Board sub-committee Chairmen are paid an annual fee of $25 (2017 - $25) and the Board Chairman receives an annual fee of $75 (2017 - $75). Travel expenses of $98 (2017 - $107) were paid to overseas board members.

The Chief Executive Officer is paid a salary of $500 (2017 - $500) and is eligible for a performance-based bonus of up to 45% (2017 – 45%) of salary. With effect from 2015, the CEO is eligible for a retention bonus which accrues annually at rate of 10% of his annual base salary through December 31, 2019.

Salaries of the other seven members of the executive team range from $241 to $373 (2017 - $238 to $364), with a performance-based bonus of up to 30% (2017 – 30%) of salary.

(In thousands of Bermuda dollars)

22. Related-party transactions (continued)

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

	2018	2017
Directors’ fees	396	403
Executive management salaries, bonuses and other short-term employee benefits	3,500	3,531
Retention bonus	50	50
Post-employment benefits	175	177

23. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year’s presentation.

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