

OFFERING MEMORANDUM



GOVERNMENT OF BERMUDA

US\$475,000,000

4.138% Senior Notes Due 2023

The Government of Bermuda is offering \$475,000,000 aggregate principal amount of its 4.138% Senior Notes due 2023. The notes will bear interest at a rate of 4.138% per year, accruing from July 3, 2012. Interest will be payable on January 3 and July 3 of each year, commencing on January 3, 2013.

The notes will mature on January 3, 2023, unless earlier redeemed. The Government may redeem the notes, in whole but not in part, at any time by paying the greater of the outstanding principal amount of the notes and a “make-whole” amount. See “Description of the Notes – Optional Redemption.”

The notes will be general, direct, unconditional, unsubordinated and unsecured obligations of the Government and will rank *pari passu* with all of its other existing and future unsubordinated and unsecured debt. The notes will be backed by the full faith and credit of the Government.

Application has been made to list the notes on the official list of the Luxembourg Stock Exchange and to trading on the Euro MTF Market (the “Euro MTF Market”). Application will also be made to list the notes on the Bermuda Stock Exchange (the “BSX”). Bermuda International Securities Limited has been appointed as the BSX listing sponsor for the notes.

The BSX takes no responsibility for the contents of this document, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon any part of the contents of this document.

Investing in the notes involves risks. See “Risk Factors” beginning on page 5 of this offering memorandum.

Offering Price: 100.0%, plus accrued interest, if any, from July 3, 2012

The notes have not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or the securities laws of any other jurisdiction. The notes will be offered only to qualified institutional buyers in the United States under Rule 144A of the Securities Act and to persons outside the United States under Regulation S of the Securities Act. For a description of certain restrictions on transfer of the notes, see “Transfer Restrictions” and “Plan of Distribution.”

This offering memorandum constitutes a prospectus according to Luxembourg law dated July 10, 2005 on Prospectuses for Securities.

This offering memorandum includes particulars given in compliance with the listing regulations of the Luxembourg Stock Exchange and the BSX for the purpose of giving information with regard to the Government.

The notes are expected to be delivered to purchasers on or about July 3, 2012 in book-entry form only through the facilities of The Depository Trust Company (“DTC”) and its direct and indirect participants, including Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme*.

Sole Lead Manager and Bookrunner

HSBC

The date of this offering memorandum is July 3, 2012

The information contained in this offering memorandum has been provided by us and other sources identified in this offering memorandum, which we believe to be reliable. No representation or warranty, express or implied, is made by the initial purchaser as to the accuracy or completeness of the information contained in this offering memorandum, and nothing contained in this offering memorandum is, or should be relied upon as, a promise or representation by the initial purchaser, whether as to the past or the future.

The notes described in this offering memorandum have not been registered with, recommended by or approved by the U.S. Securities and Exchange Commission (the “SEC”), or any other U.S. federal or state securities commission or regulatory authority, nor has the SEC or any such state securities commission or authority passed upon the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense.

Each person receiving this offering memorandum is deemed to acknowledge that this offering memorandum does not contain all the information that would be included in a prospectus if this offering were registered under the Securities Act. In addition, certain information included in this offering memorandum may not conform with the requirements for offerings under the Securities Act.

This offering memorandum may be used only for the purposes for which it has been published. You must comply with all applicable laws and regulations in connection with the distribution of this offering memorandum and the offer or sale of the notes. See “Transfer Restrictions.” You are not to construe the contents of this offering memorandum as investment, legal or tax advice. You should consult your own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of a purchase of the notes. We are not, and the initial purchaser is not, making any representation to you regarding the legality of an investment in the notes by you under applicable laws.

In making an investment decision regarding the notes, you must rely on your own examination of the Government and the terms of the offering, including, without limitation, the merits and risks involved. The offering is being made on the basis of this offering memorandum. Any decision to purchase notes in the offering must be based on the information contained in this offering memorandum.

This offering memorandum contains summaries, believed to be accurate, of some of the terms of specific documents, but reference is made to the actual documents, copies of which will be made available upon request, as indicated under “General Information.” All summaries are qualified in their entirety by this reference.

The notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws pursuant to registration or exemption therefrom. See “Transfer Restrictions.” You should be aware that you may be required to bear the financial risks of an investment in the notes for an indefinite period of time.

No person is authorized in connection with any offering made by this offering memorandum to give any information or to make any representation not contained in this offering memorandum and, if given or made, any other information or representation must not be relied upon as having been authorized by us or the initial purchaser. The information contained in this offering memorandum is presented as of the date hereof and subject to change, completion or amendment without notice. Neither the delivery of this offering memorandum at any time nor any subsequent commitment to enter into any financing shall, under any circumstances, create any implication that there has been no change in the information set forth in this offering memorandum or in our affairs since the date of this offering memorandum.

We reserve the right to withdraw the offering of the notes at any time, and we and the initial purchaser reserve the right to reject any commitment to subscribe for the notes in whole or in part and to allot to you less than the full amount of notes subscribed for by you. We are making this offering subject to the terms described in this offering memorandum.

This offering memorandum does not constitute an offer to sell or a solicitation of an offer to buy the notes to any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this offering memorandum and the offer and sale of the notes may be restricted by law in certain jurisdictions. Persons

into whose possession this offering memorandum or any of the notes come must inform themselves about, and observe, any such restrictions. See “Plan of Distribution” and “Transfer Restrictions.”

Application has been made to list the notes on the official list of the Luxembourg Stock Exchange and to trading on the Euro MTF Market. Application will also be made to list the notes on the BSX. We will use our reasonable efforts to facilitate the listing and maintenance of the listing of the notes on the official list of the Luxembourg Stock Exchange for trading on the Euro MTF Market and the BSX so long as such notes are outstanding; *provided* that, if at any time we determine that maintenance of either listing becomes unduly onerous or requires disclosure of information beyond what we would be required to make publicly available in Bermuda, we may delist the notes from the official list of the Luxembourg Stock Exchange and the Euro MTF Market or the BSX, as the case may be. If the notes are delisted from the official list of the Luxembourg Stock Exchange and the Euro MTF Market, we will use our reasonable efforts to list the notes on another internationally recognized securities exchange.

This offering memorandum includes particulars given in compliance with the listing regulations of the Luxembourg Stock Exchange for trading on the Euro MTF Market and the BSX for the purpose of giving information with regard to the Government. The Government accepts full responsibility for the accuracy of the information contained in this offering memorandum and confirms having made all reasonable inquiries, that to the best of the Government’s knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B OF THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

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PRESENTATION OF ECONOMIC, FINANCIAL AND STATISTICAL INFORMATION

Economic and financial data and statistical information provided in this offering memorandum may be subsequently revised in accordance with our ongoing review of such data and information, and we are not obligated to distribute such revised data and information to any investor. In addition, some economic and financial data and statistical information presented herein include estimates and forecasts based on available data and, accordingly, are subject to revision.

Unless otherwise indicated, estimates in this offering memorandum are estimates of our Ministry of Finance, Ministry of Business Development and Tourism, Department of Statistics or the Bermuda Monetary Authority. Unless otherwise indicated, references to years are to the relevant calendar years. References to fiscal years are to our fiscal year, which begins April 1 of each year and ends on March 31 of the following year (*e.g.*, 2011/2012 fiscal year refers to the fiscal year that began on April 1, 2011 and ended on March 31, 2012).

The Accountant General of the Ministry of Finance of the Government issues historical financial statements of the Government's Consolidated Fund that are prepared in accordance with generally accepted accounting principles in Canada and on an accrued accounting basis. These financial statements are prepared on a different basis from the revenue/expenditure and debt information included in this offering memorandum, which information has been prepared on a modified cash basis. The financial statements as of and for the fiscal years ended March 31, 2011 and 2010 are available on the Government's website at www.gov.bm. These financial statements and any other information on the Government's website are not part of, or incorporated by reference in, this offering memorandum. The financial information provided for the 2011/2012 fiscal year and any subsequent period, are preliminary estimates or projections, respectively, based on the information currently available to the Government, which is subject to change.

In this offering memorandum, references to "GDP" are to gross domestic product. References to "real GDP" are to real gross domestic product at constant 1996 prices (which is GDP at 1996 prices less net indirect taxes); and references to "nominal GDP" are to nominal gross domestic product (which is GDP at current market prices less net indirect taxes). References to "GDP per capita" are to nominal GDP divided by the mid-year average population of the relevant year. The latest period for which GDP is available is the calendar year ended December 21, 2010. GDP data for periods ending after December 31, 2010 has not been finalized, and the GDP data for such periods included in this offering memorandum reflect the Government's preliminary estimates based on the information currently available to the Government, which is subject to change.

In this offering memorandum, references to dollars are to the U.S. dollar as well as the Bermuda dollar, which is pegged to the U.S. dollar at an exchange rate of one U.S. dollar to one Bermuda dollar.

Totals in certain tables in this offering memorandum may differ from the sum of the individual items in such tables due to rounding.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains certain forward-looking statements regarding the Government. All statements relating to the Government, other than statements of historical fact, included or referenced in this offering memorandum which address activities, events or developments that the Government expects or anticipates will or may occur in the future are forward-looking statements. The words “will,” “believe,” “intend,” “expect,” “anticipate,” “project,” “estimate,” “predict” and similar expressions are also intended to identify forward-looking statements. These statements are based on certain assumptions and analyses the Government has made in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors believed to be appropriate in the circumstances. However, actual results and developments may not conform with expectations and predictions due to risks and uncertainties that could cause actual results to differ materially from expectations, including, among others, the following:

- political, economic and other conditions in Bermuda and globally;
- our financial condition and budgeted revenues and expenditures, including, for example, our ability to increase revenues and reduce expenditures;
- legislative, regulatory or administrative initiatives affecting businesses, including insurance companies and other financial services businesses in Bermuda;
- changes in tax and other laws in the United States or Bermuda and other major financial centers that may affect the attractiveness of financial services in Bermuda;
- economic conditions in the United States and the European Union that may result in lower demand for financial services or tourism in Bermuda;
- declines in demand for financial services or tourism in Bermuda, due to competition from other countries or otherwise;
- prevailing conditions in domestic, international and multilateral lending markets and domestic and international capital markets that may affect our ability to finance budgetary requirements, to refinance outstanding debt and other obligations or to finance new projects;
- weather, climatic or geological occurrences, particularly hurricanes and tropical storms;
- terrorism, particularly acts of terror outside of Bermuda that affect financial markets or tourism within Bermuda;
- changes in interest rates or exchange rates;
- a reduction in our foreign currency reserves;
- the financial condition and liquidity of banks and other financial institutions in Bermuda;
- trade and tariff policies of Bermuda’s trading partners;
- declines in tax revenues;
- revisions to economic, financial and statistical information; and
- other factors identified in this offering memorandum.

All of the forward-looking statements related to the Government made in this offering memorandum are qualified by cautionary statements. The Government assumes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information in this offering memorandum. In this offering memorandum, references to “we,” “us,” “our,” and “the Government” are to the Government of Bermuda, and references to “Bermuda” are to Bermuda, a self-governing British Overseas Territory, in each case unless otherwise indicated.

Bermuda

Bermuda is a self-governing British Overseas Territory comprising the Bermudas or Somers Islands, an archipelago of some 150 islands in the Atlantic Ocean about 570 nautical miles south-east of North Carolina. Bermuda covers an area of approximately 21 square miles and has a population of approximately 64,237 as of May 20, 2010. Per capita nominal GDP in 2010 was \$89,739, one of the highest in the world.

The economy of Bermuda is based primarily on international business and tourism. The largest concentrations of international companies are involved in the insurance and financial services sectors. In 2010 (the latest year for which official GDP is available), international companies and tourism, both of which are significant sources of foreign exchange earnings, represented approximately 25.4% and approximately 4.7%, respectively, of Bermuda’s estimated nominal GDP of \$5.76 billion or real GDP of \$5.25 billion. International business and tourism together represented an estimated approximately 72.1% of the total balance of current account receipts of foreign exchange for 2011.

In 2010, the Bermudian economy contracted by 0.7% based on current market prices. Nominal 2010 GDP was just over \$5.7 billion, reflecting a decline of approximately \$41.8 million from the 2009 nominal GDP of approximately \$5.8 billion. When adjusted for inflation, the level of economic activity, or real GDP, decreased by 1.9%. This rate was below the five year average (2006-2010) of a 0.6% increase, and illustrates that the Bermudian economy was still recovering from the adverse effects of the 2008-2009 global economic and financial crisis. In comparison, the United States, which is Bermuda’s largest trading partner, experienced real GDP growth of 3.0% in 2010. The Ministry of Finance estimates that Bermuda’s GDP may have contracted by 1.5% to 2.5% in 2011, and that it will decline between 1.0% and 2.0% in 2012. If the recovery in the United States and other major countries around the world is sustained, the Ministry of Finance expects Bermuda to begin to see positive, but still historically moderate growth in 2013 and 2014.

On March 27, 2012, the Government amended the Government Loans Act 1978 to increase the legal limit for loans (net of the Sinking Fund balance, as defined herein) from \$1.25 billion to \$1.45 billion. See “Bermuda – Public Debt – Sinking Fund.” At March 31, 2012, the Government had total debt outstanding of \$1.35 billion. The amount of total debt does not include the following obligations: a guarantee by the Government of the Bermuda Hospital Board’s payment streams related to the repayment of construction financing for a new hospital, estimated at \$260 million over a term of 30 years; the guarantee by the Government in respect of \$200 million in aggregate liquidation preference of preference shares issued on June 12, 2009 by the Bank of N.T. Butterfield & Son Limited, which guarantee is for a period of ten years from the date of the issuance of the preference shares; a guarantee by the Government of the West End Development Corporation payment streams related to the repayment of construction financing for the construction of affordable housing, estimated at \$36 million; a guarantee on a loan of \$7.1 million to the West End Development Corporation to facilitate the completion of the new sewage treatment plant at the Royal Navy Dockyard; or \$0.5 million of national education guarantees. This amount also does not reflect the estimated Sinking Fund balance of \$113.3 million at March 31, 2012. See “Bermuda – Public Debt.”

The Government currently holds long-term foreign currency credit ratings of “Aa2” (stable outlook) from Moody’s Investor Services (“Moody’s”), “AA-” (stable outlook) from Standard and Poor’s (“S&P”), and “AA” (stable outlook) from Fitch, Inc. (“Fitch”). On June 26, 2012, Fitch lowered its foreign currency long-term sovereign credit rating on Bermuda to “AA” from “AA+” with a stable outlook.

The Offering

Issuer	Government of Bermuda.
Issue.....	\$475,000,000 aggregate principal amount of 4.138% Senior Notes due 2023 of the Government.
Final Maturity Date	January 3, 2023.
Interest Rate	4.138% per year, accruing from July 3, 2012.
Interest Payment Dates	January 3 and July 3 of each year, commencing on January 3, 2013.
Status; Ranking.....	The notes will be general, direct, unconditional, unsubordinated and unsecured obligations of the Government. The notes will rank <i>pari passu</i> with all other present and future unsecured and unsubordinated indebtedness of the Government. The notes will be backed by the full faith and credit of the Government. See “Description of the Notes – General – Basic Terms” and “Description of the Notes – Covenants.”
Additional Amounts	Principal of and interest on the notes will be payable by the Government without withholding or deduction for or on account of withholding taxes. In the event that the Government is required to withhold or deduct taxes, duties, assessments or charges, the Government will, subject to certain exceptions, pay such Additional Amounts (as defined in “Description of the Notes – Additional Amounts”) as necessary to enable the holders of the notes to receive the amounts after such withholding or deduction which they would have received absent such withholding or deduction. See “Description of the Notes – Additional Amounts.”
Optional Redemption.....	We may redeem the notes, in whole but not in part, at any time by paying the greater of the outstanding principal amount of the notes and a “make-whole” amount, in each case plus accrued and unpaid interest. See “Description of the Notes – Optional Redemption.”
Covenants	The indenture governing the notes contains covenants restricting, among other things, the incurrence of Liens. These covenants are, however, subject to significant exceptions. See “Description of the Notes – Covenants.”
Use of Proceeds	The net proceeds from the issuance of the notes will be used to repay existing debt, to fund capital expenditure programs and for other budgeted governmental purposes. See “Use of Proceeds.”
Form	The notes will be issued in the form of global notes without coupons registered in the name of a nominee of The Depository Trust Company and its direct and indirect participants, including Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme.
Denominations.....	Each note will be issued in denominations of \$200,000 and integral multiples of \$1,000 in excess thereof.

Transfer Restrictions.....	The notes have not been registered under the Securities Act. The notes are subject to restrictions on transfer and may only be offered in transactions exempt from or not subject to the registration requirements of the Securities Act. See “Transfer Restrictions.”
Listing.....	Application has been made to list the notes on the official list of the Luxembourg Stock Exchange and to trading on the Euro MTF Market. Application will also be made to list the notes on the BSX.
Governing Law	The notes and the indenture will be governed by, and construed in accordance with, the laws of the State of New York.
Trustee	The Bank of New York Mellon.
CUSIP, ISIN and Common Code	For the Rule 144A Notes, the CUSIP number is 085209 AB0, the ISIN number is US085209AB07 and the common code is 080073704. For the Regulation S Notes, the CUSIP number is G10367 AA1, the ISIN number is USG10367AA14 and the common code is 080073682.
Risk Factors	See “Risk Factors” beginning on page 5 of this offering memorandum for a discussion of factors that you should carefully consider before deciding to invest in the notes.

Summary Historical Consolidated Economic and Financial Information

	As of or for fiscal year ended March 31 (except as specified),					Estimated
	2007	2008	2009	2010	2011	2012 ⁽¹⁾
	(dollars in millions, except ratios and GDP per capita)					
Bermuda's economic data						
Nominal GDP ⁽²⁾	5,895.0	6,109.9	5,806.4	5,764.6	5,724.2 ⁽⁴⁾	5,781.5
Nominal GDP growth (%) ^{(2) (3)}	8.9%	3.6%	(5.0)%	(0.7)%	(0.7)%	1.0%
Population ⁽²⁾	64,009	64,209	64,395	64,566	64,722	64,867
Population growth (%) ^{(2) (3)}	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%
GDP per capita ⁽²⁾	92,097	95,157	90,168	89,282	88,474 ⁽⁴⁾	89,128
Inflation ⁽²⁾	3.8%	4.8%	1.8%	2.0%	2.7%	2.75%
Real GDP growth (%) ^{(2) (3)}	2.9%	0.9%	(4.8)%	(1.9)%	(2.0)%	(2.0)%
Unemployment ⁽²⁾	3.0%	3.0%	4.5%	6.0%	6.0%	6.0%
Government profit and loss data						
Revenues.....	883.7	928.5	950.8	917.3	996.7	870.0
Expenditures	962.80	1,064.90	1,194.30	1,126.40	1,242.7	1,137.35
Surplus (deficit)	(79.1)	(136.4)	(243.5)	(209.1)	(246)	(267.4)
Interest expense	13.9	17.7	18.2	29.9	56.3	70.0
Sinking fund contribution	4.4	5.6	9.5	10.3	18.3	25.7
Government balance sheet data						
Total debt ⁽⁵⁾	255.0	345.0	562.2	823.7	1,087.5	1,350.0
Sinking Fund balance ⁽⁶⁾	58.3	67.8	79.8	64.3	85.5	113.3
Net debt ⁽⁷⁾	196.7	277.2	482.4	759.4	1,002.0	1,236.7
Guarantees	1.5	1.2	0.8	210.8	209.0	207.6 ⁽⁸⁾
Government cash flow data						
Capital expenditures	108.4	155.8	200.3	125.5	120.5	65
Loan proceeds.....	30	90	217.2	261.5	263.8	263
Increase (decrease) in Sinking Fund	6.7	9.5	12	(15.5)	21.0	27.7
Net increase in debt	23.3	80.5	205.2	276.8	242.8	234.8
Government financial ratios						
Debt service ratio ⁽⁹⁾	2.1%	2.5%	2.9%	4.4%	7.5%	11.0%
Net debt/GDP	3.3%	4.5%	8.3%	13.2%	17.5%	21.4%
Surplus (deficit)/GDP	(1.3)%	(2.2)%	(4.2)%	(3.6)%	(4.3)%	(4.6)%

Source: Department of Statistics, Bermuda.

- (1) Fiscal year 2012 data reflects current estimates of the Ministry of Finance, which are subject to change. See "Presentation of Economic, Financial and Statistical Information."
- (2) As of or for the year ended December 31 of the year indicated. Based on mid-year population projections produced by the Department of Statistics.
- (3) Growth percentages based on year-over-year comparisons.
- (4) Estimated.
- (5) Excludes guarantees.
- (6) Sinking Fund (as defined herein) balances include principal and interest components. See "Bermuda – Government – Sinking Fund."
- (7) Net debt is total debt, excluding guarantees, and net of the Sinking Fund.
- (8) Excludes guarantees of payment streams consisting of the \$260 million 30-year guarantee of the Hospital Board payment stream in connection with the King Edward Memorial Hospital and the \$36 million guarantee of the West End Development Corporation payment stream in connection with the construction of affordable housing. For more information on Government guarantees, see "Bermuda – Public Debt."
- (9) Debt service ratio is calculated as interest expense plus annual payment to the Sinking Fund divided by revenue.

RISK FACTORS

Investing in the notes involves risks. We believe the following risks and uncertainties may adversely affect the market value of the notes or our ability to fulfill our obligations under the notes. You should carefully consider the risks described below and the other information contained in this offering memorandum before making an investment decision. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not currently known to us or that we currently do not believe are material may also adversely affect us.

Risks Related to Bermuda

A sharp and sustained downturn in either international business or tourism could significantly affect the stability of the Bermuda economy as a whole.

The Bermuda economy is comprised of two major sectors: international business and tourism. This lack of economic diversity exposes the Bermuda economy to significant risk of instability should either sector seriously decline. Bermuda's attraction as an international business center is based in part upon the favorable tax treatment of entities and its political and economic stability. The potential loss of such favorable tax treatment or economic and political stability, due to, among other things, changes in tax regulations or an attempt by Bermuda to declare independence from the United Kingdom, could have a negative effect on Bermuda's position as an international business center. In addition, since 2007, the number of tourists coming to Bermuda – and the Caribbean generally – has been in decline. This trend has resulted from the impact of the global economic and financial crisis on consumer spending. Recent indicators suggest that the tourism sector is recovering, and the Ministry of Business Development and Tourism recently completed a National Tourism Plan, providing a roadmap over the next five to ten years to reposition Bermuda as a year-round destination in the global tourism industry. However, there can be no assurance that the recent positive trend in tourism will continue or that the Government's initiatives will be successful. The Bermuda tourism industry is also dependent on the continued perception of Bermuda as an attractive and safe vacation destination. Any change in this perception, including as a result of any reduction in the capital investment in tourism infrastructure or any increase in crime, could have a negative effect on Bermuda's tourism industry.

Natural disasters and extreme weather conditions could adversely affect Bermuda and the financial condition of the Government.

Bermuda is affected by meteorological catastrophes and extreme weather conditions, such as hurricanes and tropical storms, which have the potential to cause extensive physical and economic damage. A meteorological catastrophe could, among other things, limit access to, damage or destroy one or more of our properties or parts of our infrastructure, including roads and bridges. A catastrophe may also result in disruption to the local economy, and may cause labor, fuel and other resource shortages.

While the Government maintains insurance coverage in the event of natural disasters, this insurance coverage is limited to the full current market value or replacement cost of Government buildings, and does not cover damage to infrastructure assets such as roads or bridges, or "business interruption" or similar coverage. In the event of any such catastrophe, we would be liable for any required deductible costs as well as costs associated with repairing any damage to Bermuda's infrastructure (other than Government buildings), while having to bear any resultant decrease in revenues due to interruptions in business or tourism.

Continuing difficult conditions in the global economy may adversely affect our revenues and cause our debt levels to continue to rise.

The recent global economic and financial crisis has affected the international business and tourism sectors in Bermuda, leading to an increasing Bermudian deficit as the Government continued to attempt to maintain the same quality of services for its citizens against a backdrop of comparatively declining revenues. While Bermuda has historically maintained a conservative fiscal policy, with a deficit to GDP ratio averaging 1.74% for the fiscal years ended March 31, 2005 through 2009, these recent events have necessitated higher levels of borrowing by the Government, with total debt, not including guarantees, tripling since 2008. While the U.S. economy, to which Bermuda's tourism industry is most directly related, has started to show signs of recovery, if such recovery does not

take hold, or if the recovery of the Bermudian economy is substantially lagging behind such recovery, we may be required to incur higher levels of indebtedness.

Regulatory changes in the United States and Europe could have an adverse effect on the Government's sources of revenue.

Given Bermuda's dependence on the global economy, and the substantial revenues derived from Bermuda's desirability as an international business center, the Bermudian economy may be affected by regulatory changes in the United States and/or the European Union, which could interfere with this favorable status. For example, certain tax initiatives currently under discussion in the United States concerning the tax treatment of international companies in offshore jurisdictions (including those in Bermuda), if adopted, could affect the decision of existing international companies in Bermuda to maintain their presence, physical or otherwise, in Bermuda, and the desire of other international companies to migrate to Bermuda. In addition, Bermuda has been working towards achieving regulatory equivalence with Europe's forthcoming Solvency II Directive. The regulatory changes being made to Bermuda's framework are expected to be in line with the technical requirements of Solvency II equivalence. See "Bermuda – Economy – Financial Services." However, should Bermuda not achieve equivalency, some existing insurance companies in Bermuda may consider migrating to other jurisdictions which have achieved such equivalency, and this may also impact Bermuda's competitive position as an insurance jurisdiction.

We are a foreign government, and you may not be able to enforce civil liability provisions of the federal or state securities laws of the United States or provisions of the indenture.

Bermuda is a self-governing overseas territory of the United Kingdom, a foreign sovereign state. In order to enforce rights under the notes and the indenture against the Government, holders of notes or the trustee under the indenture may need to obtain a judgment against the Government in the Bermuda courts, which may prove costly and difficult. Foreign sovereign governments and agencies and instrumentalities thereof are generally immune from being sued in U.S. courts and from the enforcement of judgments of those courts under U.S. law, but may waive this immunity or may be subject to limited exceptions to this immunity, as set forth in the U.S. Foreign Sovereign Immunities Act of 1976. The Government has waived sovereign immunity, subject to certain conditions pursuant to the indenture, in any action arising out of or based upon the notes to the fullest extent permitted by applicable law. However, the Government, among other rights, reserves the right to plead sovereign immunity under the U.S. Foreign Sovereign Immunities Act with respect to actions brought against it under U.S. federal securities laws or any state securities laws. In the absence of a waiver of immunity by the Government with respect to such actions, it would not be possible to obtain a U.S. judgment in such action unless a court were to determine that the Government is not entitled to sovereign immunity under the U.S. Foreign Sovereign Immunities Act with respect to such action. Moreover, it may not be possible to enforce a judgment obtained under the U.S. Foreign Sovereign Immunities Act against the Government's property located in the United States except under the limited circumstances specified in the U.S. Foreign Sovereign Immunities Act. Consequently it may be difficult for you to obtain or enforce judgments of U.S. courts against us. For a description of the procedures in Bermuda for enforcing foreign judgments against the Government. See "Enforceability of Civil Liabilities Under U.S. Federal Securities Laws and Other Matters."

Risks Related to the Notes

The notes will be subject to transfer restrictions.

The notes have not been registered under the Securities Act or the securities laws of any other jurisdiction. The notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws. These exemptions include offers and sales that occur outside the United States in compliance with Regulation S under the Securities Act and in accordance with any applicable securities laws of any other jurisdiction and sales to qualified institutional buyers as defined under Rule 144A. For a discussion of restrictions on resale and transfer, see "Transfer Restrictions" and "Plan of Distribution."

The indenture will not prevent the Government from incurring additional debt or, subject to certain limitations, secured debt.

The indenture governing the notes will not prohibit the Government from incurring additional debt and will allow, subject to certain limitations, the incurrence of secured debt. In addition, the indenture will not impose any restrictions or limitations on any of the entities owned or controlled by the Government. As a result, if the Government, or its owned or controlled entities, incur more debt than they are able to repay, noteholders may not receive full payment on their notes. In addition, if payment of any secured debt is accelerated, secured lenders may have priority over claims for payment on the notes to the extent of the value of the assets that constitute their collateral.

Developments in other markets may adversely affect the market price of the notes.

The market price of the notes may be adversely affected by developments in the international financial markets and world economic conditions. The market for securities of Bermudian issuers is, to varying degrees, influenced by economic and market conditions in the United States and Caribbean countries in addition to other countries. Although economic conditions are different in each country, investors' reactions to developments in one country may affect the securities markets and the securities of issuers from other countries or territories, including Bermuda. We cannot predict the effect of developments in other securities markets on the market value of the notes.

An active trading market may not develop for the notes.

The notes are a new issue of securities for which there is no established public market. We do not intend to have the notes listed on a U.S. national securities exchange or to arrange for quotation on any automated dealer quotation systems. We expect, however, that the notes will be listed on the official list of the Luxembourg Stock Exchange for trading on the Euro MTF Market and on the BSX. The liquidity of any market for the notes may be adversely affected by the fact that they will be eligible for trading on two markets. For example, trading prices on one market may not be immediately reflected in trading prices on the other market. In addition, one market may have less liquidity and a holder may incur additional transaction costs selling or purchasing notes in the more liquid market. The initial purchaser has advised us that they currently intend to make a market in the notes. However, the initial purchaser is not obligated to do so and may discontinue any market making activities with respect to the notes at any time without notice. The liquidity of any market for the notes will depend on a number of factors, including:

- the number of holders of the notes;
- the market for similar securities;
- the interest of securities dealers in making a market in the notes; and
- prevailing interest rates.

We cannot assure you as to the development or liquidity of any trading market for the notes.

USE OF PROCEEDS

The net proceeds to be received by the Government from the sale of the notes will be approximately \$472.8 million, after deducting the initial purchaser's discounts and estimated offering expenses.

We intend to use the net proceeds to repay all of our outstanding short-term indebtedness with local banks and a BD\$200 million credit facility with a local bank that matures in 2014, with the balance to be used to fund capital expenditure programs and for other budgeted governmental purposes.

As of March 31, 2012, our short-term indebtedness with local banks totaled approximately \$120 million, and was incurred for the purpose of funding budgeted governmental expenses. This short-term indebtedness consisted of overdraft facilities bearing annual interest rates between 4.5% and 4.95%, with maturities through September 30, 2012, which we have extended in the past. Certain of the lenders under these overdraft facilities are affiliates of the initial purchaser. See "Plan of Distribution."

The BD\$200 million credit facility bears interest at an annual rate of 4.95%.

BERMUDA

History

Discovered by Spanish navigator Juan de Bermudez in 1503, Bermuda was first settled and claimed by the British Virginia Company following a shipwreck in 1609. The representative Assembly, established in 1620, is the third oldest parliament in the world. Bermuda became a British territory in 1684, when the British Crown took over control from the British Virginia Company, which had acquired rights to Bermuda in 1612, making Bermuda the oldest United Kingdom overseas territory.

In 1810, the Royal Navy began to develop a naval base, the Royal Navy Dockyard, in Bermuda, which was operative until 1951. In the War of 1812, the British fleet used this base for attacks on Washington, D.C. In 1834, slavery was abolished in Bermuda. Bermuda's schools were integrated during the 1960s, and following the 1993 election, the Government formed a new Ministry of Human Affairs to address issues of discrimination, particularly those relating to race and gender.

In 1941, the United States was permitted to establish and maintain military bases on Bermuda under a 99-year rent-free lease, and two such bases were established. In 1959, the U.S. National Aeronautical and Space Association opened a space tracking station on Bermuda, as part of one of the American bases. The United Kingdom and Canada also established bases in Bermuda. Subsequently, during the early 1990s, the United States, the United Kingdom and Canada withdrew their forces from Bermuda and returned the land that had been occupied by their bases to the Government of Bermuda.

Automobiles were permitted in Bermuda for the first time in 1946. Automobiles are still restricted to one per dwelling unit.

Until the late 19th Century, Bermudians were seafarers involved in whaling and shipbuilding, and Bermuda was largely agricultural. Tourism began in the 1880s. With the development of commercial air travel after World War II, Bermuda has become a favored destination for many affluent travelers, as well as the base for many international businesses.

Bermuda has a long record of political stability. Other than a general strike in 1981, there has been no significant unrest since the late 1970s, when local security forces backed by British troops restored order following civil disturbances.

Geography and Population

Bermuda comprises the Bermudas or Somers Islands, an archipelago of some 150 islands in the Atlantic Ocean about 570 nautical miles south-east of North Carolina. Ten of the islands are linked by bridges and causeways to form the principal mainland. Bermuda covers an area of approximately 21 square miles. It is some 22 miles long and rarely more than one mile wide and has 60 miles of coastline. Its principal municipal areas are Hamilton, the capital, and the Town of St. George.

Bermuda is the most populous United Kingdom overseas territory. After growing at an average rate of 19% each decade from 1911 to 1970, Bermuda's population, estimated at 64,237 during the 2010 Census, increased 3% from 1970 to 1980, 8% from 1980 to 1991 and 6% from 1991 to 2000. According to the Bermuda Population Projections Study done by the Government's Department of Statistics, the annual population growth rate for Bermuda is expected to be less than one tenth of a percent by the year 2015 and negative growth is projected by the year 2030. The median age is expected to increase from 37 years old in 2000 to 43 years old by 2030, indicating an aging population for Bermuda. The proportion of seniors (65 years and older) will double from 11% in 2000 to 22% by 2030. In 2010, there were 26,923 households in Bermuda.

The population density of over 3,000 people per square mile is relatively high. About 54% of the population is black; the rest is primarily white and mostly of English and Portuguese descent. About 67% of the population was born in Bermuda. The majority of foreign-born residents without Bermudian status are primarily the employees of Bermuda's many international businesses and their dependents. Although Bermuda has a labor force with a wide range of skills, it is insufficient to meet the country's growing needs. Consequently, those without

Bermudian status may be hired, after securing a work permit, to fill jobs for which Bermudians are not available or do not have sufficient training or experience. The official language of Bermuda is English.

Constitution, Government and Legal System and International Cooperation

Constitution

Bermuda is a self-governing British Overseas Territory. The Constitution of Bermuda (the “Constitution”), which came into force in 1968, provides for the protection of fundamental rights and freedoms of the individual, the powers and duties of the Governor and the composition, powers and procedure of the Legislature, the Cabinet, the Judiciary and the Public Service.

Political Overview

The Government of Bermuda consists of a Governor, a Deputy Governor, a Cabinet and a bicameral legislature. The Governor is appointed by the British Monarch and is responsible for defense, external affairs, internal security and the police force. On these matters, the Governor is required to consult with the Governor’s Council, which consists of the Premier and two or three Cabinet Ministers. The Cabinet Ministers are appointed in writing by the Governor after consultation with the Premier.

The principal bodies which constitute the political decision-making process in Bermuda are: the Cabinet, the House of Assembly and the Senate. The House of Assembly has 36 members elected from 36 constituencies, representing the public’s vote during the General Election. All Bermudians 18 years of age and older are eligible to vote, as are non-Bermudian citizens of the United Kingdom who registered as voters before May 1, 1976. Generally, the House of Assembly institutes legislation, which is then approved by the Senate and signed into statute by the Governor. The political structure and tradition encourage open discussion and debate of issues.

The Senate, or Upper House, has 11 members and is an appointed body. Five members are appointed on the advice of the Premier, three on the advice of the Opposition leader, and three by the Governor. The Senate does not have any power to veto or amend any legislative proposals presented by the House and can only defer the proposal for up to a period of one year. Legislative power is vested in this bicameral legislature consisting of the Senate and the House of Assembly.

The majority leader in the House of Assembly serves as Premier. The Premier is put forth by the party in power and then formally appointed by the Governor. The Premier nominates the Cabinet Ministers who are each responsible for the corresponding ministries. The Government has 10 ministries including the Cabinet Office. The Cabinet Ministers are each responsible for the operations and strategy of their particular Ministry. The Cabinet is responsible to the Legislature.

General elections are held at most every five years, with the most recent being held on December 18, 2007. The Constitution permits the Premier to call an election at any time within the five year term period with a maximum three-month delay between the announcement and election polling.

Government

Ms. Paula A. Cox has been Premier since October 28, 2010, taking over from her predecessor, Dr. Ewart Brown, at a Progressive Labour Party (the “PLP”) delegates conference. Dr. Brown had been Premier since October 27 2006. This was the fourth change in leadership since November 1998, when the PLP first came into office. In addition to her position as Premier of Bermuda, Premier Cox continues to fill the post of Minister of Finance.

Good governance has been a priority of Premier Cox since she became Premier. Since that time, the Government has enacted Good Governance legislation to establish the Office of Project Management and Procurement, whose key is to ensure transparency, fairness and integrity in all procurement matters. Premier Cox has also created the Ministry of Business Development and Tourism, whose mandate is to strengthen the pillars of the Bermuda economy, enhance our competitiveness and look for new sources of business so that our economy

remains healthy and vibrant. Accordingly, this new ministry combines those departments that focus on the two key sectors of the economy—international business and tourism.

The PLP has been in power since November 1998 and in the December 2007 general election the PLP ran on a platform of its previous five years in office, retaining power and winning 22 of the 36 seats in the Assembly. Prior to the PLP's election win in 1998, the United Bermuda Party (the "UBP") had been in power for thirty years from 1968 when the Constitution first became law. In May 2011, the One Bermuda Alliance (the "OBA") was formed, with its members coming from the UBP and the Bermuda Democratic Alliance. The OBA now holds 10 seats in the Assembly, two of the former UBP members sit as independents and a further two members of the Assembly joined the PLP. These changes have altered the balance of the Assembly to 24 PLP, 10 OBA, and two independents. The leader of the official opposition is Craig Cannonier of the OBA.

Bermuda is currently in its election cycle, with elections expected to take place by February 2013, provided that the Governor, acting in accordance with the advice of the Premier, may call for earlier elections.

In general, the policies of the PLP, a pro-democracy, multiracial organization with predominantly black supporters, are relatively similar to those of the OBA. The PLP's mission consists of promoting equal opportunities for all citizens and improving the regulatory environment in the international business sector. The OBA, a pro-business, moderate and multiracial organization, is founded on the principles of "opportunity, responsibility, integrity, transparency, fairness, inclusiveness and service."

Under the Companies Act 1981, Bermuda-based companies that generally do not operate in competition with local businesses ("exempted companies") may be wholly owned by non-Bermudians, and are "exempted" from the foreign ownership limitations applicable to local companies. Foreign ownership of local entities operating within Bermuda is limited to 40%, other than with the license of the Minister of Finance. Foreign ownership of housing is restricted to houses at the top end of the market and to specified condominiums.

Legal System and International Cooperation

Bermuda's legal system is based on the British model, consisting of codified legislation and the Common Law. The court system is made up of Magistrate Courts, a Supreme Court and a Court of Appeal, with final appeal to the Privy Council in the United Kingdom.

As a British Overseas Territory, the provisions of the Organization of Economic Cooperation and Development (the "OECD") are extended to Bermuda which, among other things, enables Bermuda's debt to be regarded as being within Zone A, which is made up of OECD members and those countries that have concluded special lending arrangements with the International Monetary Fund (the "IMF") and are associated with the IMF's general arrangements to borrow (for OECD purposes).

The U.S.-Bermuda Tax Convention Act 1986, through a treaty, provides for the sharing of information between the United States and Bermuda on matters of tax fraud, tax avoidance and related issues of a civil or criminal nature. The Government legislated the Tax Information Exchange Agreement Implementation Act 2005 to give force to tax information exchange agreements concluded between the Government of Bermuda and other jurisdictions. In 2000, Bermuda gave a commitment to the OECD to uphold the standards of transparency and exchange of tax information. In making the commitment, Bermuda confirmed its longstanding position that it does not adopt or promote harmful tax measures. Further, Bermuda does not inhibit disclosure of vital tax and money-laundering information to its international partners, nor does it have bank secrecy legislation. Bermuda participated fully in the OECD's development of a model tax information exchange agreement ("TIEA") that was adopted in 2002. Bermuda's leadership role in establishing the OECD Model TIEA was assisted by its experience as a partner of the United States in the long-standing TIEA that was signed in 1988. Bermuda was the first jurisdiction to ascend to the OECD White List after its publication on April 2, 2009, and has to date signed 35 TIEAs on a bilateral basis with various countries.

In 2006, Bermuda considered additional legislation to further enhance its compliance with international financial standards. The Investment Funds Act 2006 (the "Investment Funds Act"), which replaced the Bermuda Monetary Authority Collective Investment Scheme Regulations 1998, enhanced a formal licensing regime for investment funds, which was passed by Parliament at the end of 2006. The Investment Funds Act was implemented

in early March of 2007. The Investment Funds Act requires all investment funds incorporated and licensed in Bermuda to appoint an independent custodian, auditor and fund administrator. The appointment of third-party service providers provides a key control which can prevent abuses by the investment manager. In addition, the Investment Funds Act introduced provisions for the licensing and regulation of Bermuda's fund administrators.

On September 2, 2009, Bermuda was elected as Vice Chair of the Steering Group of the new OECD Global Forum, the only non-G20, non-OECD country to be elected to that level of leadership in the OECD Global Forum. Bermuda was subsequently also elected to host the 2011 meeting of the OECD Global Forum. The 2011 Global Forum was the first time in the western hemisphere that a non-G20, non-OECD country hosted that event, demonstrating Bermuda's status as a leading financial services center.

On April 23, 2010, Bermuda signed its first ever full double-taxation agreement with the Kingdom of Bahrain. The agreement includes a provision for the full exchange of information on criminal and civil tax matters between Bermuda and the Kingdom of Bahrain, consistent with the internationally agreed standard for transparency and exchange of information for tax purposes set by the OECD. This agreement was Bermuda's twentieth agreement incorporating provisions for the full exchange of information on criminal and civil tax matters. The agreement is a reciprocal arrangement between the Kingdom of Bahrain and Bermuda not to tax the repatriated income that a firm or a national of the parties domiciled in one country earned (and paid taxes on) in the other country. Bermuda is currently a party to 35 tax agreements, each based on the OECD's internationally agreed standard for transparency and exchange of information. Of the 35 tax agreements, two are double taxation agreements with Bahrain and Qatar. Bermuda's exchange of information network is primarily comprised of members of the G20 and European Union and other OECD countries. The Government is currently considering enactment of Public Access to Information ("PATI") legislation, which is designed to enhance the public's access to Government information.

Bermuda is also a member of the Caribbean Financial Action Task Force ("CFATF") set up specifically to combat money laundering and terrorist financing in the Caribbean region. The Government of Bermuda is committed to the process of updating Bermuda's Anti-Money Laundering and Combating the Financing of Terrorism ("AML/CFT") regime to reflect the revised international standards from the Financial Action Task Force ("FATF") on Combating Money Laundering and the Financing of Terrorism and Proliferation. The Government's commitment is evidenced by the important contributions Bermuda continues to make at CFATF and FATF working group and plenary meetings, and key leadership that Bermuda has taken at CFATF. Bermuda has served as Chair of the first FATF and CFATF joint typologies project on Money Laundering and Terrorist Financing using Trust and Corporate Service Providers, and Co-Chair of the Working Group on FATF Initiatives.

In 2008, the Assembly enacted additions and amendments to Bermuda's AML/CFT legislative framework, including to the following acts:

- Proceeds of Crime Act 1997 ("POCA");
- Anti-Terrorism (Financial and Other Measures) Act 2004 ("ATFA");
- Anti-Terrorism (Financial and Other Measures) (Business in Regulated Sector) Order 2008;
- Financial Intelligence Agency Act 2007;
- Criminal Justice (International Cooperation) (Bermuda) Act 2004; and
- Revenue Act 1898.

Implementation and effective application of this legislation has enhanced Bermuda's efforts to improve the AML/CFT legal framework.

With the commencement of the Financial Intelligence Agency Act, the Financial Intelligence Agency ("FIA") became fully operational and is now responsible for the receipt, collection, analysis and dissemination of suspicious activity reports. The FIA is a member of the Egmont Group (an informal international gathering of financial intelligence units), and has taken on key leadership roles with the organization. The responsibilities of the

FIA were previously performed by the Financial Investigation Unit, a department within the Bermuda Police Service. The police are responsible for the investigation of money laundering and terrorist financing and can now dedicate additional resources to their investigative role, while the creation of the FIA allows for greater focus on the analysis of suspicious activity reports. Moreover, the Revenue Act 1898 was amended in order to further enhance monitoring and control of cross-border movements of cash.

The changes to the POCA incorporate an all-crimes approach to money laundering, broaden investigative powers, void agreements entered into for the purpose of money laundering, and provide for bringing a wider range of financial institutions under the scope of regulations regarding required systems and controls. Further, the framework for domestic cooperation and coordination was enhanced by expanding the role of the National Anti-Money Laundering Committee. The amendments to ATFA broadened the definition of “terrorism” and “terrorism property”; created additional offenses and expanded investigative powers. The commencement of the Anti-Terrorism Financial and Other Measures Order completed the required legislative changes to implement a suspicious activity reporting regime with respect to terrorist financing.

On January 1, 2009, the following additional legislation was enacted:

- The Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing) Regulations 2008 (“AML/ATF Regulations”); and
- The Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing Supervision and Enforcement) Act 2008 (“SEA”).

The AML/ATF Regulations establish a more comprehensive framework for institutions to have appropriate systems and controls in place for “knowing their clients” than had been required under previous regulations. Matters addressed include updated standards with respect to customer due diligence both at the beginning of a relationship and on an ongoing basis, treatment of politically exposed persons, transaction monitoring, correspondent banking relations, politically exposed persons, training and record keeping requirements. The regulations also broaden the scope of the AML/ATF framework to include insurance managers and brokers and operators of investment funds.

The SEA provides the legislative framework to monitor financial institutions in regard to their relevant obligations under POCA, ATFA and the AML/ATF Regulations. Through provisions brought into force in 2009, the Bermuda Monetary Authority (“BMA”) was designated as the supervisory authority for the AML/ATF regulated financial institutions with a duty to monitor such institutions for compliance with the AML/ATF Regulations. In order to fulfill this function, the BMA has established a dedicated AML/ATF unit. The BMA now has the power to levy civil fines. As a result of these measures, and the measures described below, Bermuda’s framework has been significantly strengthened, and in connection with the considerable increases in resources and attention devoted to AML/ATF matters, seizures and confiscations of money laundering-related assets have substantially increased.

In December 2009, the Assembly amended the AML/ATF Regulations, adding regulations regarding wire transfers (Part 4) and compliance with the FATF Recommendation (R.16). These provisions came into force in January 2010, and have aided in the fight against money laundering and terrorist financing.

In 2009, Bermuda committed to the United Kingdom to implement domestic legislation provisions similar to those in Schedule 7 to the UK Counter Terrorism Act 2008. Accordingly, in that year, ATFA was amended in order to include Schedule 7-type provisions, including POCA and SEA. This has enabled Bermuda to address concerns relating to the risk of terrorist financing, money laundering or weapons proliferation emanating from specified high risk countries. In addition, POCA was amended to include provisions that are broadly similar to those of the UK Schedule 7. The Minister of Justice now has power to impose directions on financial institutions requiring them to either conduct enhanced customer due diligence or enhanced on-going monitoring of clients; or to systematically report to specified authorities about certain transactions or business relationships; or to either limit or cease conducting specified business. Further amendments made to SEA enabled the BMA to supervise and monitor compliance with the directions or with any conditions imposed by the Minister of Justice in exemption licenses issued under these new provisions. One amendment to the BMA Act 1969 expanded the scope of the BMA’s authority to fight crime to include terrorist financing within the class of crimes contemplated by that Act. These amendments came into force on January 15, 2010.

Bermuda's AML/ATF legislative framework was further strengthened in 2010 with amendments to the SEA through the Proceeds of Crime Regulation (Supervision and Enforcement) Amendment Act 2010. The amendments gave SEA its current name, broadened the scope of entities that will be subject to AML/ATF compliance, and designated the FIA as the competent authority to supervise specified designated non-financial businesses and professions that will not be supervised by either the BMA or a designated professional body. The legislation provides the FIA with powers to issue directives for failure to comply with AML/ATF requirements. The FIA is making the operational arrangements to establish a compliance unit in order to carry out this function, and expects to do so by 2014. Moreover, the amendments include provisions for supervision by designated professional bodies. Thus, a new supervisory authority, the Barristers and Accountants AML/ATF Board ("the Board"), was established jointly by the Institute of Chartered Accountants of Bermuda ("ICAB") and the Bar Council, and will supervise ICAB accountants and lawyers. The Board has appointed a Supervisor to carry out its day-to-day functions and is in the process of seeking designation, by the Minister of Justice, as a supervisory authority pursuant to SEA. It is anticipated that the Board will be designated in the summer of 2012. Once the Board is designated, Regulation 4(b) of the AML/ATF Regulations will be brought into force, which will require ICAB accountants and lawyers to comply with the AML/ATF Regulations, and maintain the requisite systems and procedures in place to conduct due diligence with respect to their clients (at inception of the relationship and on an on-going basis), and to detect and deter money laundering and terrorist financing.

In addition to the AML/ATF legislative enhancements noted above, the operational framework has also been strengthened domestically. The National Anti-Money Laundering Committee ("NAMLC") continues to provide information on relevant matters to ensure persons and entities in Bermuda understand their obligations under the AML/ATF legislation and are aware of global developments in this area. The NAMLC maintains a comprehensive website, a quarterly newsletter and information notes and advisories. The Ministry of Justice currently has in place a dedicated team of professionals focusing on AML/ATF matters - the Office of NAMLC Unit - which is responsible for providing support to the NAMLC and coordinating efforts domestically with NAMLC agencies and entities responsible for administering the various components of Bermuda's AML/ATF regime. The efforts detailed above have enabled Bermuda to achieve greater compliance with international standards.

The U.S. State Department placed Bermuda in the "lowest risk" category in its most recent assessment of vulnerabilities and threats to U.S. national security and the stability of the global financial system, demonstrating the recognition of Bermuda's enhancements to its AML/ATF framework. This assessment is presented in Volume 2 of the State Department's 2012 International Narcotic Control Strategy Report. Bermuda's placement in the "lowest risk" category is consistent with its ranking in 2011 and earlier years.

Military

In 1996 and 1997, the Government of Bermuda focused its attention on the challenges presented by the return to Bermuda of the military bases formerly occupied by Canadian, British and U.S. forces.

Overview

A Canadian forces station was closed at the end of 1993, and HMS Malabar, a small Royal Navy base, was closed in 1995. More significantly, the U.S. Naval Air Station, which occupies about 1,360 acres, or 10% of Bermuda's total land area, also closed down on August 31, 1995. The Bermuda Airport is on the station and was operated by the U.S. Navy free of charge to the Government. However, this arrangement ended on May 31, 1995 and on June 1, 1995, the Government assumed full responsibility for all of the air operations at the airport, including air traffic control, ground electronic maintenance, meteorology and aeronautical services and crash/fire/rescue services.

The Bermuda Land Development Company Limited (the "BLDC"), a Bermuda government-owned company, now manages more than 700 acres of the land once occupied by the U.S. and Canadian military. The BLDC, incorporated under the Base Lands Development Act of 1996, is a private company owned by the Government. The Government granted, for a period of 131 years commencing in 1996, the right to the BLDC to lease out the land under management for a period not to exceed 21 years. The BLDC can lease out the land for periods greater than 21 years with the prior approval of the Legislature. The land remains under Government ownership.

These lands are being used to attract new businesses to strengthen and diversify the economy, revitalize the tourism industry and to provide space for residential, sports and recreational needs. In the northeast of Bermuda, “Southside” offers industrial and business development opportunities, while in the west “Daniel’s Head” now has a tourism resort and “Morgan’s Point” has been the subject of various proposals over the last few years. Finally, “Tudor Hill” is in the southwest of Bermuda and has been set-aside for tourism and housing opportunities.

Bermuda’s Current Military Position

The Bermuda Regiment is the only military force in Bermuda. It is a battalion-sized light infantry unit with land and marine capabilities only. The Bermuda Regiment has a 32 person professional staff that usually contains two or more soldiers on loan from the United Kingdom or Jamaica. The Bermuda Regiment is always commanded by a Bermudian who normally holds the rank of Lieutenant Colonel.

Because Bermuda is a British Overseas Territory of the United Kingdom, overall command is exercised by the Governor, always a U.K. appointee, who is commander-in-chief. The commander-in-chief is advised by a Defense Board made up of Bermudians appointed by the commander-in-chief. However, powers with regard to matters such as manning, training, recruitment, and finance have been devolved to a Minister of the Government, who is responsible for public safety.

The Bermuda Regiment is maintained by a conscription process that requires every male Bermudian to register for military service on turning eighteen. There is an annual selection by ballot. This normally results in 120-210 men entering the Bermuda Regiment and commencing actual military service. Women may volunteer. Since 1979, the Bermuda Regiment has always had a small number of servicewomen in its ranks in every year. Service is part-time but compulsory with a total obligation lasting three years and two months. Soldiers may be deployed for active service in, but not outside, Bermuda. Soldiers may be sent overseas, but only for training. Soldiers can volunteer for duty and active service overseas.

Bermuda Police Service

The primary authority for the operations of the Bermuda Police Service is contained within the Police Act 1974. The Bermuda Police Service also carries out the majority of its enforcement activities and responsibilities under the provisions of the Criminal Code 1907; the Police And Criminal Evidence Act 2005; the Misuse of Drugs Act 1972; the Road traffic Act 1947; The Motor Car Act, 1951; the Proceeds of Crime Act, 1987 and many other statutes of legislation that govern law enforcement.

The Bermuda Police Service is organized into four main divisions: the Community Policing Division; the Serious Crime Division; the Intelligence Division; and the Support (Corporate Services) Division.

Statistically, 2011 recorded the lowest overall crime rate in over a decade. There were 4,371 crimes recorded in 2011, 200 fewer crimes than in 2010, and 1,000 fewer crimes than in 2009. Firearm crimes declined by 34% in 2011 compared to 2010. There was an average of 84 offenses per week in 2011, compared to 88 in 2010, and 107 in 2008, reinforcing the view that the long-term trend of all crimes in Bermuda is decreasing.

Following a significant spike in gang related firearm offenses in 2010, there was a substantial decrease in firearm incidents, with 124 in 2011 compared to 198 in 2010. There were five fatalities and 11 injuries from firearms in 2011. This compares to seven fatalities and 29 injuries in 2010 and four fatalities and 13 injuries in 2009.

The Bermuda Police Service budget for the 2012/2013 fiscal year is \$68.6 million.

Independence

Bermuda has kept under review the question of whether to remain a self-governing British Overseas Territory or become an independent member of the British Commonwealth. To that end in 2004 the Government created the Bermuda Independence Commission whose primary mandate was to explore the subject of independence in order to generate and encourage discussion on the pros and cons of independence in all of its facets and to distribute information in an effort to generate broader public understanding of the subject. Following the Bermuda

Independence Commission's deliberations, the Government released the Report of the Bermuda Independence Commission in August 2005. The comprehensive report contains reasoned recommendations on the subject of independence and will be an important source of information for future discussions on this matter.

The United Kingdom does not and is not obligated to provide financial or economic assistance of any form and only has legal obligations (such as providing judicial functions through the Privy Council, which is a body of advisors to the British Sovereign comprised primarily of senior politicians and judges responsible for hearing appeals from British Overseas Territories such as Bermuda) and representative obligations (such as representing Bermuda at the United Nations). A survey carried out in January 2010 revealed that 74% of people opposed independence and 20% favored it, with the remainder undecided. About 57% of the black population and 97% of the white population oppose independence.

Infrastructure

Communications

Bermuda has 125 miles of public roads, 44 bridges and 97 docks of various sizes and complexity. An extensive telecommunications system connects Bermuda to the world's financial centers. There are four licensed international telecommunications service providers; five domestic telecommunications service providers and seven internet service providers. Bermuda was ranked one of the top twenty-one e-ready countries in the world, and in the top 10 overall for business environment and connectivity in the Economist Magazine's Economist Intelligence Unit annual global E-Readiness ranking survey for 2009.

Approximately 90% of Bermuda's households owns a computer; approximately 89% of households has internet access; and approximately 94% of households owns a cell phone.

Bermuda has 11 radio stations, three television broadcast stations, two cable communications companies, one daily newspaper, and one bi-weekly newspaper.

Water and Sewage

Bermuda is one of the few places in the world that uses a roof catchment and tank system to collect and store rainwater for drinking purposes. This method provides every residence with its own supply of low-cost drinking water. Bermuda relies on the combination of rainwater falling on roofs and piped to more than 21,000 water tanks and groundwater extracted from underground lenses for more than 90 percent of its entire water supply. Rainwater by itself is nowhere near sufficient to supply all of Bermuda's demands. Bermuda's fresh ground water resources – in the form of "lenses" – remain the main source of water delivered by pipelines and trucks to supplement household rain water supplies. Some commercial and domestic properties have wells, to supplement the rainwater supply. There are over 3,000 such wells. All must be licensed by the Health Department of the Bermuda Government. They can be used only for flushing and washing purposes.

The Government has constructed a 500,000 gallons per day reverse osmosis plant that is expected to meet Bermuda's water needs well into the future. A \$10 million Tynes Bay Seawater Reverse Osmosis (RO) Plant was completed in 2008.

There is no central sewage piping system in Bermuda for any homes. All domestic properties must have their own deep dug-in and properly approved cesspits, as far away as possible from water tanks and not where there are water lenses. They must be built as an integral part of the dwelling house or condominium. Cesspits have to be cleaned out commercially every so often. It is not a Government service for the land taxes paid. There are more private cesspits in Bermuda than anywhere else in the world per square mile.

The Waste Management Section of the Ministry of Works and Engineering is responsible for the safe disposal of all household and commercial waste and recycling in Bermuda. The Waste Management Section collects garbage and recyclables from residents (excluding the cities of Hamilton and St. George's). Garbage is taken to the Tynes Bay Waste To Energy Facility and recyclables are taken to the Material Recovery Facility for processing and either shipping abroad or use in Bermuda. The Waste Management Section is also responsible for the operation of the airport facility where bulky metal waste is used for land fill. There is also a free bulky waste

collection service for residents who have large household items to dispose of. The Waste Management Section also has responsibility for the processing of special waste, both household amounts and commercially generated waste. The special waste is shipped off Bermuda for reprocessing and/or disposal. Composting Bermuda's horticulture waste, some food waste and animal carcasses is also the responsibility of the Waste Management Section and this is done at the Marsh Folly composting facility. The Waste Management Section is also responsible for the public awareness of waste management issues and enforcement of the Waste and Litter Control Act, 1987.

Power and Electricity

Bermuda Electric Light Company Limited ("BELCO") is Bermuda's sole supplier of electricity and operates a generating plant and transmission and distribution systems throughout Bermuda.

BELCO has two generation stations on 23 acres of property in Pembroke. The East and West Power Stations contain a total of 14 diesel engines and nine gas turbines. All of these units generate power at a frequency of 60Hz. The derated maximum amount of power BELCO's generation plant produces is 168 MW of electricity.

The diesel engines carry the basic load of power used on a daily basis. They are slower to start up than the gas turbine engines but are more efficient to operate. In contrast, the gas turbine engines can be used almost immediately upon being started up.

The demand for electricity is typically greater in the summer than in the winter, as the people of Bermuda begin using air conditioners as the weather gets hotter. To date, the highest peak demand of 122.8 MW was recorded in August 2010.

The fuel used for the engines at BELCO varies, depending on which engines are in operation. Heavy fuel oil is used to operate the eight base load diesel engines, and diesel fuel is used to operate the medium speed diesel and the gas turbine engines. BELCO imports all of its fuel. The fuel is pumped through a nine-mile pipeline from Esso's storage tanks to three bunker tanks on BELCO's property. In 20011, BELCO used approximately one million barrels of fuel to produce electricity for Bermuda.

Power and Electricity Highlights:

Number of metered connections (2011): 35,862

Generating plant: Maximum capacity is 165 megawatts, consisting of 12 diesel engines and nine gas turbines. Individual engine capacity ranges between 2.5 and 14.5 megawatts. System frequency is 60 cycles.

Type of fuel used: Heavy fuel oil and diesel

Kilowatt hours generated (2011): 716 million

Highest peak load: 122,800 kilowatts in August, 2010

Electric system: 34 substations, 135 miles of underground transmission cable, 120 miles high-voltage underground distribution cable, 545 miles high voltage overhead distribution lines and 370 miles of low voltage overhead service lines. Transmission voltage is 34,500 and 23,000 volts. Distribution voltage is 4,160 volts.

Housing

The rate of home ownership in Bermuda is high, with approximately 51% of Bermudians owning residential property.

Hurricanes

On September 5, 2003, Hurricane Fabian swept over Bermuda with winds of up to 150 miles per hour. Overall damage was estimated by the Government at between \$160-180 million. In particular, Bermuda's hospitality sector suffered substantial property damage to hotels, restaurants and golf courses. The hotel sector lost some 20% of its capacity (about 1,200 beds) but was quickly able to recover. The Government insurance policy covered much of the property damages that Government Departments and Quasi-Autonomous Non-Governmental Organizations sustained from the hurricane.

On September 19, 2006, Hurricane Florence caused only superficial damage to Bermuda. At that time about 23,000 residents experienced electricity outages, and only one hotel sustained damage. On September 19, 2010, Hurricane Igor passed just west of Bermuda with 75 mph winds causing short term power outages throughout much of Bermuda. The hurricane season in Bermuda runs from June to November. The Government currently has traditional property insurance coverage on a total insured value basis, meaning that all of the Government's buildings are covered for their full value. To further protect against financial losses resulting from hurricanes, the Government is a participant in the Caribbean Catastrophe Risk Insurance Facility, which provides governments with index-based (parametric) insurance against government loss of revenue caused by natural disasters.

Employment

Employment and Labor

Based on 2011 employment data (collected in August of 2011), the total number of jobs in Bermuda decreased by 698, from 38,097 in 2010 to 37,399 in 2011, a decrease of 1.8%. Approximately 70% of the jobs in Bermuda were held by Bermudians, 24.6% by non-Bermudians, and 5.4% by non-Bermudian spouses of Bermudians. The employment survey is conducted in August of each year.

Before the global economic and financial crisis that started in 2008, unemployment in Bermuda had not been a major concern with the economy operating close to or at full employment. The 2010 Census conducted as of May 20, 2010 recorded an unemployment rate of 6.0%. According to the census survey, the estimated number of persons who were unemployed during the year was 2,586. Following the release of the census survey, an unknown number of people have lost their jobs.

The following table sets forth certain summary employment statistics for the years indicated:

	2007	2008	2009	2010	2011
Bermudians.....	27,272	27,180	26,789	26,247	26,187
Non-Bermudians.....	10,637	11,077	10,739	9,871	9,203
Non-Bermudian spouses of Bermudians	1,942	1,956	1,992	1,979	2,009
Total.....	39,851	40,213	39,520	38,097	37,399
Percentage of jobs held by Non-Bermudians.....	26.7%	27.5%	27.2%	25.9%	24.6%

Source: Department of Statistics Employment Survey.

The following table sets forth the number of jobs by economic sector for the years indicated:

	2006	2007	2008	2009	2010	2011
Agriculture, forestry and fishing	692	697	717	710	692	639
Business activities.....	4,091	4,187	4,326	4,197	4,033	3,976
Community, social and personal services.....	2,209	2,155	2,162	2,152	2,211	2,205
Construction and quarrying	3,653	3,544	3,649	3,488	3,042	2,549
Education, health and social work	3,221	3,251	3,279	3,624	3,625	3,895
Electricity, gas and water supply	372	394	412	409	426	389
Financial intermediation	2,902	2,952	2,907	2,781	2,741	2,747
Hotels and restaurants.....	4,901	4,810	4,869	4,674	4,349	4,533
International business activity	4,489	4,689	4,761	4,431	4,287	4,077
Manufacturing	965	935	915	907	841	792
Public administration	4,069	4,113	4,223	4,318	4,296	4,284
Real estate and renting activities	518	614	625	606	574	491
Transport and communications.....	2,829	2,756	2,602	2,471	2,322	2,293
Wholesale and retail, repair services	4,775	4,754	4,766	4,752	4,658	4,529
Total.....	39,686	39,851	40,213	39,520	38,097	37,399

Source: Department of Statistics Employment Survey.

Union Representation

Employees in certain industries, such as hotels, restaurants and public utilities, taxi drivers and airport employees, are represented by unions. Approximately 24.2% of the people employed in Bermuda in 2011 belong to a labor union. Relations between employers and organized labor have been generally stable.

The Government has been negotiating new collective bargaining agreements with various public service and other labor unions in connection with agreements that had expired between 2009 and 2011. Certain of these negotiations having recently concluded and are currently awaiting the entry into definitive new agreements. The Government expects to complete the remainder of these negotiations on acceptable terms.

Salaries

With the estimated 2011 nominal GDP at \$5.7 billion, Bermuda maintained a high per capita GDP of approximately \$88,474, with Bermudian jobs paying relatively high annual salaries. The following table shows a breakdown of income by job for 2010 and 2011:

Occupational distribution of employment and average income by job, 2010 and 2011

	2010		2011	
	<u>Number</u>	<u>Average Salary</u>	<u>Number</u>	<u>Average Salary</u>
Senior officials and managers.....	6,860	\$92,314	6,819	\$95,899
Professionals.....	7,181	80,545	7,127	82,370
Technicians and associate professionals.....	2,874	74,665	2,802	80,820
Clerks.....	6,416	52,549	6,285	53,666
Service workers and shop and market sales workers	7,241	35,840	7,440	35,945
Skilled agricultural and fishery workers.....	944	44,700	883	46,694
Craft and related trade workers.....	3,459	53,959	3,103	55,316
Plant and machine operators and assemblers.....	1,804	48,881	1,718	49,558
Elementary occupations.....	1,290	47,169	1,193	48,690
Armed forces	28	91,000	29	91,091
Total.....	38,097		37,399	

Source: Department of Statistics, Bermuda.

Education

Bermuda has a high standard of education and high literacy rates. There is free compulsory education in Government schools for students between the ages of 5 and 18 years (the upper limit of compulsory school age was recently increased from 16 to 18 years of age). A number of scholarships are awarded by both the Government and the private sector for higher education. About 87% of the adult population has graduated from secondary school, and a significant proportion of secondary school graduates attend college. The Bermuda College, founded in 1979, provides post-secondary education in arts and sciences, hotel and business administration and applied sciences, and grants up to an associate-level degree. It also has a number of articulation agreements with institutions of higher learning around the world, and students are able to complete college degrees in partnership with other colleges and universities.

The Government continues to maintain a strong commitment to education. In February 2007, the Government commissioned a review of the public education system and a number of the recommendations were accepted and implemented, including amendments to the Education Act in 2008.

In March 2010, the Ministry published its Blueprint for Reform in Education, a five-year strategic plan for public education. The plan lays out the vision for public education, which is to deliver a first class education of global standards to ensure that students reach their full potential. The plan also enunciates the mission of the Bermuda Public School System, which is to deliver a rigorous curriculum customized to meet the needs of individual students, using challenging learning experiences, appropriate assessments and efficient support that holds all Bermudians accountable for a quality education in the 21st century.

The Blueprint provides seven strategic priorities for Bermuda's education system:

- Implement an internationally recognized curriculum that is externally assessed;
- Improve the quality of teaching and learning in the classroom;
- Strengthen and distribute leadership;
- Facilitate the improvement of standards via accountability and transparency;
- Maximize the contribution of parents and community;
- Improve the efficiency of delivery; and
- Improve the culture and climate of the Department of Education and Schools.

In the last few years, the Ministry of Education has applied increased fiscal discipline for the Ministry of Education, the Department of Education and schools. This has been achieved through the reduction of grants awarded to outside agencies, consolidation of office space and school buildings in order to reduce rent expenditures, reduction of staffing costs (primarily through attrition), and the centralization of requests and approval for non-staff spending. Additionally, the Bermuda College, which falls under the direction of the Ministry of Education, negotiated a pay freeze with staff to bring expenditures into line with the budget allocation for the 2011/2012 fiscal year.

The education expenditure projected for the 2012/2013 fiscal year is estimated to total \$134 million, or approximately 12.4% of the projected total current Government expenditure for the 2012/2013 fiscal year.

Social Welfare

Pensions

Substantially all employees in Bermuda are registered under the Government pension plan, known as the Contributory Pension Plan, which had total assets of \$1,504.8 million at March 31, 2012. Weekly contributions are approximately \$60.80 per employee, divided evenly between the employee and the employer. Maximum monthly

payments to retirees are approximately \$1,385 and the basic pension is \$983. The Contributory Pension Plan provides a first tier, or basic, pension.

In addition, public sector employees participate in the Public Service Superannuation Fund. The Public Service Superannuation Fund is a contributory defined benefit plan with public officers contributing 8% of pay while uniformed officers contribute 9.5% of pay. These contributions are matched by the Government. The Public Service Superannuation Fund, with assets of \$494.1 million at March 31, 2012, was estimated in March 2010 under conservative actuarial assumptions to have an unfunded liability of \$875.6 million. In 2012, the Ministry of Finance will commission an actuarial review of the Public Service Superannuation Fund ("PSSF") to ensure the future sustainability of the Fund.

In 1999, the Government passed the National Pension Scheme (Occupational Pensions) Act 1998, which made it mandatory for all employers to provide pension plans for their Bermudian employees. The majority of private sector plans are defined contribution plans with contributions of 10% of pay, typically divided equally between employee and employer.

Health

The Health Insurance Act of 1970 made hospital insurance available for all working residents. It also provided for free hospital care for children and subsidized rates for the elderly. Bermuda has two hospitals, one acute care facility and one mental health facility. In 2011, Bermuda had a total of 232 hospital beds and approximately 165 physicians. For the 2012/2013 fiscal year, the Ministry of Health was provided with a budget of \$191 million, or an estimated 17.7% of the projected total current Government expenditure for the 2012/2013 fiscal year.

The Bermuda Health Council Act of 2004 provides a vehicle for the Government to address healthcare policy direction through the establishment of The Bermuda Health Council (the "BHeC"). The BHeC consists of a government appointed council comprised of representatives of medical institutions, insurance companies, governmental technical officers and other involved parties and a secretariat. The mission of the BHeC is to regulate, coordinate and enhance the provision of healthcare services in order to ensure that Bermuda has a healthcare system that is efficient, accountable, accessible, affordable and sustainable. Accordingly, some key functions of the BHeC include ensuring quality care through appropriate regulation of healthcare providers and professionals, the licensing of health insurers, the collection and publication of health data, including the annual National Health Accounts for informed decision-making, and providing advice to the Ministry of Health on strategic policy.

In November 2011 the Ministry of Health launched the National Health Plan ("NHP"), a strategy to reform the healthcare system to contain costs, increase affordability and improve access and quality. The NHP has eleven goals for the healthcare sector founded on the principles of equity and sustainability, to achieve the mission of healthy people in healthy communities. The primary reforms are aimed at controlling the rate of increase in healthcare costs while ensuring universal coverage via an expanded minimum benefit package. Currently, task groups comprised of healthcare stakeholders are developing options on how to implement these goals. The NHP has a rolling seven year timeframe to achieve its goals, starting in 2014. The Bermuda Health Council is responsible for monitoring and evaluating the implementation of the NHP.

New Hospital

In December 2010, the Bermuda Hospitals Board completed the procurement process for a new public-private partnership hospital facility at the King Edward VII Memorial Hospital site, and signed a contract with Paget Health Services, a special purpose vehicle set up to design, build, finance, and maintain the new facility. The new hospital facility will provide 90 single en-suite rooms, a new emergency room, a new diagnostic imaging center, a day surgery unit as well as outpatient areas such as dialysis, oncology, and diabetes and asthma clinics.

The Government had committed to provide a guarantee in support of the Bermuda Hospitals Board's financial obligations related to the contract with Paget Health Services. At the time the Government entered into the agreement in 2010, the design and construction related costs of the new facility were estimated at \$247 million (originally estimated by Johns Hopkins Medicine International at \$260 million), and will initially be borne by Paget Health Services. The Bermuda Hospitals Board will only begin repaying Paget Health Services after construction of

the new facility has been completed in accordance with the Bermuda Hospitals Board's specifications, scheduled for 2014. After the building is completed, the Bermuda Hospitals Board will repay Paget Health Services over 30 years. The payments include the cost of financing, design and construction related costs, as well as the cost of maintaining the new facility. The annual service payment for the first year is approximately \$26.7 million, with the remainder to be repaid over the course of the subsequent 29 years with adjustments mainly to account for inflation.

Construction commenced in December 2010, and the project continues to progress on schedule and on budget. Construction of the new hospital facility is expected to be completed in April 2014.

Urgent Care Center

The Bermuda Hospitals Board opened Bermuda's first Urgent Care Center in April 2009. This facility is located at the eastern end of Bermuda and provides treatment to patients suffering from non-life-threatening conditions that require quick attention, including bone fractures, pneumonia, flu and minor lacerations.

FutureCare

FutureCare represents a healthcare plan designed for persons 65 and over. The plan was launched on April 1, 2009 using a three phase approach, which opened enrollment to all persons over 65 in Bermuda between 2009 and 2011. Each phase of the plan targeted seniors deemed to be in greatest need. The plan offers comprehensive medical, dental, specialist and overseas care designed specifically for elderly people. There are currently 3,000 seniors enrolled in this plan, approximately one third of the senior population in Bermuda.

HIP (Health Insurance Plan)

The Government also offers HIP, which provides standard hospital benefits as well as supplemental benefits relating to physician, surgeon, anesthetist and dental services. HIP is administered by the Health Insurance Department of the Ministry of Health.

Any employed or self-employed person can enroll in HIP at any time. Any other applicant can apply for HIP membership and will obtain immediate coverage if they are in good health at the time of application. There are also semi-annual two-week open enrollment periods during which persons can apply for HIP membership without any evidence of health conditions. HIP ensures that all Bermudians have access to a health insurance plan at a standard price regardless of their state of health. In a sense, HIP acts as the insurer of last resort. HIP is funded by premiums which are set on an annual basis based on past claim experience, and must be approved by Government. The Government provides a subsidy to HIP to cover 50% of the administrative cost of the plan. This plan has over 3,200 members and has grown in popularity in recent years.

Economy

Overview

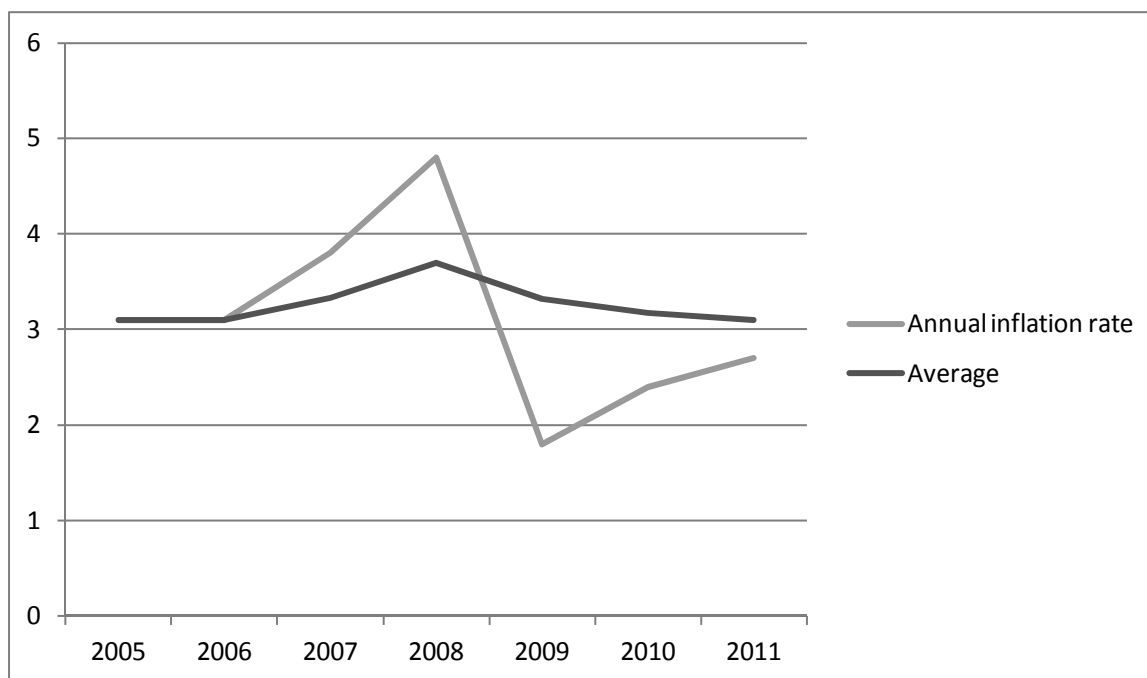
Once almost entirely dependent on tourism for foreign exchange earnings, Bermuda has developed its position as an international business center since World War II. International business and tourism are the two sectors that make the greatest contributions to GDP and generate high levels of foreign exchange earnings.

2010 is the most recent year for which official GDP data have been compiled for Bermuda. In 2010, the Bermuda economy contracted at a rate of 0.7% based on nominal GDP. When adjusted for inflation, GDP declined 1.9% in 2010, which is below the five-year average of a 0.6% increase for the 2006-2010 period. The Ministry of Finance estimates that Bermuda's real GDP may have contracted by approximately 2.0% in 2011. For 2012, the Ministry of Finance is projecting a decline in real GDP of between 1.0% and 2.0%.

Bermuda does not have a central bank, and the Bermuda dollar has been pegged at a one-for-one ratio with the U.S. dollar since 1970. The one-to-one peg is managed by commercial banks meeting supply and demand at this rate. The banks, rather than the BMA, own Bermuda's foreign exchange reserves. As a result, the Bermudian economy is closely aligned to the U.S. economy, and interest rates in Bermuda historically have closely paralleled

similar changes in the United States. This policy has historically promoted stable import prices and relatively moderate domestic inflation.

The following chart shows historical inflation rates from 2005 to 2011:



Source: Department of Statistics, Bermuda.

Compared to the 2011/2012 fiscal year revised estimates, the Government's spending is projected to decrease by 4.9% to \$1.1 billion in the 2012/2013 fiscal year. This decrease from the 2011/2012 fiscal year levels is largely attributed to the suspension by the Government of its matching contribution to the PSSF, and the payment of a portion of its debt service from the Sinking Fund. The contribution to the Sinking Fund of \$30.7 million is expected to be made for the 2012/2013 fiscal year.

The suspension of the matching contribution to the PSSF will enable \$31 million to be re-directed to policy priorities in the 2012/2013 fiscal year. Accordingly, the 2012/2013 budgets for the Ministries of Health, Youth Families & Sports, and National Security have been maintained at the level of the revised 2011/2012 fiscal year budget.

The Government considers that the public sector spending in support of the long-term health of the economy should not be sacrificed at this time. The lingering global economic and financial crisis has had a negative impact on Bermuda's economy, resulting in job losses and business closures. While the prospects for economic recovery are still fragile, the 2012/2013 fiscal year budget seeks to contribute to this recovery. The budget plan has three broad aims. First, it reflects the fiscal and economic impact of the \$98 million of continued government stimulus, in the form of \$50 million in payroll tax relief and \$48 million in tax concessions to the hotel, restaurant and retail sectors and other forms of relief, with the Government providing an economic backstop as part of Bermuda's Economic Action Plan to create and maintain jobs. Second, the budget invests in a limited number of new, targeted initiatives to build jobs and growth for the economy of tomorrow, strengthen our efforts to make Bermuda an innovation center, and to make Bermuda a preferred destination of choice for tourism and new business investment. Third, the budget charts a course to bring Bermuda's finances back to balance over the medium term using our Medium-Term Expenditure Framework.

Bermuda maintains a balanced economy with a focus on international business, finance, tourism and construction. The following table shows GDP by industrial origin for the years indicated.

Nominal gross domestic product by economic sector 2006-2010

	2006	2007	2008	2009	2010 ⁽¹⁾
	(dollars in thousands)				
Agriculture, forestry and fishing.....	\$ 46,389	\$ 45,249	\$ 48,301	\$ 42,987	\$ 42,971
Business activities.....	493,719	532,977	587,677	578,749	558,124
Community, social and personal services	116,786	113,848	122,659	116,753	126,685
Construction and quarrying	307,958	317,068	370,078	317,531	260,556
Education, health and social work	327,700	355,125	399,600	400,218	434,582
Electricity, gas and water supply	89,896	91,170	97,783	96,825	96,518
Financial intermediation	786,068	863,588	943,800	685,821	700,664
Hotels and restaurants.....	299,012	320,063	308,039	253,103	269,554
International business activity	1,301,453	1,592,675	1,547,210	1,479,051	1,461,824
Manufacturing	90,004	84,979	90,043	76,916	76,059
Public administration.....	254,712	285,726	326,409	342,463	349,151
Real estate and renting activities	825,047	831,867	861,776	861,632	906,610
Transport and communications.....	289,477	337,012	322,177	307,079	288,390
Wholesale and retail, repair services	399,731	425,927	435,354	419,377	413,050
Total.....	<u>5,627,952</u>	<u>6,197,275</u>	<u>6,460,906</u>	<u>5,978,503</u>	<u>5,984,738</u>
Less: Imputed bank service charge.....	475,019	536,169	578,228	395,483	425,232
Add: Import duties.....	<u>234,444</u>	<u>233,942</u>	<u>227,250</u>	<u>223,358</u>	<u>205,078</u>
Nominal GDP	<u>\$ 5,387,377</u>	<u>\$ 5,895,048</u>	<u>\$ 6,109,928</u>	<u>\$ 5,806,378</u>	<u>\$ 5,764,584</u>
Change from previous year.....	11.2%	8.9%	3.6%	-5.0%	-0.7%

Source: Department of Statistics, Bermuda.

(1) Most recent year for which GDP information by economic sector is available. Information for 2011 is expected to become available, and to be published by the Government, in December 2012.

Financial Services

International Company Business

Bermuda is regarded as a leading international financial center because of the following factors:

- A long-established and highly developed commercial and social infrastructure;
- Proximity to the United States and ease of access to Europe;
- Recognized by the OECD, the IMF and other international bodies as having transparency and standards that match those of other major developed countries;
- Transparent and consistent application of the financial services policy towards the financial services sector;
- Shaping of international relations in the financial sphere, including bilateral relations with the G7 and G20 countries as well as markets that are of significant economic importance to Bermuda;
- Well-established reputation as a domicile of choice for insurance and reinsurance;
- The BSX as one of the world's largest offshore, fully electronic securities market;

- Modern business facilities;
- Excellent living conditions;
- Well-educated labor force;
- Absence of direct taxation and exchange controls for international business; and
- A stable regulatory framework.

Bermuda also has a long-established and transparent legal system as well as an extensive, well-qualified support system of auditors, attorneys and investment professionals. Equally important are Bermuda's stable economic and political history.

In nominal dollars, the international business sector contributed the greatest amount to the expansion of the Bermuda economy in 2010. This sector provided over \$1.4 billion in total output in 2010, which represents 25.4% of total nominal GDP. Companies in the insurance and reinsurance industry are the biggest contributors to the international business sector. Contributions to this sector are also derived from the trading operations of security and commodity brokerage, shipping, consultancy and other forms of international business activity. The increasing significance of international business to Bermuda's economy is reflected in the growth of this sector's share of nominal GDP, which averaged 25.5% over the 2006 through 2010 period.

The Government actively encourages foreign investment in entities that are based in Bermuda but do not compete with local businesses. Exempted entities may be wholly owned by non-Bermudians and can readily obtain exemption up to March 28, 2035 from any future legislation imposing income tax in Bermuda. As a result, foreign-owned companies based in Bermuda can be used for holding, accumulating and transferring capital and income without local tax or exchange control consequences. As of March 31, 2012, there were 14,706 international companies registered in Bermuda. The number of companies registered in Bermuda has been declining since 2009. Prior to that, the number had been growing at a compound annual growth rate of 2.98% during the five years from 2004 to 2008. In the first quarter of 2012, there were 169 international business registrations, which is 8.2% less than the number registered in the corresponding period in 2011.

In October 2010, when Premier Cox became Premier of Bermuda, the Government implemented a series of changes to various Government ministries. These changes included the creation of the Ministry of Business Development & Tourism, and the establishment of a section within that Ministry titled the Business Development Unit. The Business Development Unit was designed to provide an innovative body within the Government that would focus on stimulating job creation and GDP growth, improving brand equity and furthering diversification of the economy and industry sustainability (the "core objectives"), within the international business and tourism sectors of Bermuda's economy.

This ministry, operating through the Business Development Unit, was tasked with formulating a blueprint that would implement the core objectives. The range, from streamlining bureaucracy to supporting investment in technological and green initiatives, would be achieved with a keen eye to directly addressing the needs of local businesses and the career aspirations of Bermudians. The Business Development Unit immediately began a comprehensive review of three key aspects of the existing business development model:

- a comprehensive review of the structures through which business development initiatives were realized;
- how the Government could assist in sustaining existing businesses in Bermuda; and
- how the Government could assist with the development of new business.

The Business Development Unit works in collaborative partnership with colleagues in the public and private sectors, and the BMA, drawing upon their knowledge, experience and ideas in order to promote the core objectives, with a view to making the Government a committed stakeholder in the business development model through:

- clear articulation of policy initiatives;
- adequate legislative framework;
- sufficient funding of private sector agencies;
- industry access to a responsive, market relevant and synchronized government;
- intelligence gathering as it relates to foreign and domestic interests; and
- relationship building.

The following table shows historical international business registrations for the years indicated:

International business registrations								
	2004	2005	2006	2007	2008	2009	2010	2011
New registrations during period								
Exempted companies.....	1,078	1,021	1,084	1,426	1,030	629	691	802
Exempted partnerships	74	109	167	230	133	82	52	48
Non-resident entities ⁽¹⁾	31	40	55	37	39	27	47	27
Total	1,169	1,161	1,296	1,693	1,202	738	790	877
Number on Register at year end								
Exempted companies.....	12,418	12,599	12,861	13,850	13,859	13,539	13,145	12,870
Exempted partnerships	562	644	804	944	1,168	1,250	1,302	1,317
Non-resident entities ⁽¹⁾	593	598	582	564	604	603	634	651
Total ⁽²⁾	13,573	13,841	14,247	15,358	15,631	15,392	15,081	14,838
Year-to-year change % ⁽³⁾	0.5%	2.0%	2.9%	7.8%	1.8%	(1.5)%	(2.0)%	(1.6)%

Source: Registrar of companies.

(1) Including overseas partnerships.

(2) Net of companies in liquidation.

(3) Total number on business register.

The insurance and reinsurance sectors are expected to continue to provide payments of tax, licensing and fee revenue to the public and private sectors that will likely continue to support the economy. The greatest impact to the economy results from companies that have a physical presence in Bermuda. These companies hire workers who earn income and spend locally.

Insurance

Bermuda insurance companies are classified as follows:

- CLASS 1 - A single-parent captive insurance company underwriting only the risks of the owners of the insurance company and affiliates of the owners. Class 1 insurers are required to maintain minimum capital and surplus of \$120,000.
- CLASS 2 - Multi-owner captives which are defined as insurance companies owned by unrelated entities, provided that the captive underwrites only the risks of the owners and affiliates of the owners and/or risks related to or arising out of the business or operations of the owners and affiliates. A Class 2 license will also apply to single-parent and multi-owner captives writing no more than 20 percent of net premiums from risks which are not related to, or arising out of, the business or operations of their owners and affiliates. Class 2 insurers are required to maintain minimum capital and surplus of \$250,000.
- CLASS 3 - Applies to insurers and reinsurers not included in Class 1, 2, 3A, 3B, or 4. This includes structured reinsurers' writing third party business; insurers writing direct policies with third party

individuals; single-parent, group, association, agency or joint venture captives where more than 20 percent of net premiums written is from risks which are unrelated to the business of the owners; and captive insurers underwriting more than 20% and less than 50% of unrelated business. Class 3 insurers are required to maintain minimum capital and surplus of \$1 million.

- CLASS 3A - Small commercial insurers whose percentage of unrelated business represents 50% or more of net premiums written or net loss and loss expense provisions and where the unrelated business net premiums are less than \$50 million. Class 3A insurers are required to maintain minimum capital and surplus of \$1 million.
- CLASS 3B - Large commercial insurers whose percentage of unrelated business represents 50% or more of net premiums written or net loss and loss expense provisions and where the unrelated business net premiums are more than \$50 million. Class 3B insurers are required to maintain capital and surplus of \$1 million.
- CLASS 4 - Insurers and reinsurers underwriting direct excess liability insurance and/or property catastrophe reinsurance risks. Class 4 insurers are required to maintain minimum capital and surplus of \$100 million.
- SPECIAL PURPOSE INSURERS (“SPI”) – Insurers that fully fund their liabilities to the persons insured in the manner prescribed in the Insurance Act. Criteria for consideration for registration as an SPI include, among others, the following:
 - The insurer is carrying on insurance business in the area of insurance-linked securitizations;
 - The insurer is established to enter into a single transaction or a single set of transactions;
 - The insurer’s obligations are fully collateralized; and
 - Transactions are carried out with a limited number of sophisticated participants.
- LONG-TERM: CLASS A - A single-parent long-term captive insurance company underwriting only the long-term business risks of the owners of the insurance company and affiliates of the owners. Class A insurers are required to maintain minimum capital and surplus of \$120,000.
- LONG-TERM: CLASS B - Multi-owner long-term captives which are defined as long-term insurance companies owned by unrelated entities, provided that the captive underwrites 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 Class B license will also apply to single-parent and multi-owner long-term captives writing no more than 20 percent of net premiums from risks which are not related to, or arising out of, the business or operations of their owners and affiliates. Class B insurers are required to maintain minimum capital and surplus of \$250,000.
- LONG-TERM: 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 maintain minimum capital and surplus of \$500,000.
- LONG-TERM: 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 maintain minimum capital and surplus of \$4,000,000.
- LONG-TERM: 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.
- COMPOSITE/DUAL LICENCE - Insurers and reinsurers who are carrying on both general and long-term business. Composite companies are required to maintain minimum capital and surplus equal to the sum of the applicable general business class and the long-term business class.

Bermuda legislation for the regulation of the insurance industry has been in place since 1978. It is continually reviewed and updated as necessary taking into account risks in the market and applicable international standards. Furthermore, the licensing process is detailed and comprehensive. On January 1, 2002, the Insurance Division of the Registrar of Companies merged into the BMA, thus making the BMA the licensing and regulatory body for the insurance industry in Bermuda. The Insurance Amendment Act 2002 came into effect on October 14, 2002. The Act provided the Insurance Division with new powers to obtain information and reports and to require the production of documents from licensed insurers, insurance managers and intermediaries. In 2006, there was another update with the Insurance Amendment Act 2006, which further enhanced the regulatory framework for the supervision of insurers, insurance managers and intermediaries, with new provisions for further enhancement of fit and proper standards for individuals managing reinsurance companies. It also facilitated BMA's ability to issue codes of conduct for reinsurance companies.

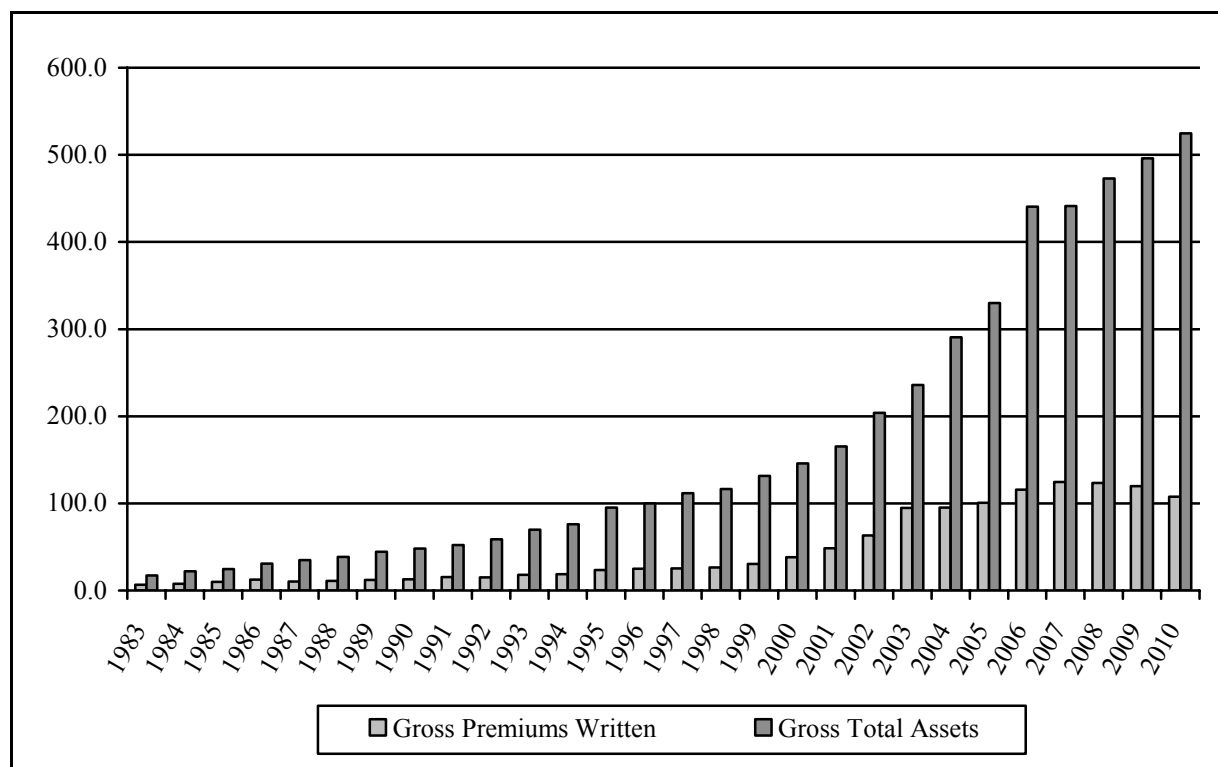
From 2008 to 2011, there were further legislative amendments to the Insurance Amendment Act 2008 to introduce further enhancements to the insurance framework, including provisions to establish an enhanced solvency regime for Bermuda's commercial reinsurers which includes the introduction of the Bermuda Solvency Capital Requirement, the BMA's risk-based capital adequacy model; establishing frameworks for group supervision and permitting the use of BMA-approved internal models; standardized stress testing information on market and underwriting risk; a provision to impose capital add-ons where deemed appropriate; and the requirement, for commercial insurers, to file audited U.S. GAAP financial statements as a further step to increasing financial disclosure within the sector.

The Insurance Amendment Act 2008 also provided for the reclassification of the Class 3 sector as described above. This resulted in the segregation of the Class 3 Sector into three distinct classes based on the percentage of unrelated business assumed and the amount of net premium written. The reclassification initiative facilitated more effective supervision of the Bermuda insurance sector by appropriately identifying those third-party insurers that are truly commercial carriers and, as a result, should receive a higher level of regulatory and supervisory oversight. In addition, a new Special Purpose Insurer Class was created.

Insurance Market

The number of new reinsurers in the Bermuda market increased in 2011 with a total of 54 being established during the year, as compared to 36 in 2010. This number is indicative of the prevailing global trends in incorporations evident in 2009, and reflects the continuing soft market and impact of the global economic and financial crisis on markets worldwide.

The following chart shows historical assets and premiums written by Bermuda insurance companies (dollars in billions):



Source: Bermuda Monetary Authority.

The Bermuda insurance market remained resilient while managing the impact of ongoing challenging economic conditions, still achieving significant levels in gross premiums written and maintaining healthy amounts of capital and surplus. However, profitability of large commercial insurers and reinsurers (Class 4 and Class 3B) remained historically low, due to a prevailing soft market, low interest rates and above-average losses from natural catastrophes.

Commercial insurers wrote gross premiums of \$86.3 billion in 2010 compared to \$87.1 billion in 2009. Total assets increased from \$375.8 billion to \$438 billion, or 16.5%, from 2009 to 2010. Capital and surplus for this sector rose from \$131.8 billion to \$145 billion, or 10.5%, from 2009 to 2010.

Captive insurers wrote a total of \$21.4 billion in gross premiums in 2010, compared to \$32.7 billion in 2009, a result that can be attributed to the BMA's ongoing reclassification of a number of companies to better reflect their risk profiles, as well as a decrease in premiums written by particular firms within that sector.

The Bermuda insurance market as a whole achieved gross premiums written of \$107.7 billion for 2010, as compared to \$119.7 billion written in 2009. The insurance market recorded aggregate total capital and surplus of \$185.2 billion in 2010, an increase of 1.7% over 2009, and assets of \$524.7 billion at year-end 2010, a 5.8% increase over year-end 2009.

A large percentage of new market entrants in 2011 included Special Purpose Insurers (SPI) and Class 3A insurers. With respect to the commercial sector in particular, each of 2010 and 2011 saw the formation of two Class 4 companies. The greatest proportion of business came from the United States during 2011, with respect to both the captive and commercial markets.

The insurance regulatory environment in Bermuda is generally less restrictive than in the United States, in part because the regulation of insurance companies in Bermuda does not have an individual consumer emphasis as

does the state-by-state system in the United States. Bermuda's insurance market is, for the most part, a reinsurance market, conducted between insurance professionals, not directly with members of the public. It bears little resemblance to the traditional, retail insurance market. Bermuda uses a risk-based approach to regulate insurance.

The BMA's Assessment and Licensing Committee reviews each application for approval of new insurers in depth before granting approval or declining any application. Despite the continued growth of the Bermuda insurance sector, the incidence of insolvency remains very low. There have been no insolvencies in the insurance sector since the 2009 winding up of a small Bermudian branch of British American Insurance Company, a Bahamian company owned by CL Financial Group of Trinidad and Tobago. We believe this is attributable to the review of both the sponsors and the business plans prior to licensing and the ability and willingness of the BMA to intervene at an early stage when solvency problems appear probable.

Bermuda Monetary Authority

The BMA is the integrated regulator of the financial service sector in Bermuda.

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

The BMA is operationally independent of the Government. Under the BMA Act, a Board of Directors manages the affairs and business of the BMA and determines the policy objectives and strategy of the BMA. The Board consists of eight non-executive directors appointed by the Minister of Finance from the various industry sectors. In addition, the Minister of Finance appoints the Chairman of the Board. The Chief Executive Officer is also a member of the Board and is appointed by the Minister of Finance on the recommendation of the Board. To enhance independence, Board members are appointed for terms ranging from three to five years.

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

Recent Insurance Regulatory Developments

For the past few years, the BMA has been focused on achieving regulatory equivalence of its insurance framework with other major international markets.

The BMA has achieved considerable progress to date with enhancements to the regulatory regime for commercial insurers in this regard. Over the past three years in particular, the regime enhancements have also been designed to position Bermuda among the leading group of jurisdictions preparing for Solvency II equivalence. Solvency II is an updated set of regulatory requirements for insurance firms that operate in the European Union. Any failure to meet the Solvency II Directive may make it difficult for Bermuda insurance and reinsurance companies to transact business within the European market. Key principles of Solvency II are embedded in Bermuda's regulatory legislation, i.e. policyholder protection and insurer solvency and risk management standards.

Bermuda has been selected among the first wave of non-EU jurisdictions to be assessed for equivalence under Solvency II. The BMA completed both the off-site self-assessment and on-site visit by the European Insurance and Occupational Pensions Authority ("EIOPA") in 2011. EIOPA found Bermuda's framework broadly equivalent with Solvency II for commercial insurers, i.e. Class 4, 3B and 3A firms, subject to certain caveats. The BMA had anticipated such caveats through the assessment process, and work to address them is actively in progress via additional framework enhancements proposed for 2012.

EIOPA also made a distinction between the commercial and captive sector regimes in their assessment, finding the captives regime out of scope for equivalence with Solvency II principles. Given that the BMA has focused its framework enhancements on the commercial sector, this was a positive and appropriate result for Bermuda, recognizing the diverse and unique nature of this market.

In addition, the European Commission has subsequently indicated that it is able to grant segmented equivalence under Solvency II. Therefore, framework changes that relate to Solvency II equivalence will remain focused on the commercial sector, ensuring Bermuda's supervisory regime for captive insurers remains practical and appropriate.

Bermuda is moving forward from a solid foundation and the BMA's continued work to enhance the commercial framework in line with Solvency II places the jurisdiction in a good position with respect to the European Commission's decision on equivalence.

In addition to providing details and milestones of its aggressive equivalence program for the insurance framework in its business plans, the BMA has published several issues of "Bermuda's Insurance Solvency Framework – The Roadmap to Mutual Recognition", referred to as the Solvency II Roadmap. This publication, which was most recently updated and issued in May 2012, highlights the BMA's work plan and framework changes relating to achieving broad equivalence under Europe's Solvency II Directive for Bermuda.

Work on the items identified for action in the Roadmap has advanced, and the BMA has moved from policy development to implementation in 2012. To date, actions taken include (i) full implementation of a broader group-wide supervision framework for the approximately 20 insurance groups for which the BMA will be the primary regulator, which will supplement the BMA's existing regime for solo entity supervision; (ii) formal establishment of the standards and applications process for permitting the use of insurers' internal capital models ("ICM") to assess regulatory capital; and (iii) revision of rules for eligible capital requirements. The BMA has also extended disclosure and transparency requirements for the commercial sector, and has established the Commercial Insurers' Solvency Self-Assessment ("CISSA") requirement. The CISSA is a Bermuda-specific Own Risk and Solvency Assessment, which relates to Pillar 2 of Solvency II and will assist the BMA in better understanding the risk profile of the companies it supervises by requiring firms to demonstrate the link between their capital model, risk governance and strategic decision-making to determine their capital requirement. All classes of insurers are also subject to the Insurance Code of Conduct which, among other matters, further emphasizes risk management and corporate governance.

The BMA is also continuing with its Supervisory Colleges Program, with several meetings scheduled to take place during 2012 as part of its group supervision framework. The Supervisory College program has assisted the BMA in meeting the objective of enhancing cooperation and dialogue with its regulatory counterparts overseas in relation to Bermuda entities that are part of international groups.

With regard to the banking regulations, by 2011 the BMA had completed a significant amount of work that built further on Bermuda's robust capital and liquidity standards for the banking sector, in accordance with the Basel II Capital Accord. The BMA successfully implemented Basel II in Bermuda as of January 1, 2009. This followed a policy development process which resulted in the publishing of the handbook "The Revised Framework for Regulatory Capital Assessment," a comprehensive policy document that sets out the final rules for implementation in Bermuda of Pillars 1, 2 and 3 of the Accord. The BMA has since conducted annual Pillar 2 reviews of Bermuda's banks based on the institutions' submission of their respective Capital Assessment and Risk Profile reports. Revised individual capital guidance has been issued to the banks as a result, outlining the minimum regulatory capital they should maintain moving forward. Banks are now also required to make disclosure submissions under Pillar 3 during this period. The BMA also began a review of Bermuda's liquidity policy for banks in 2010. At the end of that year, the BMA issued enhanced principles for liquidity risk management and supervision for Bermuda's banking sector. The BMA has based subsequent assessments of banks' liquidity risk management practices on these principles to determine compliance by institutions. To prepare for anticipated changes in global standards that will emanate from Basel III, the BMA has completed an overall review of its regulatory framework for the banking sector. This work included conducting a quantitative study of the impact of Basel III standards and rules on the Bermuda market. Consultation with the market on the BMA's proposals from this review is in progress.

Other developments in banking regulation include potential legislation to introduce a special resolution regime for banks, which will provide authorities in Bermuda with a broader range of powers to deal quickly and effectively with a failed or failing institution. Work on establishing a corporate governance code for Bermuda's banks and investment firms was also conducted during 2011. This code will build on current corporate governance obligations under existing regulations, and is designed to ensure enhanced risk management and corporate governance practices across the banking and investment sectors. Legislative developments required to implement a

deposit insurance scheme in Bermuda have also been put into place. Work is underway to establish the independent body that will administer the scheme, the Bermuda Deposit Insurance Corporation (the “DIS”). It is anticipated that the DIS will be operational by the end of 2012.

International Affiliations

Over the years, the BMA has entered into a series of Memoranda of Understanding (“MOUs”) with foreign regulatory authorities. The MOUs include the following:

- U.S. Commodity Future Trading Commission – signed March 3, 1997;
- States of Jersey Financial Services Department – signed April 10, 1997;
- Isle of Man Financial Supervision Commission – signed October 28, 2002;
- U.K. Financial Services Authority – signed April 21, 2004;
- Luxembourg (*Commission de Surveillance du Secteur Financier*) – signed May 31, 2005
- Cayman Islands Monetary Authority – signed June 30, 2005;
- Financial Services Board of the Republic of South Africa – signed August 15, 2005;
- International Organization of Securities Commissions (“IOSCO”) – signed June 6, 2007;
- Malta Financial Services Authority – signed June 3, 2008;
- The Office of the Superintendent of Financial Institutions of Canada – signed August 19, 2008;
- New York State Insurance Department – signed September 25, 2008;
- Luxembourg (Commissariat Aux Assurances) – signed February 2, 2009;
- Florida Office of Insurance Regulation – signed September 24, 2009;
- Nebraska Department of Insurance – signed October 28, 2009;
- Pennsylvania Insurance Department – signed December 10, 2009
- Swiss Financial Market Supervisory Authority – signed March 11th 2010
- Regional Regulatory Authorities (Caribbean) – signed May 27, 2011

The BMA has also entered into the following Multilateral Memorandums of Understanding:

- International Association of Insurance Supervisors (IAIS) – signed June 25, 2009

The BMA is a member of the following international standard setting bodies:

- International Association of Insurance Supervisors (IAIS)
- International Organization of Securities Commissions (IOSCO)
- Offshore Group of Banking Supervisors (OGBS)
- Offshore Group of Insurance Supervisors (OGIS)

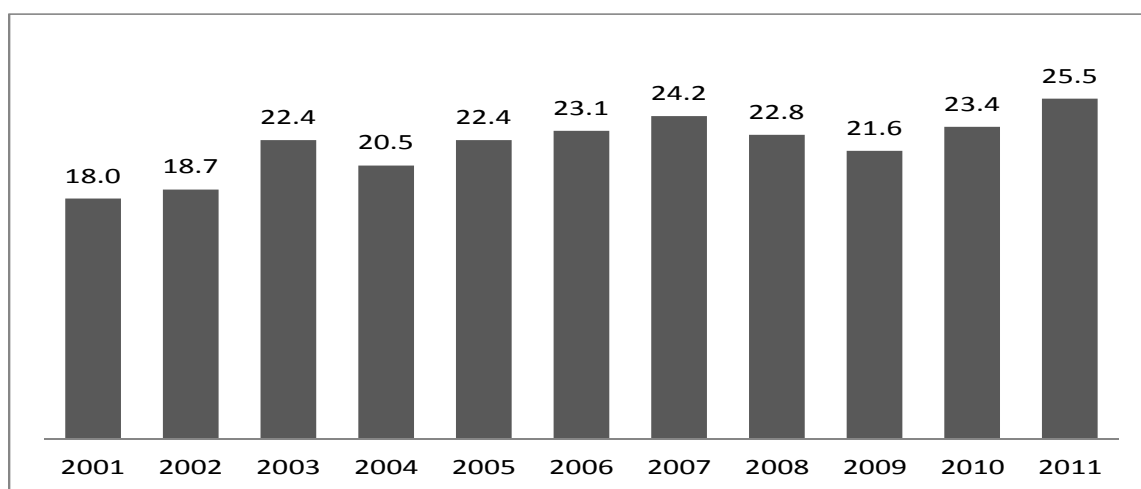
Banking and Deposit Companies

In 2010, the financial intermediation sector was the third largest contributor to Bermuda's economy, accounting for \$700.6 million or an increase of 2.2% in economic output when compared to 2009. This level of output represents 12.2% of total GDP at current market prices. The increase in bank balances by 9.3% in nominal terms during 2011 despite the ongoing challenging economic backdrop suggests a further rise in the contribution of the banking sector to Bermuda's economy.

There are four licensed banks in Bermuda: HSBC Bank Bermuda Limited (formerly known as The Bank of Bermuda Ltd.) (a subsidiary of HSBC Holdings plc (Aa2 (negative outlook)/A+ (negative outlook))); The Bank of N.T. Butterfield & Son Limited ("Butterfield Bank") (Aa3 (negative watch)/A-); Capital G Ltd. (privately held and unrated); and the Bermuda Commercial Bank Limited (Baa3). Butterfield Bank and Bermuda Commercial Bank Limited are listed on the BSX. HSBC Holdings plc has a secondary listing on the BSX. There is also one credit union in Bermuda. According to the BMA's latest quarterly report, total combined (consolidated) assets of the four banks as of December 31, 2011 stood at over \$25.5 billion, while the assets under their administration are valued at several times this amount. The two largest banks, HSBC Bank Bermuda Limited and Butterfield Bank, accounted for approximately 93% of the total combined assets of the sector. Given this large concentration, a significant deterioration in the credit quality of either of these two banks may have an adverse effect on the Bermudian economy.

The following chart shows historical assets for Bermuda banks and deposit companies:

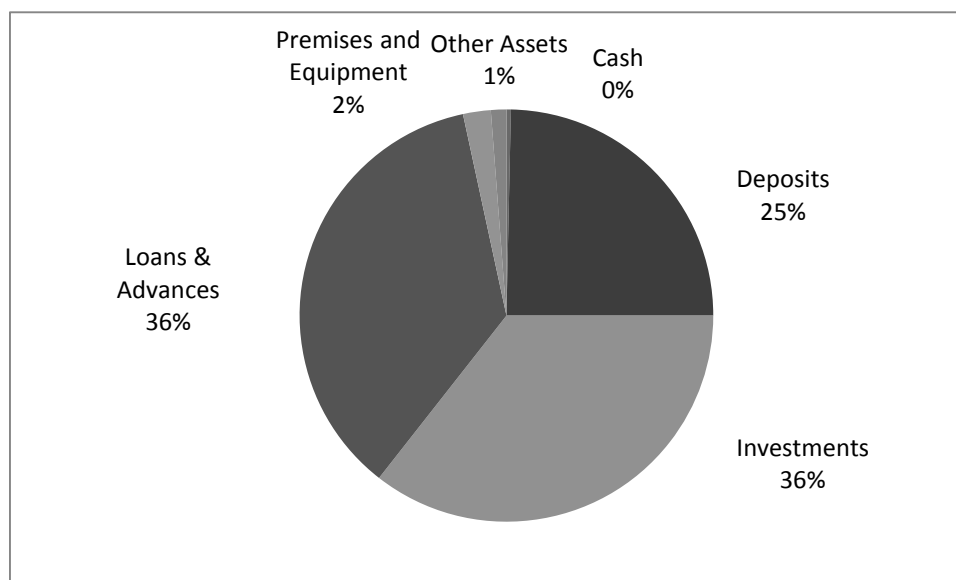
Bermuda bank and deposit company historical assets (dollars in billions)



Source: Bermuda Monetary Authority.

As of December 31, 2011, bank and deposit company assets were approximately 9.3% higher relative to December 31, 2010, driven primarily by increases recorded in investments. The sector experienced some shifts in the asset allocation during the year, as loans and advances accounted for about 36.1% of the bank's assets (36.8% in the previous year), while investments rose to 35.7% (27.4% in the previous year). The proportion of deposits with other banks to total assets fell from 30.8% to 24.7%. The following chart shows the components of bank and deposit company assets.

Banks and Deposit Companies Total Assets as of December 31, 2011



Source: Bermuda Monetary Authority.

Bermuda's licensed banks are supervised by the BMA, under the Banks and Deposit Companies Act 1999. Bermuda's banks are subject to the framework for risk-based capital adequacy established by the Basel Committee on Banking Supervision. The BMA requires licensed banks to maintain capital adequacy ratios calculated on their worldwide consolidated operations at two percentage points above the internationally recommended standard of 8.0%. The aggregate consolidated risk asset ratio of Bermuda's banks as of December 31, 2011 (based on the Revised Framework for Capital Assessment published in December 2008 and effective from January 1, 2009) was 23.2%, almost three times above the internationally recommended standard of 8.0%, and still well above the proposed new capital requirements.

In December 2008, the BMA published rules, effective January 1, 2009, with respect to the implementation of the Basel II framework, the latest agreed version of which was released by the Basel Committee in November 2005. On March 6, 2009, the BMA announced that it required all banks in Bermuda to maintain a capital buffer as a proactive measure, such that they would be able to withstand a severe economic downturn (a one-in-100 year event) and still maintain Tier 1 capital of at least 6%. Establishing this capital buffer has meant that Bermuda banks continue to maintain a strong financial position despite the difficult economic conditions resulting from the global economic and financial crisis.

Bermuda Stock Exchange

The BSX is the national stock exchange of Bermuda. Established in 1971, the BSX is a fully electronic offshore securities market, with a current market capitalization (excluding mutual funds) in excess of \$341 billion of which approximately \$1.4 billion represents the domestic market. The BSX is a self-regulatory organization which operates under the supervision and regulation of the BMA.

There are currently 610 securities listed on the BSX, including 317 investment funds. The BSX is one of the world's largest offshore, fully electronic securities markets offering a full range of listing and trading opportunities for international and domestic issuers of equity, debt, depository receipts, insurance securitization and derivative warrants. The BSX is bound neither by the European Union Listings Directive, nor SEC regulations. However, as a full member of the World Federation of Exchanges, the BSX has been acknowledged by its peers to have high regulatory and operational standards.

Investment Sector

During 2011, 73 new investment funds were authorized and 10 were exempted, for a total of 83 new funds, which is comparable to the 86 recorded in 2010. Bermuda funds continue to be targeted primarily towards institutional and sophisticated investors. There were 1,353 different investment portfolios operating within Bermuda's 872 authorized funds at the end of the year. This compared with 1,440 and 900 respectively at the end of 2010.

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

A full list of regulated investment funds and investment fund administrators may be found at the BMA's website: www.bma.bm. However, the information on this website is not to be considered part of this offering memorandum.

No changes were made to the Investment Funds Act 2006 during the year. The BMA, in consultation with the industry, commenced a review of the Investment Funds Act with a view to making possible changes in 2010.

The BMA continued to supervise authorized investment funds in line with the relevant legislative framework, with the aim of protecting investors. The main focus of the BMA's supervision is the review of funds' periodic statistical reports and the content of prospectuses, as well as the vetting of fund service providers.

The following chart shows historical data on investment funds in Bermuda:

Investment Fund Statistics

	2011	2010	2009	2008	2007	2006	2005
Mutual Funds.....	618	657	662	819	881	906	846
Umbrella Funds	48	58	71	76	77	67	62
Segregated Account Companies	68	76	84	83	77	69	55
Unit Trusts	39	40	44	71	106	109	105
Umbrella Trusts	99	69	94	84	162	151	114
Total Number of Funds.....	872	900	955	1,133	1,303	1,302	1,182
Sub-Funds.....	107	142	175	220	253	283	315
Sub-Trusts.....	155	150	25	198	215	215	215
Segregated Accounts	219	248	317	336	391	390	331
Total Number of Sub-Funds	481	540	513	754	859	888	861
Total Net Asset Value (in billions).....	\$159.51	\$178.44	\$147.30	\$171.19	\$249.17	\$211.52	\$187.53

Source: Bermuda Monetary Authority.

Tourism

Tourism is a vital and integral component of the Bermuda economy and the Government estimates that in 2010 this sector directly and indirectly accounted for about 9% of employment. Also, it is estimated that in 2010 the total output produced by tourism industries such as hotels, restaurants, travel agencies and passenger transport businesses equaled \$721 million. Until the mid-1990s, tourism had been Bermuda's largest economic sector, but since that time it has been overtaken by international business. In 2010, tourism accounted for 5.2% of Bermuda's nominal GDP with total output of \$297 million.

Bermuda has one tourism office overseas, which is located in New York City. The Ministry of Tourism has its business development managers operating from home offices in order to cover its key feeder market in the most cost-effective manner. The Ministry of Tourism is also seeking to develop new business from destinations such as Germany and other parts of continental Europe as well as the Far East. In 2011, approximately 82% of Bermuda's tourists, including air, cruise and yacht arrivals, were from the United States, 8% were from Canada, 5% were from the United Kingdom, and the remaining 5% from Europe and the rest of the world. Bermuda is

approximately two hours by air from New York City and is served by a number of airlines. Bermuda's primary tourist attractions are its temperate climate, its physical beauty and its lifestyle and the use of United States currency everywhere in Bermuda.

Tourist Data

In 2011, Bermuda experienced one of the highest ever total visitor arrivals counts, second only to 2007. Bermuda saw 655,236 visitors for the year, representing an increase of almost 12% compared to the prior year. This increase was attributable to a strong cruise season, which saw record cruise visitors to Bermuda during 2011.

Air arrivals were up by almost 2% with 236,038 tourists flying to Bermuda during this period. Visitors from the United States and Europe increased in 2011 while all other regions (Canada, United Kingdom and the Rest of the World) saw decreases. A decrease of four flights per week during the summer months out of Toronto contributed to the 4% decline in visitor arrivals from Canada. In contrast, arrivals from the United States increased due to additional seasonal service provided by AirTran out of Atlanta and Baltimore. The additional daily flights resulted in visitor arrivals from Georgia and Maryland which increased by 53% and 36% respectively.

All categories of visits to Bermuda in 2011 saw increases, except for visits to friends and family, which slipped almost 5%. The increase conversely was conventions, as Bermuda hosted several large incentive groups over the summer causing travelers in this category to soar by a massive 116%. The other categories showing increases were vacation travelers (1%), Business travelers (0.3%) and those visiting Bermuda for other reasons (5%).

With a decline in arrivals for the purpose of visiting friends and family, visitation in private homes decreased slightly from 6.21 nights to 6.06 nights on average. Visitation in commercial properties, however, remained constant at an average of 4.94 nights. There was also a 3.6% increase in visitors staying in paid accommodations resulting in an identical 3.6% increase in bed nights stayed in commercial properties for 2011.

Bermuda continues to draw strong interest amongst cruise travelers and in 2011 saw the highest number of cruise visitors ever, increasing by over 19% year over year. Additional ships were added to the shoulder periods of the cruise season resulting in a strong year with 415,711 cruise passengers visiting Bermuda up from 347,931 in 2010. Cruise arrivals are however expected to decline slightly in 2012 as some ships have discontinued service.

Visitors arriving by yacht dipped by 31% in 2011, due mainly to the increased numbers brought on by the bi-annual Newport to Bermuda race that took place in 2010. The Marion to Bermuda Race was held in June 2011 but its numbers did not match the over 1,500 crew members that arrived during the 2010 Newport Race.

Country of Residence

Visitors from the United States continue to be the backbone of the Bermuda tourism sector due to its proximity to the east coast of the United States. With direct flights from cities such as New York, Boston, Philadelphia, Atlanta and Miami, along with an average flight time from these locations of less than three hours, the United States is Bermuda's main source of visitors. Market share of air visitors from the United States increased by one percentage point in 2011, representing a total of 73% of all air visitors to Bermuda. The United Kingdom lost a percentage point to represent 9% of total visitors with Canada, Europe and the Rest of the World markets remaining constant at 13%, 2% and 3%, respectively, for the year.

Bermuda Hotels and Guest Houses

Bermuda has approximately 48 hotels and guest houses, with a total of 5,234 beds in 2011. The five major hotels (the Fairmont Southampton Princess, the Fairmont Hamilton Princess, the Grotto Bay Beach Hotel, the Rosewood Tucker's Point Hotel and the Elbow Beach Hotel) account for 57% of total hotel rooms in Bermuda. Bermuda also has eight golf courses, the most per square mile in the world, and numerous tennis courts. The 2011 employment figures based on the Department of Statistics 2012 Employment Brief indicate that 12% of Bermuda's total employment was in hotels and restaurants.

Hotel occupancy rates averaged 56.3% in 2011, which represents an increase of 6.5% as compared with 2010. The major hotels experienced the highest rate of occupancy at 59.2%, which represents an increase of 2.4% as compared to 2010. The small hotels enjoyed the next highest occupancy rate of 57.3%, a 9.2% increase year-over-year. Cottage colonies recorded the lowest occupancy rate for 2011 of 41.6%, which resulted in a 10.7% increase as compared to 2010.

The following table shows the number of bed nights sold on a historical basis.

Number of bed nights sold

	2005	2006	2007	2008	2009	2010	2011
Large hotels	595,957	681,555	633,073	540,086	462,388	460,364	487,692
Small hotels	156,585	161,244	157,837	138,930	163,541	211,190	217,680
Cottage colonies	141,617	147,305	150,706	123,670	112,044	85,642	85,167
Private clubs	32,209	31,193	33,207	26,224	18,094	18,332	18,758
House-keeping cottages	94,797	109,228	112,351	93,274	50,869	48,020	46,877
Guest houses	7,758	11,033	10,833	8,062	7,195	7,266	5,995
Other	18,149	17,693	21,932	17,666	12,739	14,297	13,491
Total commercial properties ..	1,047,072	1,159,251	1,119,939	947,912	826,870	845,111	875,660
Private homes	679,588	770,426	774,333	727,725	606,285	587,022	545,404
Unallocated	1,931	1,759	3,389	3,230	4,184	10,085	8,412
Total	1,728,591	1,931,436	1,897,661	1,678,867	1,437,339	1,442,218	1,429,476
Year-to-year change %	(0.3)%	11.7%	(1.7)%	(11.5)%	(14.4)%	0.3%	(0.9)%

Source: Department of Tourism, Bermuda.

Note: Bed night is hotel industry measure of occupancy that assumes one person for one night.

Tourism Expenditures

Total visitor expenditure for 2011 increased by 10.1% as compared to 2010. The dollar value of the total expenditure by air visitors was an estimated \$348.5 million, an increase of \$25.6 million, or 7.9%, more than in 2010. Spending by cruise visitors also grew from \$61.0 million in 2010 to \$74.1 million in 2011, an increase of 21.5%.

During 2011, expenditure on air visitor accommodation and food increased by 6.3%, from \$257.3 million in 2010 to \$273.5 million in 2011. Similarly, the expenditure on shopping, entertainment and transport also increased by 14.3% from \$65.6 million to \$75.0 million during the same time period.

Estimated expenditure of vacation and business visitors

Date	Expenditure during period (dollars in millions)			Year-on-year % changes		
	Regular	Cruise ship	Total	Regular	Cruise ship	Total
2005	340.4	53.7	394.1	(0.8)%	6.8%	0.2%
2006	388.9	65.3	454.2	14.2%	21.6%	15.2%
2007	442.7	70.5	513.2	13.8%	8.0%	13.0%
2008	344.1	57.7	401.8	(22.3)%	(18.2)%	(21.7)%
2009	266.4	64.9	331.3	(22.6)%	12.4%	(17.5)%
2010	322.9	61.0	383.9	21.2%	(6.0)%	14.8%
2011	348.5	74.1	422.6	7.9%	21.5%	8.7%

Source: Department of Statistics, Bermuda.

Tourism Initiatives and Assistance

Bermuda has taken a series of initiatives to preserve its appeal to affluent visitors. The Government is in constant talks with the cruise ship industry in an attempt to improve the country's tourism offerings, and the Government provides monetary relief incentives in the form of customs duty relief to hotels and restaurants for the

refurbishment and maintenance of their establishments. These monetary relief incentives have recently been re-confirmed for the future in order to support and assist the hotel and restaurant sectors. Also to assist the hotel sector during the current economic slowdown, the Ministry of Finance has signed an MOU with the Bermuda Hotel Association to provide for the deferment and possible write-off of payroll, land and hotel occupancy taxes.

The Ministry of Business Development and Tourism recently completed a National Tourism Plan, which is supported by the Government. The Plan provides a vision for Bermuda's tourism industry for the next five to ten years and includes an outline to accomplish the goal of repositioning Bermuda in the global tourism market and to become a year-round destination with the required product, services and marketing to support this goal. The Plan will be presented to the legislature in June 2012. It is anticipated that elements of the Plan will be implemented within the second half of 2012.

The Bermuda Department of Tourism was provided with a budget of \$28.7 million for the 2012/2013 fiscal year, a decrease of 5% over the previous year, to develop and promote the tourism industry while improving the country's infrastructure. Ministry resources are actively engaged in ongoing efforts to facilitate the development of new hotels and attract foreign investment to Bermuda. The development climate mirrors the global economy, though significant and internationally recognized brands are preparing to progress new hotel sites. The tourism sector has been preparing to bolster Bermuda's overall economic position, as its construction phase will shore up any potential softening in other areas. Also of significance is the completion of the Heritage Wharf, a new cruise pier complex at Royal Naval Dockyard which opened in May 2009. The Bermuda tourism industry is dependent on the continued perception of Bermuda as an attractive and safe vacation destination. Any change in this perception, including as a result of any reduction in the capital investment in tourism infrastructure or any increase in crime, could have a negative effect on Bermuda.

Hotel developers continue to make investments in Bermuda. Newstead Belmont Hills Resort opened in April 2008 with 102 fractional units; in the spring of 2009, Tucker's Point Club, a mixed-used development, added a luxury hotel component with 100 units to its inventory of town houses and Private Residence Clubs, and later added another 38 units comprising of hotel condominium units and two- and three-bedroom fractional units; and the Reefs Hotel added 19 fractional units in 2009. Despite the current global economic impact on hotel development, the Department of Tourism is cautiously optimistic that a rebound is ahead and, consequently, anticipates progress with its current market prospects, including Park Hyatt, Parlaville Residences, Coco Villas and Morgan's Point. To date, the Department of Tourism has not been advised that any of these projects has been cancelled.

Retail Sales

In February 2012, the value of retail sales was positive (increasing 3.6%) for the first time since March 2009, and the volume of retail sales activity (after removing the effect of inflation) increased for the first time since April 2008, increasing by 1.3%. This is evidence that the Government's initiatives to assist the retail sector are starting to have a positive effect. The Government's implementation of a policy to increase the rate of duty on personal items declared at the airport from 25% to 35% in November 2011 has encouraged residents to "Buy Bermuda" with the value of overseas purchases declared by returning residents declining from \$3.5 million in February 2011 to \$3.3 million in February 2012. It is anticipated that retail sales will benefit further from the Government's latest initiative to have one flat rate of 25% at all ports of entry for personal goods (goods that were previously 33.5% and 0% remain unchanged) which began in April 2012.

The latest data for the Retail Sales Index was compiled for March 2012. During the 12 months leading up to March, local retail sales were down 1.5% to \$1.02 billion, while combined local and overseas retail sales fell by 2.0% to \$1.10 billion during that time.

All sectors in the Retail Sales Index recorded declines in sales levels for the year 2011 apart from apparel stores and service stations while food stores sales were flat.

The chart below shows the percentage changes in retail sales by category for the years indicated:

Retail Sales Index (% change year-on-year)

	2006	2007	2008	2009	2010	2011
Food stores.....	6.1%	6.5%	7.8%	4.4%	0.3%	0.0%
Liquor stores.....	3.6%	4.4%	0.8%	7.1%	2.5%	(1.6)%
Motor vehicles	(1.6)%	(4.9)%	(4.6)%	(9.6)%	(16.9)%	(24.9)%
Service stations	11.7%	6.0%	10.3%	(9.3)%	5.2%	4.1%
Building materials.....	7.0%	(3.6)%	(3.5)%	(7.4)%	(25.3)%	(1.2)%
Apparel stores.....	(9.0)%	9.2%	(4.5)%	(14.0)%	(2.3)%	1.3%
Other.....	7.5%	6.2%	0.6%	(6.1)%	(4.7)%	(3.5)%
Total retail	3.9%	4.3%	1.6%	(3.6)%	(4.8)%	(2.9)%

Source: Department of Statistics, Bermuda.

Service stations and apparel stores were the only sectors to experience a year-over-year increase in retail sales. Service stations sales grew by 4.1% due to increases in the costs of gasoline throughout the year. Apparel stores sales rose by 1.3% despite fluctuations in sales levels over the last 12 months.

In 2011, the retail trade and repair services industry accounted for roughly 8.2% of total employment.

Consumers spent an estimated \$85.6 million on retail sales in March 2012, an increase of 2.5%, or \$2.1 million, above the \$83.5 million in retail sales recorded in March 2011. Retail sales rose in all sectors with the exception of motor vehicle stores, service stations and the other stores sector.

Residents returning to Bermuda from business and vacation trips declared overseas purchases of goods valued at \$3.6 million during March 2012. This was below the \$4.3 million declared in March 2011.

Combined local and overseas spending totaled \$89.2 million for the month of March 2012. After adjusting for the annual retail sales rate of inflation, measured at 4.0% in March, the volume of retail sales fell 0.2%.

During the first three months of 2012, local retail sales rose by 1.3% to \$231.3 million, compared to \$228.4 million for the same period in 2011.

Manufacturing, Construction and Utilities

Manufacturing

Bermuda has limited manufacturing activity. Bermuda's manufacturing accounted for 1.3% of GDP in 2010 and only 2.1% of total employment in 2011. Primary activities include ship repairs, boat-building and the manufacture of paint. Bakeries, bottlers and other food processors operate for local consumption. Given Bermuda's high wage rates and lack of natural resources, little growth is expected in this area.

Construction

In 2011, the construction industry declined as compared to 2010. Although experiencing a reduction in activity, this sector of the economy still remained active. The estimated value of construction work performed in 2011 decreased by 33.7%. The dollar value of the work put in place fell from \$199.0 million in 2010 to \$131.9 million in 2011. The value of new projects started grew by 86.7% from \$161.4 million to \$301.4 million. The chart below shows historical data on major construction projects for the years indicated:

Major construction projects

	2007	2008	2009	2010	2011
	(dollars in millions)				
Value of new projects started	\$234.9	\$317.3	\$195.8	161.4	301.4
Type of Project:					
Residential	108.6	83.3	29.1	55.1	43.3
Commercial	60.2	143.3	188.5	119.9	47.9
Tourism	132.7	103.1	22.5	0	0.3
Social ⁽¹⁾	16.3	43.6	14.2	4.4	29.3
Infrastructure ⁽²⁾	0.9	62.5	27.2	4.7	0.9
Industrial	8.0	9.2	6.3	14.9	10.2
Total	326.6	445.4	287.8	199.0	131.9
Sector:					
Public	63.2	54.5	77.6	65.9	59
Private	263.3	390.9	210.1	133.1	72.9

Source: Department of Statistics, Bermuda.

(1) Roads, bridges and airports.

(2) Schools, hospitals and community centers.

The construction of offices, shops and warehouses accounted for the majority of construction work completed in 2011. The value of construction performed for such projects represented 36.3% of all construction activity recorded during the period. Work on residential construction projects and work on schools, hospitals and community centers contributed 32.8% and 22.2%, respectively, to the total activity in the industry.

During 2011, residential construction created 393 new units, which represented an increase of 18 units year-over-year. The units consist of studio apartments, one bedroom, two bedrooms and three bedrooms and over. Studio apartments increased by six units or 30%; one bedroom apartments fell by 14 units, or 21.9%; two bedrooms grew by 16 units, or 8.3%; and three bedrooms and over increased by 10 units, or 10.2%.

The Government's planned capital expenditure program for the 2012/2013 fiscal year budget is \$76.2 million. While most of the funding is related to construction projects that are underway, such as the Co-ed Substance Abuse Treatment Facility and the new X-ray scanner project, there is also a provision for information technology development, new communications equipment and new buses. Some \$5 million in the capital plan is earmarked for the cleanup of Morgan's Point so that a new hotel development can proceed, and \$18 million dollars is allocated to the capital maintenance and expansion of the Tynes Bay Waste Treatment Facility.

Agriculture

Once largely an agricultural island with fertile land that supplied vegetables to the United States, Bermuda currently has little agriculture because of escalating property values. Acreage under cultivation has declined from 3,000 acres in 1920 to less than 360 acres. As such, Bermuda is highly dependent upon food imports (food and beverage imports amounted to \$167.2 million or 18.7% of total imports in 2011). Cattle and goats are raised primarily for dairy purposes, and pigs and poultry are raised for domestic consumption. There is a small fishing industry, primarily for domestic consumption.

Government

In comparison with developed countries, the government sector in Bermuda remains small relative to the size of the country, reflecting the absence of significant defense and overseas representation costs. Total government expenditure in 2011 was 21.6% of total GDP, with government expenditure in 2012 projected to be at approximately 19.6%, marginally lower than the 2011 level. This compares at the lower end with the median figures for "AA" rated median sovereigns of between 40-50% of GDP.

The following table shows historical government revenues and expenditures as a percentage of GDP for the years indicated:

Central government revenue and expenditure (expressed as a percentage of nominal GDP)

% of GDP	Revenue	Current account expenditure	Capital account expenditure	Total expenditure
2006	15.0%	13.5%	2.2%	15.7%
2007	15.2%	14.7%	1.9%	16.6%
2008	15.2%	14.9%	2.6%	17.5%
2009	15.6%	16.3%	3.3%	19.6%
2010	15.8%	17.2%	2.2%	19.4%
2011	17.3%	19.5%	2.1%	21.6%

Source: Department of Statistics, Bermuda, and The Accountant General.

Balance of Payments and Foreign Trade

Bermuda is almost entirely dependent on imports, given the nature of its economy. Since Bermuda has few commodity exports, it consistently records a large merchandise trade deficit. However, receipts from the service industries (invisible exports) normally ensure a surplus in the current account of the balance of payments. The surplus on the current account fell to \$679 million in 2011 as compared to \$701 million in 2010.

The following table breaks down the balance of payments on a historical basis for the years indicated:

Balance of payments					
	2007	2008	2009	2010	2011
	(dollars in millions)				
Exports.....	\$ 25	\$ 24	\$ 29	\$ 15	\$ 13
Imports.....	1,166	1,159	1,064	988	910
Merchandise trade balance	(1,141)	(1,135)	(1,035)	(973)	(897)
Services and Income – receipts.....	4,158	3,866	3,217	3,234	3,287
Services and Income – payments.....	2,947	2,957	2,637	2,533	2,608
Net invisible receipts	2,325	0	0	0	0
Transfer (net).....	39	0	0	0	0
Current account balance	1,210	908	580	701	679
Capital and financial account					
Net financial account balances					
Direct investment	577	(146)	(88)	236	444
Portfolio investments	326	2,710	(1,799)	(996)	(2,549)
Other investment	(363)	(3,035)	2,218	48	1,832
Total net financial account.....	539	(471)	331	(712)	(273)
Total net capital account.....	(65)	0	0	0	0
Total net reserve assets	(4)	(5)	18	3	11
Total capital, financial account and reserve assets	470	(476)	349	(709)	(262)
Balancing item.....	\$ (1,746)	\$ (432)	\$ (582)	\$ 8	\$ (418)

Source: Department of Statistics, Bermuda.

Current Account

The balance of payments continues to record relatively large current account surpluses, an indicator of strength in the Bermuda economy. The net balance in the current account declined marginally by \$22 million, or 3.1%, from \$701 million in 2010 to \$679 million in 2011.

The trade deficit on goods was estimated at \$897 million for 2011, which represents a decrease of \$76 million year-over-year. The trade deficit on goods is primarily explained by three factors:

- The inherent need to import products due to Bermuda's lack of natural resources;
- The weakness of Bermuda's capacity to export products and the strength of the consumer's spending power in Bermuda; and
- High demand for imported products.

International business and tourism are Bermuda's primary sources of foreign exchange earnings. The Department of Statistics estimates that during 2011 tourism and international business combined to provide \$2,371 million in foreign currency receipts. The amount of foreign currency received from these two sectors of the economy represented 72.1% of the total balance of payments of current account receipts of foreign exchange.

In 2011, imports totaled \$892.9 million, which represented a 7.9% decline when compared with 2010. The majority of the imports are sourced from the United States (about 71.5% of total imports), while the United Kingdom provides 3.2%, Canada 12.1% and the remaining 13.2% are from Caribbean and all other countries.

Capital and Financial Account

For 2011, the total net financial accounts recorded a net outflow of \$273 million, the total net capital account was zero and the total net reserve assets recorded an inflow of \$11 million.

Money Supply and Foreign Currency Reserves Money Supply

The movement in the money supply (Bermudian currency only) reflects the broad economic climate in Bermuda and the overall level of financial intermediation by local banks. The money supply contracted by 4.0% from \$3,693 million in the first quarter of 2011 to \$3,547 million in the first quarter of 2012. The decline was driven by a decrease in Bermuda dollar consumer deposits. The following table shows historical money supply figures at year-end for the years indicated:

	2007	2008	2009	2010	2011
	(dollars in millions)				
Notes and coins in circulation.....	\$125	\$141	\$137	\$127	\$133
Deposits liabilities	3,634	3,815	3,840	3,660	3,521
Banks and deposit companies	3,759	3,956	3,977	3,787	3,654
Less: Cash at banks and deposit company	(45)	(57)	(70)	(65)	(67)
Bermuda money supply	3,714	3,899	3,907	3,722	3,587
% growth (Year-on-Year)....	3.9%	5.0%	0.2%	(4.7)%	(3.6)%

Source: Bermuda Monetary Authority.

Note: Notes and coins in circulation include the supply of Bermuda dollars only.

The Bermuda dollar base interest rates are set by the leading commercial domestic banks: Butterfield Bank and HSBC Bank Bermuda Limited. In establishing these rates, the banks are influenced by the demand for credit by businesses and consumers and the availability of bank reserves to back the extension of loans. In February 1970, Bermuda converted from its former currency, the pound, to a decimal currency of dollars pegged to the U.S. dollar. Because of this peg, interest rate changes in Bermuda, at least historically, have closely paralleled similar changes in the United States. However in the past few years the United States Federal Reserve rates were reduced more frequently and by larger amounts than the rates of the Bermuda banks.

During 2011, neither of the two Bermuda banks adjusted its interest rates.

At December 31, 2011, Butterfield Bank's base rate was 3.75%, resulting in a gap of 3.5% greater than the U.S. Federal Funds rate of 0.25%. HSBC Bank Bermuda Limited's base rate was 3.50%, with a gap of 3.25% greater than the U.S. Federal Funds rate.

Foreign Currency Reserves

The net foreign currency position of the banking and deposit-taking sector remained in deficit during 2011, with net foreign currency liabilities exceeding net foreign currency assets by \$383 million at December 31, 2011. The deficit widened during 2011 by \$217 million as a result of an increase in net foreign currency assets of 14.4% as compared to an increase in net foreign currency liabilities of 15.6%. The following table shows Bermuda's foreign currency reserves at year-end for the years indicated:

	Foreign currency reserves				
	2007	2008	2009	2010	2011
	(dollars in millions)				
Total foreign currency assets	19,412	17,470	15,960	17,693	19,672
Less: Other assets	624	593	478	428	167
Less: Foreign currency loans to residents	1,058	1,146	1,172	1,013	918
Net foreign currency assets	17,730	15,731	14,310	16,251	18,587
Foreign currency liabilities	17,755	15,822	14,940	16,232	18,757
Add: BD\$ deposits of non-residents	216	335	176	185	214
Net foreign currency liabilities	17,771	16,157	15,116	16,418	18,971
Net foreign currency position (consolidated)	(41)	(426)	(807)	(166)	(383)

Source: Bermuda Monetary Authority.

Inflation

Bermuda's inflation rate closely tracks the rate in the United States, because Bermuda's exchange rate is pegged to the U.S. dollar and the Government bears an open capital account. The slight divergence in Bermuda's inflation rate reflects its high retail prices due to duty rates on imports and the law requiring most local companies to be at least 60% Bermudian-owned (locally-owned stores lack economies of scale). However, the dominance of U.S. dollar transactions in the international financial services and tourism sectors and Bermuda's dependence on imports (principally from the United States) means that Bermuda's inflation rate has generally mirrored U.S. trends.

The Consumer Price Index ("CPI") increased at an average annual rate of 2.7% in 2011. In 2011, the largest price increases were recorded in the health & personal care, rent, fuel, education and food sectors.

The increases in price levels of the health & personal care sector contributed the most to the level of inflation in 2011. The average rate of price increases for this sector was 6.9%, which can be mainly attributed to a 10.8% increase in the average price of health insurance premiums in April 2011. Other categories experiencing higher costs in this sector were prescribed medicines and medical supplies.

The rent sector experienced cost increases at an average rate of 1.1% for the year. The expanded costs in this sector were attributed to increases in payments for both rent controlled and non-rent controlled properties throughout the year. Job losses, pay curbs and the significant number of expatriate workers that have left Bermuda have reduced demand and placed downward pressures on rental prices.

The Consumer Price Index has increased at an average rate of 2.7% for the first four months of 2012. The largest price increases were recorded in the health and personal care sector, which was in the aggregate up 5.9% in April 2012, relative to the same period in the prior year, due in large part to higher health insurance premiums that came into effect in April.

The following table shows comparative inflation rates for Bermuda and key trading partners for the years indicated:

Comparison of Inflation Rates (%)

Country	2008	2009	2010	2011	April 2012
Bermuda ⁽¹⁾	4.8	1.8	2.4	2.7	2.5
United States ⁽²⁾	3.8	2.7	1.5	3.0	2.3
Canada ⁽³⁾	2.3	0.3	1.8	1.8	2.0
United Kingdom ⁽⁴⁾	3.6	(0.5)	4.6	5.2	3.5

Sources:

- (1) Department of Statistics, Bermuda.
- (2) U.S. Bureau of Labor.
- (3) Statistics Canada.
- (4) U.K. Office of National Statistics.

Tax Policy

Bermuda has a consumption-based tax system that has been in place since the 1800s. One of the first legislated taxes, the Revenue Act 1898 that made provision for the collection of customs duty, remains in effect today. For the greater part of the 1900s, customs duty accounted for more than 50% of government revenue. Stamp duties accounted for the next largest share of tax revenue. In the latter part of the 1900s, other forms of indirect taxes were introduced, including payroll tax, passenger taxes, and land tax. For the 2010/2011 fiscal year, these five tax sources together with annual fees for international companies generated \$797.2 million or 80% of the actual \$996.7 million of revenue collected for the year.

The scale of taxes imposed by the Government is broadly in line with those prevailing in the countries with which it conducts the bulk of its foreign trade. In Bermuda, the ratio of total Government receipts in relation to GDP was approximately 17.3% of GDP in 2011. By contrast, for the federal governments of the United States and Canada, the same ratio was in the range of 14.6% to 15.4% of GDP in 2011. In making the comparison, it is important to note that, as a British Overseas Territory, Bermuda does not bear the costs of an external affairs department, external defense, foreign embassies and membership in international organizations. In 2005, such costs were estimated in the range of \$10 million to \$15 million, equivalent to about 0.3% of GDP.

Bermuda does not have, nor has it ever had, any form of direct tax on income, although it does levy a payroll tax on businesses. The tax is assessed as a percentage of payroll with the employer required to remit the tax and may deduct a percentage of the remittance from the employee. There is a tiered rate structure that provides generally for lower rates for small- and medium-sized businesses and a special concessionary rate for new businesses established in certain areas of Bermuda which the Government wishes to develop.

The Government believes that the absence of direct taxation does not justify labeling a jurisdiction a “tax haven.” In this regard, Bermuda’s consumption-based tax system has not been targeted by the OECD as unfair or designed for the purpose of attracting mobile capital. The OECD has not recommended any changes to Bermuda’s tax structure. Bermuda was the first jurisdiction to ascend to the OECD “White List” after its publication on April 2, 2009, and has to date signed 35 tax information exchange agreements on a bilateral basis with various countries, which demonstrates Bermuda’s commitment to international cooperation and global responsibility. Bermuda’s tax treaty network strategy reflects its approach to pursuing meaningful treaties with the key countries in the global financial system that are also Bermuda’s major trading partners. These treaties are designed to create opportunities for business development, particularly for Bermuda’s international business sector. For example, by signing a tax agreement with the world’s largest Islamic finance jurisdiction, Malaysia, and double taxation agreements with the Kingdom of Bahrain and the State of Qatar, Bermuda has positioned itself to better participate in the global Islamic financial services industry. Bermuda’s tax treaties with Canada and Mexico offer specific benefits to Bermudian entities doing business in each of those countries. These tax agreements ultimately enhance opportunities for future foreign direct investment between Bermuda and its treaty partners, and they act as proactive measures to minimize the risk that Bermuda is subject to adverse tax legislation in those jurisdictions in the future.

The tax system was shaped for efficiency and fairness to Bermudian taxpayers. It was not designed to attract mobile capital from onshore jurisdictions. Bermuda authorities do not condone tax evasion. Bermuda's tax regime applies equally to local and international companies and other entities.

The comparative tax differences that exist in the international arena are due to the nature of the tax model that is adopted by different jurisdictions. In Bermuda's case, the consumption-based model has proven to be quite compatible with the operation of an economy based primarily on the provision of financial services activities. Further, the Government believes the scale of taxes levied in Bermuda is not out of line with that of developed countries.

As there are no taxes on capital, firms domiciled in Bermuda are able to allocate capital without tax distortions. Subsidiaries or branches that operate in various other countries of the world pay all taxes that are applicable in the country where the business activity occurs. The remaining profits can be reinvested in that country or distributed to the company's head office. In the case of the insurance sector, which is the largest segment of Bermuda's international business, the ability of reinsurance companies to accumulate reserves without paying tax on actual interest earned facilitates competitive pricing for insurance premiums that ultimately benefits purchasers of insurance products worldwide.

Public Finance

Bermuda's public sector represents a relatively small percentage of GDP compared to the major developed economies.

Total current account spending as a proportion of nominal GDP in 2011 was 19.5%, with capital expenditure of \$120.5 million, or 2.1% of nominal GDP. Before the global economic and financial crisis in 2008 and 2009, the Government's economic planning and budgetary measures helped the economy grow at an acceptable rate. Public debt was kept within the limits set by law and the Government's stated policy. Subsequent to the financial crisis, net Government debt has increased and stood at \$1.2 billion at the end of the 2011/2012 fiscal year. Bermuda is not unique in facing the economic challenges that are being faced globally. The Government's policy response during this difficult and challenging period has been to protect vital sectors of the economy through tax concessions and relief which was financed by borrowing. The Government has also tried to maintain the focus on sound social policy and programs and is striving to preserve key delivery of Government services. The Government believes that it is important to help people and businesses through this challenging economic downturn.

The general administration of the Government's finances is the responsibility of the Minister of Finance, who reports to the House of Assembly and the Senate, which have ultimate financial control of the Government's finances. All financial transactions are conducted through the Consolidated Fund established and defined pursuant to Section 94 of the Constitution. The Consolidated Fund is the general operating fund of the Government.

Bermuda prepares the annual financial statements of the Consolidated Fund in accordance with the recommendations of the Public Sector Accounting Board and the Accounting Standards Board of the Canadian Institute of Chartered Accountants. Bermuda does not prepare interim financial reports at this time.

Bermuda maintains its accounts on an accrual basis with a fiscal year-end of March 31. The financial statements are prepared in accordance with Sections 5 and 32A of the Public Treasury (Administration and Payments) Act 1969. The Consolidated Fund financial statements report the financial position, results of operations and changes in net debt and cash flow resulting from the Consolidated Fund only. These financial statements are not summary consolidated financial statements of the Government. Separate audited financial statements are prepared for most other Government organizations, which includes the Government's pension funds, and all Government-controlled entities.

The Office of the Auditor General is the auditor of all public funds and Government-controlled entities. The Auditor General is appointed by the Governor. Each year the Auditor General makes an annual report to the House of Assembly. The report is issued pursuant to section 101 of the Bermuda Constitution Order 1968 and the Audit Act 1990. As required by the Constitution and legislation, the report is addressed to the Speaker of the House of Assembly. The Audit Act prescribes the content of the Auditor General's annual reports. Generally, it allows the Auditor General to report any matter that merits the attention of the House of Assembly. Specifically, it requires the

Auditor General to report significant deficiencies in accounting and accountability systems, and failures to safeguard assets, to collect revenues or to disburse expenditures in compliance with legislation. As such, the Audit Act requires the Auditor General's reports to focus mainly on observed problems and deficiencies. However, to promote improvement in financial administration, the Auditor General includes in his or her reports recommendations that address such matters.

The Office of the Auditor General audited the historical financial statements of the Consolidated Fund of the Government as at and for the fiscal years ended March 31, 2011 and 2010, which are not included or incorporated by reference in this offering memorandum. See "Presentation of Economic, Financial and Statistical Information." The audit report with respect to those financial statements contained a qualification identifying deficiencies in internal control over the management of certain development projects and stating that adjustments might be necessary as to the carrying value of certain tangible capital assets. The Government has taken steps to improve its internal controls and believes that this offering memorandum presents fairly its financial position and results of its operations for the fiscal years and periods covered in all material respects.

The statutory independence of the Auditor General is established in the Constitution of Bermuda and the Audit Act 1990, which enables the Auditor General to carry out their mandate independent of the government and its administration.

The Government has been allocating additional resources to improve overall financial reporting in the public sector, and, pursuant to the Internal Audit Act 2010, established a separate internal audit department as an independent governmental department to further this goal.

When the Auditor General tables a report in the House of Assembly, it is automatically referred to the Public Accounts Committee, Parliament's standing audit committee. The Public Accounts Committee then selects the portions of the report it wants to scrutinize and calls public servants from audited organizations to appear before it to explain the Auditor General's findings. The Public Accounts Committee also reviews any other special auditor reports tabled, and attempts to identify financial shortcomings of the Government in light of issues raised in the Auditor General's reports. The Committee then tables its report and makes recommendations to the Government for improvements in spending practices and requests that the Minister of Finance formally reply to the points raised in the report, and it is debated including input from the relevant and accountable Ministries and Ministers.

Bermuda also produces an annual budget which contains a forecast of revenue and expenditure for the upcoming year. Bermuda plans to introduce a pre-budget report as part of its budget preparation process, reflecting its decision to participate in the Open Budget Initiative being promoted by the International Budget Partnership, with the goal of providing greater transparency and public participation in the budget process.

Annual Budget

The Annual Budget is the Government's estimates of revenues and expenditures for the upcoming year. In accordance with Section 96 of the Constitution, the Minister of Finance is required to prepare and submit to the House of Assembly as soon as practicable before the beginning of each fiscal year estimates of revenues and expenditures for the upcoming year. The estimates of expenditure are debated and approved in the House of Assembly. After the estimates are approved, an appropriation law is introduced in the House which provides for the initial authority to pay funds from the Consolidated Fund.

If in respect of any fiscal year it is found that (a) the amount appropriated by the appropriation law for any purpose is insufficient or that a need has arisen for expenditure for a purpose for which no amount has been appropriated by that law; or (b) moneys have been expended for any purpose in excess of the amount appropriated for that purpose by the appropriation law or for a purpose to which no amount has been appropriated by that law, then the Minister of Finance may spend funds in excess of the amounts appropriated by the appropriation law or for a purpose for which no amount has been appropriated by that law and subsequently prepare a supplementary estimate showing the amount of additional expenditure required or spent. Supplementary estimates require a similar approval or ratification process as expenditures approved in the Annual Budget.

The following table compares yearly forecasted revenues used in the budget process and the actual revenues collected:

Bermuda: Track record of Revenue Forecast (Fiscal Years 2001-2011)

Fiscal years ended March 31	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total revenue	(dollars in millions, except percentages)										
Forecast – beginning of year..	591.8	627.3	609.2	650.1	693.9	750.5	835.6	917.1	985.3	969.6	1,058.8
Actual collections.....	623.1	631.2	671.1	705.5	782.5	805.5	883.7	928.5	952.9	917.3	996.7
Forecast error.....	31.2	3.9	61.9	55.4	88.6	55.0	48.1	11.4	(32.4)	(52.3)	(62.1)
Forecast error (%).....	5.0	0.6	9.2	7.9	11.3	6.8	5.4	1.2	(3.3)	(5.7)	(6.2)

Source: Ministry of Finance, Bermuda.

Medium-Term Expenditure Framework

The Ministry of Finance has integrated the preparation of the 2012/2013 fiscal year budget with a medium-term expenditure framework (“MTEF”). An MTEF program allows flexibility in the allocation of resources across a series of annual budgets to meet objectives related to debt service and other Government commitments that cannot be achieved in a single budget cycle.

Government Revenue Sources

Bermuda has a consumption-based tax model, and the two single most important revenue streams flow from taxes on payrolls and customs duties levied on merchandise imports. Most other revenue streams flow from transfer taxes and fees levied on certain transactions – in particular, the sale or transfer of land or properties; annual fees levied on financial and non-financial companies registered in the country; fees levied on motor vehicles; and fees levied on work permits issued to foreigners.

The Government is projecting budgeting revenue of \$909.6 million in the 2012/2013 fiscal year, 3% lower than the original estimate for the previous fiscal year. The most significant decline has been in the payroll tax yield which has decreased by \$38 million, or 11%, compared to the previous year. This decline is due to the loss of jobs, and to the payroll tax concessions to the hotel, restaurant and retail sectors which have reduced the projected payroll tax yield in the 2012/2013 by an estimated \$21 million.

The yield from land tax has improved in the 2012/2013 fiscal year by adjusting the annual rental value threshold that provides an exemption for seniors living in their own homes. The amount of recovered tax is estimated at \$4 million. Seniors whose properties have an annual rental value of less than \$50,000 (an estimated market value of up to about \$1 million) will continue to have full exemption from land tax.

Most other tax rates will remain unchanged except for an amendment to the customs tariff for personal importation of goods at ports of entry. At the LF Wade International Airport, the duty rate will be restored to a fixed rate of 25% but the allowance will be raised to \$200 per person with effect from April 1, 2012. The duty rate for personal importation of most goods will be harmonized at all ports of entry at the fixed rate of 25%. The duty on cigarettes and tobacco will be raised in April 2012 to achieve additional customs revenue of about \$1 million.

The biennial adjustment of government fees will be increased by about 3% for most fees and the anticipated yield is an additional \$4-5 million.

The Government anticipates \$10 million in receipts from the sale of surplus Government property. There will not be an increase in bus and ferry fares and all other tax rates will remain the same as they are now through the 2012/2013 fiscal year.

The following table shows annual revenue by source for the Government since the 2008/2009 fiscal year:

Central Government Revenue by Source

	Estimate 2012/2013						
	2008/2009	2009/2010	2010/2011	Revised 2011/2012		Percentage of Revenue	2012/2013 as % of 2003/2004
	(dollars in thousands, except ratios and other data)						
Customs duties.....	224,160	219,037	195,807	190,003	200,000	21.99%	103
Payroll tax.....	356,526	349,035	423,050	315,000	312,000	34.30%	136
International companies taxes and insurance ⁽¹⁾	64,766	59,385	61,456	57,821	57,731	6.35%	120
Local companies fee.....	3,233	5,320	3,321	3,149	3,121	0.34%	130
Foreign currency purchase tax	14,465	13,792	24,712	23,500	24,500	2.69%	505
Land tax.....	45,707	48,511	49,131	52,000	56,000	6.16%	134
Hotel occupancy tax	11,103	7,321	7,028	9,000	9,000	0.99%	94
Vehicle licenses and registration fees.....	27,172	26,870	26,583	25,207	27,307	3.00%	119
Passenger tax	29,750	29,262	32,345	35,770	35,370	3.89%	132
Stamp duty.....	46,194	31,647	35,362	23,012	23,012	2.53%	71
All other receipts ⁽²⁾	129,790	127,089	137,933	135,565	161,593	17.76%	172
Total.....	\$ 952,866	\$ 917,269	\$ 996,728	\$ 870,027	\$ 909,634	100.00%	129
% Increase (Year-on- Year).....	2.62%	(3.74)%	8.66%	(12.71%)	4.55%		

Source: 2012/2013 fiscal year National Budget.

(1) Insurance regulatory function (and fees) transferred to BMA with effect from January 4, 2002.

(2) Includes, *inter alia*, receipts from postal services, immigration, ferry and bus fares, shipping and air terminal fees, and all other fees and charges.

Government Expenditures

The Government utilizes its revenue through distributions to a variety of ministries for wages, goods and services, grants, debt payments and other expenditures. As announced in the 2012/2013 fiscal year National Budget, the Government has determined that its funding priorities will focus on the economy, education, youth, seniors, community renewal and law enforcement. The National Budget of \$1.08 billion and associated economic stimulus measures are designed to meet the policy objectives in all of these key areas and provide a bridge of stability to an anticipated return to economic growth in 2013.

The following table shows annual expenditure by ministries since the 2008/2009 fiscal year:

Ministry	2008/2009	2009/2010	2010/2011	Revised 2011/2012	Estimate 2012/2013	2012/2013 as % of 2003/2004	
					Percentage of Revenue		
(dollars in thousands, except ratios and other data)							
Current Account:							
Non-Ministry Departments	10,997	11,481	12,946	14,665	15,352	1.63%	200
Cabinet Office	18,036	19,803	20,456	18,031	17,431	1.85	144
Justice	57,107	56,664	60,900	60,084	58,500	6.22	185
Finance (Excluding Interest on Debt and Sinking Fund)	131,657	126,516	133,224	109,101	73,622	7.83	128
Education	150,956	153,533	148,285	139,196	133,989	14.26	125
Health	155,569	189,979	209,021	193,098	190,978	20.32	183
Environment, Planning and Infrastructure Strategy	13,386	13,343	13,491	14,245	15,745	1.68	184
Transport.	81,391	84,931	87,669	78,720	79,524	8.46	142
Public Works	65,251	59,682	71,401	66,086	68,006	7.24	96
Youth, Families and Sports	69,492	76,635	76,110	74,637	75,372	8.02	217
National Security	108,561	107,547	101,325	105,756	108,912	11.59	165
Govt. Estates and Information Services	42,152	40,336	37,945	33,195	33,193	3.53	383
Economy, Trade and Industry	22,287	22,100	28,852	29,838	30,586	3.25	201
Business Development and Tourism	39,555	36,696	38,489	40,061	38,557	4.10	93
Subtotal	966,397	999,246	1,040,114	976,713	939,767	100.00	151
% Increase (Year-on-Year)	9.10%	3.40%	4.09%	(6.10%)	(3.78%)		
Current Account Expenditure ...	966,397	999,246	1,040,114	976,713	939,767		151
Capital Account Expenditure	200,271	125,104	121,045	65,202	76,190		93
Interest on Debt	18,186	1,895	55,298	70,000	35,000		414
Sinking Fund Contribution	9,447	—	28,760	25,750	30,750		1,025
Total	\$ 1,194,301	\$ 1,126,045	\$1,245,217	\$1,137,665	\$1,081,707		151%

Source: 2012/2013 fiscal year National Budget.

Note: In the case ministerial portfolios have been reallocated and changed over the period of this schedule, all prior years' figures have been restated to maintain comparability.

The following table sets forth the budget deficit since fiscal year 2009 (based upon Government revenues and expenditures presented in the above tables):

	2008/2009	2009/2010	2010/2011	Revised 2011/2012	Estimate 2012/2013
	(dollars in thousands)				
Surplus (deficit)	\$ (241,435)	\$ (208,776)	\$ (254,426)	(\$267,638)	(\$172,073)

Source: 2012/2013 fiscal year National Budget.

Total expenditure for the 2010/2011 fiscal year was \$1.24 billion with total anticipated 2011/2012 fiscal year expenditure of \$1.1 billion. Projected expenditures for the 2012/2013 fiscal year are \$1.08 billion. The Ministry of Health, the Ministry of Education and the Ministry of National Security are expected to have the highest current account expenditures with \$191 million, \$134 million and \$109 million, respectively. The Government continues to strive to lower expenditures through various measures, including restrictions on public sector hiring and the elimination of vacant and temporary positions, reductions in overtime, deferral of non-essential capital expenditures, tighter control over the procurement process and more frequent budgetary reporting, better design of social programs, and the establishment of a dedicated efficiency team to realize savings in the various Government ministries.

The higher than anticipated deficits and resulting debt levels for the fiscal years ending from March 31, 2009 to the current fiscal year were driven primarily by the sharp downturn in economic conditions over these years, along with the financing of much needed improvements in infrastructure and other hard assets. More recently, some

of the increase in Bermuda's debt has been to protect vital sectors of the economy through tax concessions and relief, which was financed by borrowing. Also, the Government has tried to maintain the focus on sound social policy and programs and is striving to preserve key delivery of Government services. The Government believes it is important to help people and businesses through this challenging economic downturn. To this end, various social programs, such as a hospital subsidy program and financial assistance, have been increased in the 2012/2013 fiscal year Budget.

The fact that Bermuda could provide this assistance during the recession can be attributed to sound financial management from 1998 through 2008, during which Bermuda maintained a low level of debt. This prudent financial management gave the government room to increase borrowing to cushion the blow of the global economic crisis.

The following table shows a breakdown of estimated expenditure by department:

Estimated expenditure for the 2012/2013 fiscal year (dollars in millions)

Non-Ministry	15.4
Cabinet Office Departments	17.4
Justice	58.5
Finance	73.6
Education.....	134.0
Health	191.0
Environment, Planning & Infrastructure Strategy	15.7
Transport.....	79.5
Public Works	68.0
Youth, Families & Sports	75.4
National Security	108.9
Government Estates & Information Services	33.2
Economy Trade & Industry	30.6
Business Development & Tourism	38.6
Interest & Sinking Fund	65.8
Capital Estimate.....	76.2

Source: 2012/2013 fiscal year National Budget.

Public Debt

On March 27, 2012, the Government amended the Government Loans Act 1978 to increase the legal limit on loans (net of the Sinking Fund balance) from \$1.25 billion to \$1.45 billion. Any legislative amendment to increase the ceiling under the Government Loans Act is similar to any other legislative change and involves the introduction of the amendment into the House of Assembly where it is debated before approval. After this process, the amendment must be debated and approved in the Senate and finally signed into law by the Governor. The decision to increase the ceiling was taken to provide additional stimulus to the local economy by way of continued tax relief to the hotel, restaurant and retail sectors and to maintain Government expenditure levels at 2011/2012 fiscal year levels in order that much needed social programs can continue to be maintained during the current economic slowdown.

Guarantees are contingent liabilities to the Government and are not included on the Government's balance sheet, or counted against the debt ceiling. All guarantees are disclosed as notes in the financial statements of the Consolidated Fund, and are as follows: a guarantee by the Government of the Bermuda Hospital Board's payment streams related to the repayment of construction financing for a new hospital, estimated at \$260 million over a term of 30 years; the guarantee by the Government in respect of \$200 million in aggregate liquidation preference of preference shares issued on June 12, 2009 by the Bank of N.T. Butterfield & Son Limited, which guarantee is for a period of ten years from the date of the issuance of the preference shares; a guarantee by the Government of the West End Development Corporation payment streams related to the repayment of construction financing for the construction of affordable housing, estimated at \$36 million; a guarantee on a loan of \$7.1 million to the West End

Development Corporation to facilitate the completion of the new sewage treatment plant at the Royal Navy Dockyard; and \$0.5 million of national education guarantees.

Bermuda has never defaulted on any of its debt obligations.

The following tables show key statistics for Bermuda compared to G7 member and selected Caribbean nations:

Bermuda compared to G7 member nations

Country	2010 GDP growth	2011 GDP growth	2011 inflation	2011 unemployment rate	Central – bank rate ⁽¹⁾	2011 government net debt ⁽²⁾ /GDP
Bermuda ⁽³⁾	(1.9)%	(2.0)%	2.7%	6.0%	N/A	17.5%
United States..	3.0%	1.7%	3.0%	9.0%	0.25%	80.3%
Japan.....	4.4%	(0.7)%	(0.2)%	4.5%	0.10%	126.6%
United Kingdom.....	(4.4)%	2.1%	4.7%	8.0%	0.50%	78.3%
Germany	3.6%	3.1%	2.3%	6.0%	1.00%	56.1%
Canada	3.2%	2.5%	2.7%	7.5%	1.00%	33.3%
France	1.4%	1.7%	2.3%	9.7%	1.00%	80.4%
Italy.....	1.8%	0.4%	3.7%	8.4%	1.00%	99.6%

Source: IMF - World Economic Outlook April 2012, S&P and Moody's for all countries, except as otherwise noted.

Note: Estimated 2011 GDP of \$5,724.2 million for Bermuda.

(1) As of June 13, 2012.

(2) Net debt is total debt excluding guarantees. For Bermuda, net debt is total debt, excluding guarantees, and net of the Sinking Fund.

(3) Source: Ministry of Finance, Bermuda, for debt and debt related numbers, and Department of Statistics, Bermuda, for all other information.

Bermuda compared to selected Caribbean nations

Country	2010 GDP growth	2011 GDP growth ⁽¹⁾	2011 inflation	2011 unemployment rate	Central – bank rate ⁽²⁾	2011 government net debt ⁽³⁾ /GDP
Bermuda ⁽⁴⁾	(1.9)%	(2.0)%	2.7%	6.0%	N/A	17.5%
Aruba	1.0%	4.9%	6.1%	8.9%	1.00%	43.7%
The Bahamas ..	1.0%	2.0%	1.5%	11.0%	4.50%	48.6%
Barbados	0.2%	0.5%	9.5%	11.5%	3.00%	54.8%
Trinidad and Tobago	0.0%	(1.3)%	5.1%	5.8%	3.00%	7.7%
Cayman Islands.....	(3.4)%	1.2%	1.4%	6.3%	N/A	23.3%

Source: Except as otherwise noted, IMF - World Economic Outlook April 2012, S&P and Moody's for all countries, with certain Aruba data from the Aruba Central Bureau of Statistics, and certain Cayman Islands data from The Cayman Islands' Labour Force Survey Report April 2012.

Note: Estimated 2011 GDP of \$5,724.2 million for Bermuda.

(1) The indicator used for Aruba is Partial Economic Activity Indicator (PEAI) – Aruba Central Bureau of Statistics – Economic Profile 3Q11 (YoY).

(2) As of June 13, 2012 for all countries, except for Barbados, which is as of January 13, 2009.

(3) Net debt is total debt excluding guarantees. For Bermuda, net debt is total debt, excluding guarantees, and net of the Sinking Fund. For Aruba, ratio is represented as general government debt to GDP.

(4) Source: Ministry of Finance, Bermuda, for debt and debt related numbers, and Department of Statistics, Bermuda, for all other information.

At March 31, 2012, the Government's total debt, excluding guarantees, was \$1,350.0 million (and net of the Sinking Fund (as discussed below), was \$1,236.8 million). This amount includes:

- \$140 million aggregate principal amount of Senior Notes due 2022 with a 5.73% interest rate payable semiannually on June 4 and December 4 of each year.
- \$75 million aggregate principal amount of Senior Notes due 2014 with a 5.39% interest rate payable semiannually on June 10 and December 10 of each year.
- \$175 million aggregate principal amount of senior notes, with interest payable semiannually on May 21 and November 21 of each year, in three series:
 - ▶ 6.55% Senior Notes due 2014;
 - ▶ 6.98% Senior Notes due 2016; and
 - ▶ 7.38% Senior Notes due 2019.
- \$140 million aggregate principal amount of senior notes, with interest payable semiannually on May 10 and November 10 of each year, in two series:
 - ▶ 5.27% Senior Notes due 2016; and
 - ▶ 5.93% Senior Notes due 2019.
- \$500 million aggregate principal amount of Senior Notes due 2020 with a 5.603% interest rate payable semiannually on January 20 and July 20 of each year.
- BD\$200,000,000 3-year term loan facility agreement with Butterfield Bank due 2014, with a 4.95% interest rate, with interest payable monthly.
- Indebtedness to local banks which includes several overdraft facilities totaling approximately BD\$120 million as of March 31, 2012 that the Government maintains with various banks.

The instruments governing the Government's existing indebtedness include customary covenants, including a limitation on the Government's ability to secure certain assets without equally and ratably securing such existing indebtedness (subject to certain exceptions and qualifications), and customary events of default.

Actual and Pro Forma Capitalization

The following table sets forth the Government's debt, both on actual and as adjusted basis as of March 31, 2012. The "Pro Forma" column reflects the Government's debt assuming completion of the notes offering and the application of the proceeds therefrom as described under "Use of Proceeds."

	Actual	Adjustments for notes offering (dollars in millions)	Pro Forma for notes offering
Existing borrowings			
Butterfield Bank BD\$200 million loan facility at 4.95% expiring 2014.....	200.0	(200.0)	—
5.39% Senior Notes due 2014	75.0		75.0
6.55% Senior Notes due 2014	45.0		45.0
6.98% Senior Notes due 2016	30.0		30.0
5.27% Senior Notes due 2016	60.0		60.0
7.38% Senior Notes due 2019	100.0		100.0
5.93% Senior Notes due 2019	80.0		80.0
5.603% Senior Notes due 2020	500.0		500.0
5.73% Senior Notes due 2022	140.0		140.0
Indebtedness with local banks	120.0	(120.0)	—
4.138% Senior Notes due 2023 offered hereby	—		475.0
Total debt.....	\$ 1,350.0		\$ 1,505.0
Less: Sinking Fund	113.3		113.3
Net debt	\$ 1,236.7		\$ 1,391.7
National education guarantees	0.5		0.5
Butterfield Bank preference share guarantee.	200.0		200.0
Hospital Board guarantee	260.0		260.0
WEDCO sewage plant guarantee	7.1		7.1
WEDCO housing development guarantee.....	36.0		36.0

The following table shows the public sector external debt of Bermuda on a pro forma basis as of March 31, 2012 assuming completion of the notes offering and the application of the proceeds therefrom as described under “Use of Proceeds.” This table does not reflect the national education, Butterfield Bank, Hospital Board and WEDCO guarantees set forth in the table above.

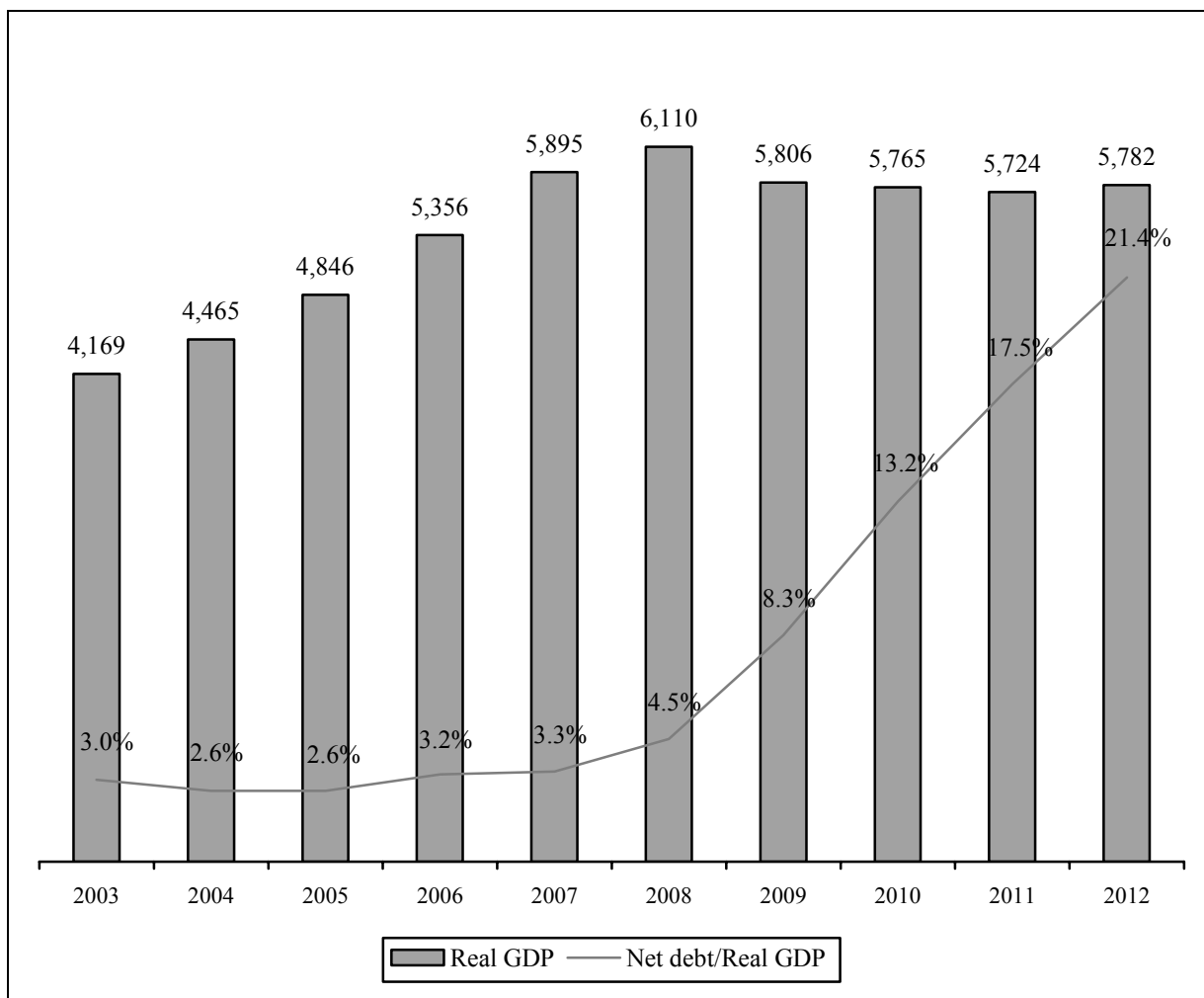
Government’s Public Debt

	Issue Date (mm/dd/yy)	Interest Rate (as %)	Maturity Date (mm/dd/yy)	Pro Forma as of March 31, 2012 (dollars in thousands)
Senior Notes due 2014.....	06/10/04	5.39%	06/10/14	\$ 75,000
Senior Notes due 2022.....	12/04/07	5.73%	12/04/22	140,000
Senior Notes due 2014.....	05/21/09	6.55%	05/21/14	45,000
Senior Notes due 2016.....	05/21/09	6.98%	05/21/16	30,000
Senior Notes due 2019.....	05/21/09	7.38%	05/21/19	85,000
Senior Notes due 2019.....	06/10/09	7.38%	05/21/19	15,000
Senior Notes due 2016.....	11/10/09	5.27%	11/10/16	60,000
Senior Notes due 2019.....	11/10/09	5.93%	11/10/19	80,000
Senior Notes due 2020.....	07/20/10	5.603%	07/20/20	500,000
4.138% Senior Notes due 2023 offered hereby.....	07/03/12	4.138%	01/03/23	475,000
Total debt.....				\$ 1,505,000

Source: Ministry of Finance, Bermuda.

The following chart illustrates Bermuda's real GDP and leverage ratios for the years indicated:

Bermuda's leverage ratios



Source: Department of Statistics, Bermuda.

Note: Estimated 2011 real GDP of \$5,724.2 million and projected 2012 real GDP of \$5,781.5 million.

The Government is the guarantor with respect to the following obligations:

- In August 1994, the Government introduced the National Education Guarantee Scheme to provide qualifying students with financial guarantees on bank loans for post-secondary education. The repayment of principal and accrued interest is guaranteed by the Government.
- The Government has also provided a “letter of comfort” to Butterfield Bank on behalf of the Bermuda Housing Corporation dated July 12, 2011 which states that “to the extent that Bermuda Housing Corporation operates programs which do not break-even, the Government will appropriate annual grants to enable Bermuda Housing Corporation to comply with its legislation.” Butterfield Bank has indicated that the letter of comfort does not constitute a guarantee by the Government to make payments on behalf of Bermuda Housing Corporation in the event of default.

- On April 1, 2009, the Ministry of Finance guaranteed a loan of \$10.0 million to WEDCO to facilitate the completion of the new Sewage Treatment Plant at Dockyard, of which \$7.1 million is currently outstanding.
- On June 22, 2009, the Government entered into a guarantee agreement with Butterfield Bank in connection with an issuance of preference shares by Butterfield Bank. The Government has guaranteed the payment of 100% of the liquidation value (\$200 million) of the outstanding preference shares in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of Butterfield Bank during the ten-year term of the guarantee. The Government also acts as a guarantor for the dividend payments relating to the preference shares.
- On December 1, 2010, the Minister of Finance provided an irrevocable Guarantee Agreement to Paget Health Services Limited to facilitate the completion of the redevelopment of the King Edward Memorial Hospital in Paget. The Guarantee Agreement guarantees payment by the Government of all amounts due and payable to Paget Health Services Limited by the Bermuda Hospitals Board in connection with the completion of the redevelopment and ongoing maintenance of the hospital. The guarantee is for approximately \$260 million to be repaid over 30 years.
- On April 24, 2012, the Minister of Finance provided an unconditional guarantee to Butterfield Bank in consideration of the bank granting a \$36 million credit facility to the West End Development Corporation to construct a 100 unit residential housing development in the western-end of Bermuda and to upgrade the sewage system in this area.

Sinking Fund

Effective March 31, 1993, the Government Borrowing Sinking Fund (the “Sinking Fund”) was established as a separate legal entity for the repayment of government borrowings under the provisions of the Government Loans Act 1978. During each fiscal year, the Consolidated Fund of the Government (the “Consolidated Fund”) must pay into the Sinking Fund an amount equal to 2.5% of the public debt outstanding in the Consolidated Fund at the end of the preceding year. As of March 31, 2012, the fund balance was approximately \$113.3 million. Until the Government Loans Act 1978 was amended in 2009, the Sinking Fund was only to be applied to reduce or cancel public debt. The assets are invested in three- and five-year fixed rate certificates of deposits with local financial institutions in accordance with the Public Funds Act 1954 and are shown as a reduction of debt issued on the Consolidated Fund Statement of Financial Position.

Due to the recent global economic and financial crisis, the Government amended the Government Loans Act 1978 in 2009 to provide the Minister of Finance with additional capacity to respond to economic conditions that impair the Government’s tax yields. One of the changes made enabled the Minister of Finance to postpone the annual contribution into the Sinking Fund while another amendment authorized the Minister to determine that the interest charge on long-term public debt be paid from the Sinking Fund if necessary. Accordingly, in the 2012/2013 fiscal year, as a temporary measure, the Sinking Fund will be used to pay a portion of the interest on long-term debt. The contribution to the Sinking Fund for the 2012/2013 fiscal year, \$30.7 million, is expected to be made. Following the 2012/2013 fiscal year contribution and withdrawal of interest the Sinking Fund balance will be around \$93.75 million at the end of the 2012/2013 fiscal year. The Sinking Fund balance is projected to reach about \$120 million in 2014. At this time it is anticipated that the Fund will be used to pay off the \$75 million and \$45 million of Senior Notes that mature in 2014.

The following table shows Bermuda's debt on a historical basis as of March 31 for the years indicated:

Bermuda's debt

Year	Total debt	Sinking Fund balance	Net debt ⁽¹⁾	Guarantees	Maximum debt	Debt service ratio ⁽²⁾	Net debt/GDP
(dollars in millions, except ratios)							
2006	225.0	51.6	173.4	1.8	375	1.7%	3.2%
2007	255.0	58.3	196.7	1.5	375	2.1%	3.4%
2008	345.0	67.8	277.2	1.2	550	2.5%	4.5%
2009	562.2	79.8	482.4	0.8	1,000	2.9%	7.9%
2010	823.7	64.3	759.4	210.8	1,000	4.4%	13.2%
2011	1,087.5	85.5	1,002.0	209.0	1,250	7.5%	17.5%
2012	1,350.0	113.3	1,236.7	207.6	1,250 ⁽³⁾	11.0%	21.4%

Source: Government of Bermuda.

(1) Net debt: Total debt, excluding guarantees, and net of the Sinking Fund.

(2) Debt service ratio: interest expense plus annual Sinking Fund payment divided by revenue.

(3) The Government raised the debt ceiling (net of the Sinking Fund balance) to \$1.45 billion in March 2012.

Credit Ratings

The Government holds a foreign currency debt rating of "Aa2" (stable outlook) by Moody's Investor Services (assigned June 1994; revised April 2009), "AA-" (stable outlook) by Standard and Poor's (assigned June 1995; revised December 2011) and "AA" (stable outlook) by Fitch, Inc. (assigned August 1994; upgraded August 2006; affirmed November 2011; revised June 2012). The Government's rating was lowered by Moody's in April 2009, and S&P's, when using their revised sovereign rating methodology, lowered its local and foreign currency long-term sovereign credit ratings on Bermuda to "AA-" from "AA" with a stable outlook in December 2011. On June 26, 2012, Fitch lowered its foreign currency long-term sovereign credit rating on Bermuda to "AA" from "AA+" with a stable outlook.

Litigation

The Government is not involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened) relating to claims or amounts which may have or have had during the 12 months prior to the date of this offering memorandum a material adverse effect on the Government's financial position taken as a whole.

DESCRIPTION OF THE NOTES

The notes will be issued by the Government under an indenture to be dated as of July 3, 2012 (the “Indenture”) between the Government and The Bank of New York Mellon, as trustee (the “Trustee,” which term includes any successor as Trustee under the Indenture), registrar (the “Registrar”), transfer agent and principal paying agent (the “Principal Paying Agent”).

The following is a description of the material terms of the notes and the Indenture and does not purport to be a complete description of all of the terms therein. The following is subject to, and qualified in its entirety by reference to, the provisions of the notes and the Indenture. Capitalized terms not otherwise defined herein have the meanings given to them in the Indenture. We urge you to read the Indenture because it, and not this description, defines your rights as holders of the notes. Copies of the Indenture will be available for inspection at the corporate trust office of the Trustee in New York City and at the office of the Accountant General in Bermuda.

General

Basic Terms

The notes will:

- be general, direct, unconditional, unsubordinated and unsecured obligations of the Government and will be backed by the full faith and credit of the Government;
- be initially issued in an aggregate principal amount of \$475,000,000;
- mature on January 3, 2023;
- be redeemable at 100% of the issue price on the maturity date;
- be issued in denominations of \$200,000 and integral multiples of \$1,000 in excess thereof; and
- be represented by one or more registered notes in global form, but in certain limited circumstances may be represented by notes in certificated form. See “Book-entry Settlement and Clearance.”

Interest on the notes will:

- accrue at the rate of 4.138% per annum;
- accrue from July 3, 2012 (the original date of issuance) or the most recent interest payment date on which interest was paid;
- be payable semi-annually in arrears on January 3 and July 3 of each year, commencing on January 3, 2013.
- be payable to the holders of record on December 15 and June 15 immediately preceding the related interest payment date, whether or not such day is a Business Day (as defined below); and
- be computed on the basis of a 360-day year comprised of twelve 30-day months.

Payment and Paying Agents

Principal of the notes will be payable against surrender of such notes (which initially will be at the offices of the Paying Agents specified on the inside back cover page of this offering memorandum) by U.S. dollar check drawn on, or by transfer to a U.S. dollar account maintained by the holder with, a bank located in New York City. Payments of interest will be made to persons in whose name the notes are registered on the record date, notwithstanding the cancellation of such notes upon any transfer or exchange thereof subsequent to the record date and prior to such interest payment date; *provided* that, if and to the extent the Government defaults in the payment of

the interest due on such interest payment date, such defaulted interest will be paid to the persons in whose names such notes are registered at the end of a subsequent record date established by the Government by notice given by mail by or on behalf of the Government to the holders of the notes not less than 15 days preceding such subsequent record date, such record date to be not less than 10 days preceding the date of payment of such defaulted interest. Payments of interest on the notes will be made (1) by a U.S. dollar check drawn on a bank in New York City mailed to the holder at such holder's registered address or (2) upon application by the holder of at least \$1,000,000 in principal amount of notes to the Trustee not later than the relevant record date, by wire transfer in immediately available funds to a U.S. dollar account maintained by the holder with a bank in New York City.

In any case where the date of payment of the principal of or interest (including Additional Amounts) on the notes is not a Business Day, then payment of principal of or interest (including Additional Amounts) on any note need not be made on such date but may be made on the next succeeding Business Day. Any such payment made on a date other than the date on which such payment is due as set forth in the notes will have the same force and effect as if made on the date on which such payment is due, and no interest on such payment will accrue for the period after such date.

Any monies deposited with or paid by or on behalf of the Government to the Trustee or to any Paying Agent for payment of the principal of or interest (including Additional Amounts) on any note and not applied but remaining unclaimed for two years after the date upon which such amount becomes due and payable will be repaid to or for the account of the Government by the Trustee or such Paying Agent and, to the extent permitted by law, the holder of such note will thereafter look only to the Government for any payment which such holder may be entitled to collect, and all liability of the Trustee or such Paying Agent with respect to such monies will thereupon cease.

"Business Day" means any day except a Saturday, Sunday or other day on which commercial banks in New York City (or in the city where the relevant paying or transfer agent is located) are authorized by law to close.

Transfer, Exchange and Replacement of Notes

The notes may be transferred or exchanged at the offices or agencies maintained by the Government for such purpose (which initially will be at the offices of the Transfer Agents specified on the inside back cover page of this offering memorandum).

No service charge will be made for any registration of transfer or exchange of notes, but the Trustee may require payment of an amount sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith (other than any such tax or charge imposed by the Government (including, without limitation, any of its political subdivisions or taxing authorities)).

If a note becomes mutilated, defaced, destroyed, lost or stolen, the Government may issue, and the Trustee will authenticate and deliver, a substitute note. In each case, the applicant for a substitute note will be required to furnish to the Government and to the Trustee (or to any Paying Agent at whose offices the applicant present the notes for exchange) a reasonable indemnity under which it will agree to pay the Government, the Trustee and any other agent for any losses they may suffer relating to the note that was mutilated, defaced, destroyed, lost or stolen. The Government and the Trustee may also require that the applicant present other documents or proof. The applicant will be required to pay all expenses and reasonable charges associated with the replacement of the mutilated, defaced, destroyed, lost or stolen note.

Further Issuances of Notes

The Government may from time to time, without the consent of the holders of the notes, create and issue further notes having the same terms and conditions as the notes in all respects (or in all respects except for the payment of interest thereon scheduled and paid prior to such time), so that such further notes will be consolidated and form a single series with the notes issued in this offering; provided, however, that if such further notes are not fungible with the notes for U.S. federal income tax purposes, such further notes will be assigned a separate CUSIP or ISIN number.

Status; Ranking

The notes will be general, direct, unconditional, unsubordinated and unsecured obligations of the Government. The notes will rank *pari passu* among themselves and with all other existing and future unsubordinated and unsecured debt of the Government. The notes will be backed by the full faith and credit of the Government.

Optional Redemption

The Government may, at its option, redeem the notes, in whole, but not in part, at any time prior to their maturity at a redemption price calculated by a calculation agent appointed by the Government equal to the greater of (1) 100% of the principal amount of such notes and (2) the sum of the present value of each remaining scheduled payment of principal and interest thereon (exclusive of interest accrued to the redemption date) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the treasury rate plus 35 basis points (the “Make-Whole Amount”), plus in each case any accrued interest on the principal amount of the notes to the redemption date.

“Treasury rate” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated yield to maturity of the comparable treasury issue. In determining the treasury rate, the price for the comparable treasury issue (expressed as a percentage of its principal amount) will be assumed to be equal to the comparable treasury price for such redemption date.

“Comparable treasury issue” means the United States Treasury security selected by an independent investment banker as having an actual or interpolated maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of debt securities of a comparable maturity to the remaining term of such notes.

“Independent investment banker” means one of the reference treasury dealers appointed by the Government.

“Comparable treasury price” means (1) the arithmetic average of the reference treasury dealer quotations for such redemption date after excluding the highest and lowest reference treasury dealer quotations, or (2) if we obtain fewer than four reference treasury dealer quotations, the arithmetic average of all reference treasury dealer quotations for such redemption date.

“Reference treasury dealer quotation” means, with respect to each reference treasury dealer and any redemption date, the arithmetic average, as determined by us, of the bid and asked prices for the comparable treasury issue (expressed in each case as a percentage of its principal amount) quoted in writing to us by such reference treasury dealer at 3:30 p.m. (New York City time) on the third business day preceding such redemption date.

“Reference treasury dealer” means HSBC Securities (USA) Inc. or its affiliate, which is a primary U.S. government dealer, plus three other leading primary United States government securities dealers in New York City reasonably designated by the Government not later than five Business Days preceding such redemption date; *provided that*, if any of the foregoing ceases to be a primary United States government securities dealer in New York City, the Government will substitute therefor another primary government securities dealer.

Notice of any redemption will be mailed by first-class mail, postage prepaid, at least 30 but not more than 60 days before the redemption date to holders of notes to be redeemed at their respective registered addresses. For so long as the notes are listed on the official list of the Luxembourg Stock Exchange for trading on the Euro MTF Market and/or on the BSX and the rules of such exchange require, the Government will also cause notices of redemption to be published as described under “– Notices” below. The notes, when called for redemption as specified herein, will become due on the date fixed for redemption. The Government will pay the redemption price for the notes together with accrued and unpaid interest thereon through the redemption date. On and after the redemption date, interest will cease to accrue on the notes as long as the Government has deposited with the Trustee or appropriate Paying Agent funds in satisfaction of the applicable redemption price pursuant to the Indenture. Upon redemption of the notes by the Government, the notes will be cancelled.

Additional Amounts

All payments by the Government in respect of the notes will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or other governmental charges of whatsoever nature imposed or levied by or on behalf of the Government or any political subdivision or taxing authority thereof or therein having power to tax (collectively, “Taxes”), unless the Government is compelled by law to deduct or withhold such taxes, duties, assessments or governmental charges. In such event, the Government will pay such additional amounts (“Additional Amounts”) as may be necessary to ensure that the amounts received by the holders of the notes after such withholding or deduction will equal the respective amounts of principal and interest which would have been receivable in respect of the notes in the absence of such withholding or deduction; *provided, however*, that no such Additional Amounts will be payable in respect of the following:

(1) any note held by or on behalf of a holder or a beneficial owner of a note who is liable for such taxes, duties, assessments or governmental charges by reason of such holder or beneficial owner having some connection with Bermuda other than merely by the holding of such note or by receipt of income, principal or any payments in respect thereof; or

(2) any note held by or on behalf of a holder or a beneficial owner of such note that is liable for such taxes, duties, assessments or governmental charges by reason of the failure of such holder or beneficial owner to comply with any certification, identification, information or other reporting requirement concerning the nationality, residence, identity or connection with Bermuda, or any political subdivision or taxing authority thereof or therein, of such holder or beneficial owner or of the holder or beneficial owner of any interest in such note or any rights in respect thereof, if (a) compliance is required by the Government, or any political subdivision or taxing authority of or in Bermuda as a precondition to exemption from all or any portion of such withholding or deduction and (b) at least 60 days prior to the first scheduled payment date for which compliance will be required, the Government has notified the Trustee in writing that holders or beneficial owners of notes must comply with such certification, identification, information or other reporting requirement in order to receive Additional Amounts; or

(3) any note presented for payment more than 30 days after the date payment thereon was due or, if later, the date on which payment thereon is duly provided for, except to the extent that the holder thereof would have been entitled to Additional Amounts on presenting the same for payment on the last day of such period of 30 days.

Any reference to “principal” and/or “interest” in this “Description of the Notes” will be deemed to include any Additional Amounts which may be payable under the notes.

The Government will furnish to the Trustee documentation reasonably satisfactory to the Trustee evidencing the payment of any Taxes. Copies of such receipts will be made available to the holders of the notes or beneficial owners of the notes upon written request.

The Government will pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies which arise in the Government or any political subdivision thereof or taxing authority thereof or therein in respect of the creation, issue, execution, delivery or registration of the notes or any other document or instrument referred to therein. The Government will also indemnify the holders of the notes from and against any stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies resulting from, or required to be paid by any of them in any jurisdiction in connection with, the enforcement of the obligations of the Government under the notes or any other document or instrument referred to therein following the occurrence of any Event of Default (as defined below).

Covenants

The Government has agreed that, so long as any note remains outstanding or any amount payable by the Government under the Indenture remains unpaid:

(1) The Government will duly obtain and maintain in full force and effect all approvals, authorizations, permits, consents, exemptions and licenses and other actions of or by, and notices to or

filings or registrations with, the Government, any agency, department, ministry, authority, state, municipality, statutory corporation or other statutory body or juridical entity of Bermuda or any other governmental authority or agency or regulatory or administrative body of Bermuda or any political subdivision thereof or therein (including, without limitation, any thereof relating to exchange controls) which may be necessary under the laws of Bermuda for the execution, delivery and performance of the notes and the Indenture by the Government or for the validity or enforceability thereof, and duly take all necessary and appropriate governmental and administrative action in Bermuda in order for the Government to be able to make all payments to be made by it and to perform its obligations under the notes and the Indenture.

(2) The Government will ensure that its obligations under the notes will at all times constitute general, direct, unconditional, unsubordinated and unsecured obligations of the Government ranking *pari passu* in priority of payment, in right of security and in all other respects with all other present and future unsecured and unsubordinated indebtedness.

(3) The Government will not create, incur, assume or suffer to exist any Lien (other than a Permitted Lien (as defined below)) on the assets or revenues of the Government to secure External Indebtedness (as defined below), unless the notes are equally and ratably secured.

“External Indebtedness” means any Indebtedness denominated in a currency other than Bermuda dollars.

“Indebtedness” means obligations (other than the notes) of, or guaranteed (whether by contract, statute or otherwise) by, the Government for borrowed money or evidenced by bonds, debentures, notes or similar instruments, regardless of whether that obligation is incurred or entered into within or outside Bermuda.

“Lien” means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance or preferential arrangement which has the practical effect of constituting a security interest with respect to the payment of any obligations with or from the proceeds of any asset or revenues of any kind whether in effect on the date the Indenture becomes effective or at any time thereafter (including, without limitation, any equivalent created or arising under the laws of Bermuda).

“Permitted Lien” means:

(1) any Lien on property to secure External Indebtedness arising in the ordinary course of business of the Government or to finance export, import or other trade transactions, which External Indebtedness matures (after giving effect to all renewals and refinancings thereof) not more than one year after the date on which such External Indebtedness was originally incurred;

(2) any Lien on property to secure External Indebtedness at the time of its acquisition or incurred solely for the purpose of financing any acquisition by the Government of such property, and any renewal, extension or refinancing of any such Lien which is limited to the original property covered thereby and which secures any renewal or extension of the original financing without any increase in the amount thereof;

(3) any Lien on property arising by operation of law (or pursuant to any agreement establishing a Lien equivalent to one which would otherwise exist under relevant local law) in connection with External Indebtedness;

(4) any Lien existing on property at the time of acquisition by the Government of such property and any renewal or extension of any such Lien which is limited to the original property covered thereby and which secures any renewal or extension of the financing secured by such Lien at the time of such acquisition without any increase in the amount thereof;

(5) any Lien securing External Indebtedness incurred for the purposes of financing all or part of the costs of the acquisition, construction or development of a project, provided that (a) the holders of such External Indebtedness agree to limit their recourse to the assets and revenues of such project as the principal source of repayment of such External Indebtedness and (b) the property over which such Lien is granted consists solely of such assets and revenues; and

(6) any Lien in existence as of the date of the Indenture.

Provision of Financial Information

To the extent such information is not publicly available on the Government's website, the Government will deliver to the Trustee for distribution to the holders of the notes, as soon as practicable and in any event within 10 days after the publication thereof by the Government (including, without limitation, the posting on the Government's official gazette), copies of: (1) all public sector budgeting and reporting documents published and released to the public in compliance with the Bermuda Constitutional Order 1968 (as amended) and any such other documentation required to be published or released pursuant to any other relevant statute, order or regulation (including, without limitation, the Government's Budget Statement and any supplements thereto for the succeeding fiscal year, annual reports, operating statements, balance sheet statements and cash flow statements); and (2) any economic and financial updates of the Government. The Government will be required to so deliver only such reports, statements and other documents as it reasonably deems to be material to holders of the notes.

Events of Default

An "Event of Default" will exist if any of the following conditions or events shall occurs and is continuing:

(1) default in the payment of principal of any of the notes as and when the same will become due and payable, whether at maturity, by declaration or otherwise; or

(2) default in the payment of any interest or Additional Amounts upon any of the notes as and when the same will become due and payable, and continuance of such default for 30 Business Days; or

(3) failure on the part of the Government duly to observe or perform any of the covenants, undertakings, representations, warranties or agreements provided in the notes (other than those referred to in clauses (1) and (2) above and (4) below) or in the Indenture for a period of 45 days after the date on which written notice thereof requiring the Government to remedy the same will have been given to the Government by the Trustee or the holders representing at least 25% in aggregate principal amount of the notes then outstanding; or

(4) any representation, warranty or certification made by or on behalf of the Government or any of its respective authorized officers or officials in or pursuant to the notes, the Indenture or any of the other documents or instruments delivered pursuant thereto proves to have been incorrect in any material respect when made and is not cured within 45 days after written notice thereof has been given to the Government by the Trustee or the holders representing at least 25% in aggregate principal amount of the notes then outstanding; or

(5) the Government is in default in the performance of or compliance with any term of any evidence of any Indebtedness in an aggregate outstanding principal amount of at least \$20,000,000 (or the equivalent thereof, as of any date of determination, in any other currency) or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition such Indebtedness has become, or has been declared, due and payable before its stated maturity or before its regularly scheduled dates of payment; or

(6) a final judgment or judgments for the payment of money aggregating in excess of \$20,000,000 (or the equivalent thereof, as of any date of determination, in any other currency) are rendered against the Government and which judgments are not, within 60 days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 60 days after the expiration of such stay; or

(7) the validity of the notes or the Indenture is contested in a formal administrative, legislative or judicial proceeding by the Government or any legislative, executive or judicial body or official of the Government which is authorized in each case by law to do so and, acting alone or together with another such body or official, has the legal power and authority to declare the notes or the Indenture invalid or unenforceable; or

(8) the Government denies any of its obligations thereunder to any of the holders of the notes (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise); or

(9) any constitutional provision, treaty, convention, law, regulation, official communiqué, decree, ordinance or policy of the Government, or any final decision by any court in Bermuda having jurisdiction, purports to render any material provision of the notes or the Indenture invalid or unenforceable or to prevent or delay the performance or observance by the Government of any of its payment or other material obligations thereunder to any of the holders of the notes; or

(10) any constitutional provision, treaty, convention, law, regulation, ordinance, decree, consent, approval, license or other official pronouncement of the Government or other authority necessary to enable the Government to make or perform its material obligations under the notes or the Indenture, or the validity or enforceability thereof, expires, is withheld, revoked or terminated, or otherwise ceases to remain in full force and effect, or is modified in a manner which materially and adversely affects any rights or claims of any of the holders of the notes;

then, in each and every such case (except to the extent described in the subsequent paragraph), the Trustee at its discretion may (but is not required to), or at the direction or request of the holders of not less than 25% in aggregate principal amount of the notes then outstanding will, by notice in writing to the Government with a copy to the Trustee, declare the principal amount of all the notes then outstanding to be due and payable immediately, and upon any such declaration the same will become and will be immediately due and payable upon the date that such written notice is received by or on behalf of the Government, unless prior to such date all Events of Default in respect of all the notes has been cured; *provided* that if, at any time after the principal of the notes will have been so declared due and payable, and before any sale of property under any judgment or decree for the payment of the monies due will has been obtained or entered as hereinafter provided, the Government pays or deposits with the Trustee a sum sufficient to pay all matured installments of interest, principal and Additional Amounts in respect of the notes which have become due otherwise than solely by acceleration (with interest on overdue installments of interest and Additional Amounts, to the extent permitted by law, and on such principal of each note at the rate of interest specified therein, to the date of such payment or deposit) and such amount as is sufficient to cover reasonable fees and compensation to the Trustee and each predecessor Trustee, their respective agents, attorneys and counsel, and all other documented expenses and liabilities reasonably incurred, and all advances made for documented expenses and legal fees reasonably incurred by the Trustee and each predecessor Trustee, and if any and all Events of Default, other than the non-payment of the principal of the notes which have become due solely by acceleration, have been cured, waived or otherwise remedied as provided in the notes, then, and in every such case, the holders of greater than 50% in aggregate principal amount of the notes then outstanding by written notice to the Government and to the Trustee may, on behalf of all of the holders of the notes, waive all defaults and rescind and annul such declaration and its consequences, but no such waiver or rescission and annulment will extend to or will affect any subsequent default, or will impair any right consequent thereon. Actions by holders of the notes pursuant to this provision need not be taken at a meeting pursuant to the provisions below regarding meetings of the holders of the notes.

In the event of a declaration of acceleration because the Government is in default pursuant to clauses (5) and (6) above, the declaration of acceleration will be automatically annulled if the default triggering such Event of Default is remedied or cured by the Government or waived by the holders of the relevant Indebtedness within 30 days after the declaration of acceleration with respect thereto and if (1) the annulment of the declaration of acceleration would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all existing Events of Default, except nonpayment of amounts that have become due solely by acceleration, have been cured or waived.

The Government will notify the Trustee within three days after the occurrence of any Event of Default.

Modifications and Amendments; Meetings of Holders of the Notes.

Modifications and amendments to the Indenture (whether by execution of a supplemental indenture or otherwise, as provided in the Indenture) or to the provisions of the notes may be made, and future compliance therewith or past default by the Government may be waived (except as described above), with the consent of the holders representing more than 50% in aggregate principal amount of the notes at the time outstanding (or of such lesser percentage as may act at a meeting of the holders of the notes); *provided* that no such modification or

amendment, without the consent of the holders representing 75% or more in aggregate principal amount of the notes at the time outstanding, may:

- (a) change the stated maturity of the principal of or interest on any such note;
- (b) reduce the principal amount of or interest on any such note or change the obligation of the Government to pay Additional Amounts;
- (c) reduce the amount of principal payable upon acceleration of the maturity of the notes;
- (d) permit early redemption of the notes (except as set forth under “– Optional Redemption” above);
- (e) change the currency of payment of principal of or interest on any such note;
- (f) impair the right to institute suit for the enforcement of any payment on or with respect to any of the notes;
- (g) reduce the above-stated percentage of aggregate principal amount of notes outstanding necessary to modify or amend the Indenture or the provisions of the notes or reduce the quorum requirements or the percentages of votes required for the adoption of any action at a meeting of the holders of the notes;
- (h) change the governing law provision of the notes or the Indenture;
- (i) change the courts to whose jurisdiction the Government has submitted, the Government’s obligation to appoint and maintain an agent for service of process in the Borough of Manhattan, the City of New York, New York, or the Government’s waiver of immunity, in respect of actions or proceedings brought by any holder of the notes based upon the notes or any party to the Indenture; or
- (j) change the ranking of the notes, as described under “– Ranking.”

The matters specified in clauses (a) through (j) above are referred to as “reserved matters.”

The Government and the Trustee may, without the vote or consent of any holder of the notes, amend the Indenture or the notes for the following purposes:

- (a) add to the Government’s covenants for the benefit of the holders of the notes;
- (b) surrender any of the Government’s rights or powers;
- (c) cure any ambiguity or correct or supplement any defective or inconsistent provision; or
- (d) make any other change that does not adversely affect the interest of any holder of the notes in any material respect.

The Government may at any time call a meeting of the holders of the notes, such meeting to be held at such time and at such place as the Government will determine, for the purpose of approving a modification or amendment to, or obtaining a waiver of, any provision of the notes. Notice of any meeting of the holders of the notes, setting forth the time and place of such meeting and in general terms the action proposed to be taken at such meeting, will be given at least twice in accordance with the notice provision of the notes, the first publication to be not less than 30 days and not more than 60 days prior to the date fixed for the meeting.

Holders entitled to vote more than 50% in aggregate principal amount of the notes at the time outstanding will constitute a quorum at a meeting convened for the purpose referred to above. In the absence of a quorum at any such meeting, the meeting may be adjourned for a period of not less than 10 days; and in the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than 10 days.

Notice of reconvening of any such meeting need be given only once but must be given not less than five days prior to the date on which the meeting is scheduled to be reconvened. Subject to the foregoing, at the reconvening of any meeting further adjourned for lack of a quorum, holders entitled to vote 25% in aggregate principal amount of the notes at the time outstanding will constitute a quorum for the taking of any action set forth in the notice of the original meeting.

At a meeting or an adjourned meeting duly convened and at which a quorum is present as aforesaid, any resolution to modify or amend or take action with respect to the Indenture or the terms of the notes will be effectively passed and decided if approved by holders entitled to vote the lesser of (a) more than 50% in aggregate principal amount of notes then outstanding and (b) 75% or more in aggregate principal amount of the notes represented and voting at the meeting; *provided, however*, that any modification, amendment or action with respect to any reserved matter will be effectively passed and decided only if approved by holders entitled to vote 75% or more in aggregate principal amount of notes then outstanding.

Any modifications, amendments or waivers effected pursuant to this provision and the Indenture will be conclusive and binding upon all the holders of the notes whether or not they have given such consent or were present at any meeting, and all future holders of the notes whether or not notation of such modifications, amendments or waivers is made upon the notes.

Notices

Notices will be mailed to the holders of the notes at their registered addresses. Notice sent by registered or certified mail, postage prepaid, will be deemed to have been given, made or served three Business Days after it has been sent.

As from the date on which the notes are listed on the official list of the Luxembourg Stock Exchange for trading on the Euro MTF Market and/or on the BSX, and for as long as the notes are so listed on such exchanges, each notice or communication provided to the holders of the notes will be published in a newspaper having general circulation in Luxembourg and Bermuda, respectively, or on the website of the respective exchanges at www.bourse.lu and www.bsx.com.

Trustee

The Indenture contains provisions relating to the obligations and duties of the Trustee, to the indemnification of the Trustee and to the Trustee's relief from responsibility for actions that it takes. The Trustee is entitled to enter into business transactions with the Government or any of its affiliates without accounting for any profit resulting from such transactions.

Paying Agents; Transfer Agents; Registrar

Under the Government Loans Act 1978 of Bermuda (the "Government Loans Act"), the registrar in respect of any securities issued by the Government is the Accountant General of Bermuda (the "Statutory Registrar"). As such, the Statutory Registrar performs the functions of a paying agent and transfer agent in respect of any such issue. The Government Loans Act, however, authorizes the Statutory Registrar to make arrangements whereby it may be assisted in the performance of its functions by such persons on such terms and conditions as it thinks fit. Any such arrangements require the prior approval of the Minister of Finance. In the exercise of that authority, the Statutory Registrar has initially appointed the Registrar, Paying Agents and Transfer Agents as provided in the Indenture. The Statutory Registrar and the Registrar so appointed will maintain a register which satisfies the requirements of the Government Loans Act and the Indenture, and the Paying Agents and Transfer Agents so appointed will, on behalf of the Statutory Registrar, perform their respective functions in accordance with the provisions of the Government Loans Act and the Indenture. The Government may at any time appoint additional or other Paying Agents, transfer agents and registrars or terminate the appointment of any such agent; *provided* that, while the notes are outstanding the Government will maintain (1) a Principal Paying Agent in a city in the United States or Western Europe and (2) a Registrar in New York City. Notice of any such termination or appointment and of any change in the office through which any Paying Agent, Transfer Agent or Registrar will act will be promptly given in the manner described in the Indenture and the notes.

Enforcement

Except as provided in the Indenture, no holder of any note will have any right by virtue of or by availing itself of any provision of the Indenture or the terms and conditions of the notes to institute any suit, action or proceedings in equity or at law upon or under or with respect to the Indenture of the notes or for the appointment of a receiver or trustee, or for any other remedy thereunder, unless (1) such holder previously has given to the Trustee written notice of a default and of the continuance thereof with respect to the notes, (2) the holders of not less than 25% in aggregate principal amount of the notes then outstanding has made written request upon the Trustee to institute such action, suit or proceeding in its own name as Trustee under the Indenture and has offered to the Trustee such indemnity satisfactory to the Trustee as it may require against the costs, expenses and liabilities to be incurred therein or thereby and (3) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such action, suit or proceeding and no direction inconsistent with such written request will have been given to the Trustee pursuant to the Indenture.

Prescription

All claims against the Government for payment of principal of or interest (including Additional Amounts) on or in respect of the notes will be prescribed unless made within five years from the date on which such payments first became due.

Listing

Application has been made to list the notes on the official list of the Luxembourg Stock Exchange and to trading on the Euro MTF Market. Application will also be made to list the notes on the BSX.

Governing Law

The notes and the Indenture will be governed by, and construed in accordance with, the laws of the State of New York.

Submission to Jurisdiction

The Government will irrevocably submit to the jurisdiction of any New York state or U.S. federal court sitting in the Borough of Manhattan, The City of New York, and any court exercising appellate jurisdiction therefrom, in any action or proceeding arising out of or relating to the notes, and the Government will irrevocably agree that all claims in respect of such action or proceeding may be heard and determined in any such New York state or U.S. federal court. The Government will irrevocably waive, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding and any right of jurisdiction in such action or proceeding on account of the place of residence or domicile of the Government. The Government will irrevocably appoint CT Corporation System (the "Process Agent"), with an office on the date hereof at 111 Eighth Avenue, New York, New York 10011, United States of America, as its agent to receive on behalf of itself and its property service of copies of summons and complaints and any other process which may be served in any such action or proceeding brought in any such New York state or U.S. federal court. Such service may be made by mailing or delivering a copy of such process to the Government, in the case of the Process Agent at the address specified above for the Process Agent, and the Government will irrevocably authorize and direct the Process Agent to accept such service on its behalf. As an alternative method of service, the Government will irrevocably consent to the service of any and all process in any such action or proceeding in such New York state or U.S. federal court sitting in the Borough of Manhattan, The City of New York, by the mailing of copies of such process to itself at its address specified in the Indenture.

A final judgment in any of the above legal actions or proceedings will be conclusive and may be enforced in other jurisdictions.

The Government will irrevocably waive and agree, to the fullest extent permitted by applicable law, not to plead any sovereign or other immunity from the jurisdiction of such courts in connection with any action arising out of or in connection with the notes or the Indenture. Without limiting the generality of the foregoing, the Government agrees that the waivers set forth in this provision will be to the fullest extent permitted under the

U.S. Foreign Sovereign Immunities Act of 1976 and are intended to be irrevocable for purposes of such Act; *provided, however*, the Government reserves the right to plead sovereign immunity under any applicable law, including, without limitation, such Act, with respect to actions brought against us under the U.S. federal securities laws or any state or local securities laws. In the absence of a waiver of sovereign immunity by us in such a securities law-based action, it would not be possible to obtain a U.S. judgment in such an action unless a court were to determine that we are not entitled to sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976 with respect to such action.

The Government will irrevocably waive, to the fullest extent permitted by law, any requirement or other provision of law, rule, regulation or practice which requires or otherwise establishes as a condition to the institution, prosecution or completion of any action or proceeding (including appeals) arising out of or relating to the notes, the posting of any bond or the furnishing, directly or indirectly, of any other security.

While the Government's submission to jurisdiction described above is limited to any New York state or U.S. federal court sitting in the Borough of Manhattan, The City of New York, and any court exercising appellate jurisdiction therefrom, nothing in this provision will affect the right of any holder of the notes to serve legal process in any other manner permitted by law or affect the right of any holder of the notes to bring any action or proceeding against the Government or its property in the courts of other jurisdictions.

The United States and Bermuda do not have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters, so it is not certain as to whether remedies available under U.S. laws, including U.S. securities laws, will be allowed in Bermuda courts. Therefore, any judgments obtained against the Government under U.S. law may not be honored and enforced in Bermuda. As a result, whether a U.S. judgment would be enforceable in Bermuda against the Government or its officials depends on whether the U.S. court that entered the judgment is recognized by the Bermuda court as having jurisdiction over the Government or its officials, as determined by reference to Bermuda conflicts of law rules. A judgment debt from a U.S. court that is final and for a sum certain based on U.S. federal securities laws will not be enforceable in Bermuda unless the judgment debtor had submitted to the jurisdiction of the U.S. court in connection with such an action and the issue of submission and jurisdiction is a matter of Bermuda – as opposed to U.S. – law.

In addition, and irrespective of jurisdictional issues, the Bermuda courts will not enforce a U.S. federal securities law that is either penal or contrary to public policy. Certain remedies available under the laws of U.S. jurisdictions, including certain remedies under U.S. federal securities laws, would not be available under Bermuda law or enforceable in a Bermuda court, as they would be contrary to Bermuda public policy. Moreover, no claim may be brought in Bermuda against the Government or its officials in the first instance for violation of U.S. federal law in Bermuda. A Bermuda court may, however, impose civil liability on the Government if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law.

BOOK-ENTRY, DELIVERY AND FORM

The notes are being offered and sold to “qualified institutional buyers” in reliance on Rule 144A (“Rule 144A Notes”). The notes also will be offered and sold in offshore transactions in reliance on Regulation S under the Securities Act (“Regulation S Notes”).

Rule 144A Notes initially will be represented in global form without interest coupons (collectively, the “Rule 144A Global Notes”). Regulation S Notes initially will be represented in global form without interest coupons (collectively, the “Regulation S Global Notes” and together with the Rule 144A Global Notes, the “Global Notes”).

The Global Notes will be registered in book-entry either in the name of DTC or its nominee, in each case for credit to an account of a direct or indirect participant in DTC as described below. Beneficial interests in the Rule 144A Global Notes may not be exchanged for beneficial interests in the Regulation S Global Notes at any time except in the limited circumstances described below. See “– Exchanges between Regulation S Notes and Rule 144A Notes” below.

Except as set forth below, the Global Notes may be transferred only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for definitive global securities in registered certificated form (“Certificated Notes”) except in the limited circumstances described below. See “– Exchange of Global Notes for Certificated Notes” below. Except in the limited circumstances described below, owners of beneficial interests in the Global Notes will not be entitled to receive physical delivery of global securities in certificated form.

Rule 144A Notes (including beneficial interests in the Rule 144A Global Notes) will be subject to certain restrictions on transfer and will be subject to a restrictive legend as described under “Transfer Restrictions.” Regulation S Notes will also be subject to the legend as described under “Transfer Restrictions.” In addition, transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants (including, if applicable, those of Euroclear and Clearstream), which may change from time to time.

Depository Procedures

The following description of the operations and procedures of DTC, Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. We take no responsibility for these operations and procedures and urge investors to contact the system or their participants directly to discuss these matters.

DTC

DTC has advised us that DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). DTC was created to hold securities for its participating organizations (collectively, the “Participants”) and to facilitate the clearance and settlement of transactions in those securities between Participants through electronic book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. The Participants include securities brokers and dealers (including the initial purchaser), banks, trust companies and clearing corporations and may in the future include certain other organizations. Indirect access to DTC’s system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the “Indirect Participants”). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants. More information about DTC can be found at www.dtcc.com and www.dtc.org.

DTC has also advised us that, pursuant to procedures established by it:

- (1) upon deposit of the Global Notes, DTC will credit the accounts of Participants designated by the initial purchaser with the portions of the amount of the Global Notes; and
- (2) ownership of these interests in the Global Notes will be shown on, and the transfer of ownership of these interests will be effected only through, records maintained by DTC (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interests in the Global Notes).

Investors in the Regulation S Global Notes who are Participants in DTC's system may hold their interests therein directly through DTC. Investors in the Regulation S Global Notes who are not Participants may hold their interests therein indirectly through organizations (including Euroclear and Clearstream) which are Participants in such system. Investors in the Rule 144A Global Notes must initially hold their interests therein through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Euroclear and Clearstream will hold interests in the Rule 144A Global Notes on behalf of their participants through clients' securities accounts in their respective names on the books of their respective depositories, which are Euroclear Bank S.A./N.V., as operator of Euroclear, and Citibank, N.A., as operator of Clearstream. All interests in a Global Note, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems.

Euroclear

Euroclear has advised us as follows: Euroclear was created in 1968 to hold securities for its participants and to clear and settle transactions between its participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear provides various other services, including securities lending and borrowing, and interfaces with domestic markets in several countries. Euroclear is operated by the Euroclear Operator, under contract with Euroclear Clearance Systems, S.C., a Belgian cooperative corporation (which we refer to as the Cooperative). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the initial purchaser. Indirect access to Euroclear is also available to others that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

The Euroclear Operator was granted a banking license by the Belgian Banking and Finance Commission in 2000, authorizing it to carry out banking activities on a global basis. It took over operation of Euroclear from the Brussels, Belgium office of Morgan Guaranty Trust Bank of New York on December 31, 2000.

Distributions received by Euroclear with respect to Rule 144A Global Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the terms and conditions of Euroclear participation.

Clearstream

Clearstream has advised us as follows: Clearstream is incorporated under the laws of The Grand Duchy of Luxembourg as a professional depository. Clearstream holds securities for its participants and facilitates the clearance and settlement of securities transactions between its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. As a professional depository, Clearstream is subject to regulation by the Luxembourg Monetary Institute. Clearstream participants are financial institutions around the world, including securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the initial

purchaser. Indirect access to Clearstream is also available to others that clear through or maintain a custodial relationship with a Clearstream participant either directly or indirectly.

Distributions with respect to Rule 144A Global Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures, to the extent received by Clearstream.

Delivery

The laws of some states require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Notes to such persons will be limited to that extent. Because DTC can act only on behalf of Participants, which in turn act on behalf of Indirect Participants, the ability of a person having beneficial interests in a Global Notes to pledge such interests to persons that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests.

Except as described below, owners of interests in the Global Notes will not have global securities registered in their names, will not receive physical delivery of global securities in certificated form and will not be considered the registered owners or “holders” thereof under the Indenture for any purpose.

Payments in respect of interest on a Global Note registered in the name of DTC or its nominee will be payable to DTC in its capacity as the registered holder under the Indenture. Under the terms of the Indenture, we and the Trustee will treat the persons in whose names the global securities, including the Global Notes, are registered as the owners of the global securities for the purpose of receiving payments and for all other purposes. Consequently, neither we, the Trustee nor any agent of ours, or the Trustee has or will have any responsibility or liability for:

- (1) any aspect of DTC’s records or any Participant’s or Indirect Participant’s records relating to or payments made on account of beneficial ownership interest in the Global Notes or for maintaining, supervising or reviewing any of DTC’s records or any Participant’s or Indirect Participant’s records relating to the beneficial ownership interests in the Global Notes; or
- (2) any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised us that its current practice, upon receipt of any payment in respect of securities such as the global securities (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date unless DTC has reason to believe that it will not receive payment on such payment date. Each relevant DTC Participant is credited with an amount proportionate to its respective holding in the principal amount of the relevant security as shown on the records of DTC. Payments by the DTC Participants and Indirect Participants to the beneficial owners of global securities will be governed by standing instructions and customary practices and will be the responsibility of the Participants or Indirect Participants and will not be the responsibility of DTC, the Trustee or us. Neither we nor the Trustee will be liable for any delay by DTC or any of the DTC Participants or Indirect Participants in identifying the beneficial owners of the global securities, and we and the Trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Subject to the transfer restrictions set forth under “Transfer Restrictions,” transfers between Participants will be effected in accordance with DTC’s procedures, and will be settled in same-day funds, and transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the global securities described herein, cross-market transfers between the DTC Participants or Euroclear or Clearstream participants, will be effected through DTC in accordance with DTC’s rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or

Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream. Cross-market transfers between DTC (or its Participants or Euroclear or Clearstream) will be effected in accordance with the rules of DTC.

DTC has advised us that it will take any action permitted to be taken by a holder of global securities only at the direction of one or more participants to whose account DTC has credited the interests in the Global Notes and only in respect of such portion of the aggregate principal amount of the Notes as to which such participant or participants has or have given such direction.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the Regulation S Global Notes and the Rule 144A Global Notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and may discontinue such procedures at any time. None of the Government, the Trustee nor or any of their respective agents will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Exchange of Global Notes for Certificated Notes

A Global Note is exchangeable for Certificated Note only if:

- (1) DTC (a) notifies us that it is unwilling or unable to continue as depository for the Global Notes or (b) has ceased to be a clearing agency registered under the Exchange Act, or if at any time it is no longer eligible to act as such, and, in either case, we fail to appoint a successor depository; or
- (2) we, at our option, notify the Trustee in writing that we elect to cause the issuance of the Certificated Notes.

Exchange of Global Notes for Certificated Notes will trigger stamp duty under the Stamp Duties Act 1976 which is payable by the Noteholder. In each case, Certificated Notes delivered in exchange for any Global Notes or beneficial interests in Global Notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depository (in accordance with its customary procedures) and will bear the applicable restrictive legend referred to in “Transfer Restrictions,” unless that legend is not required by applicable law.

Exchange of Certificated Notes for Global Notes

Certificated Notes may not be exchanged for beneficial interests in any Global Note unless the transferor first delivers to us and the Trustee a written certificate to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such global security. See “Transfer Restrictions.”

Exchanges Between Regulation S Notes and Rule 144A Notes

Beneficial interests in the Regulation S Global Note may be exchanged for beneficial interests in the Rule 144A Global Note only if:

- (1) such exchange occurs in connection with a transfer of the global securities pursuant to Rule 144A; and
- (2) the transferor first delivers to us and the Trustee a written certificate to the effect that the global securities are being transferred to a person or entity:

- (a) who the transferor reasonably believes to be a qualified institutional buyer within the meaning of Rule 144A;
- (b) purchasing for its own account or the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A; and
- (c) in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

Beneficial interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note only if the transferor first delivers to us and the Trustee a written certificate to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S or Rule 144 (if available) and that the interest transferred will be held immediately thereafter through Euroclear or Clearstream.

Transfers of beneficial interests within a Global Note may be made without delivery of any written certification or other documentation from the transferor or the transferee.

Transfers involving exchanges of beneficial interests between the Regulation S Global Notes and the Rule 144A Global Notes will be effected by DTC by means of an instruction originated by the DTC participant through the DTC Deposit/Withdraw at Custodian system. Accordingly, in connection with any such transfer, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Rule 144A Global Note or vice versa, as applicable. Any beneficial interest in one of the Global Notes that is transferred to a person or entity who takes delivery in the form of an interest in the other Global Note will, upon transfer, cease to be an interest in such Global Note and will become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for so long as it remains such an interest.

Settlement and Payment

We will make payments in respect of the principal of and premium, if any, and interest on Global Notes by wire transfer of immediately available funds to the accounts specified by DTC or its nominee. We will make all payments of interest with respect to Certificated Notes by wire transfer of immediately available funds to the accounts specified by the holders of the Certificated Notes, if any, or, if no such account is specified, by mailing a check to each such holder's registered address.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Notes from a Participant will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. DTC has advised us that cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream participant to a Participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the notes offered hereby.

Each purchaser of the notes offered hereby will be deemed to have represented, warranted and agreed as follows (terms used herein that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

(1) You (A) (i) are a qualified institutional buyer, (ii) are aware that the sale of the notes to you is being made in reliance on Rule 144A and (iii) are acquiring such notes for your own account or for the account of a qualified institutional buyer, as the case may be (a “Rule 144A Holder”) or (B) are not a U.S. person, as such term is defined in Rule 902 under the Securities Act, and are purchasing the notes in accordance with Regulation S (a “Regulation S Holder”).

(2) As a Rule 144A Holder, you understand that the notes have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged or otherwise transferred except (A) (i) to a person who the purchaser reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (ii) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S, (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) or (iv) pursuant to an effective registration statement under the Securities Act and (B) in accordance with all applicable securities laws of the states of the United States.

(3) The notes offered pursuant to Regulation S will be subject to a legend to the following effect, unless we determine otherwise in compliance with applicable law:

“THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE OR OTHER SECURITIES LAWS. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.”

(4) The notes offered pursuant to Rule 144A will be subject to a legend to the following effect, unless we determine otherwise in compliance with applicable law:

“THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES THAT IT WILL NOT, PRIOR TO THE DATE WHICH IS ONE YEAR (OR SUCH SHORTER PERIOD OF TIME AS MAY BE PERMITTED BY RULE 144 UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THEREUNDER) AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF (OR OF ANY ADDITIONAL ISSUANCE OF THIS SECURITY) OR THE LAST DAY ON WHICH THE GOVERNMENT OR ANY AFFILIATE OF THE GOVERNMENT WAS THE OWNER OF THIS SECURITY, OFFER, SELL OR OTHERWISE TRANSFER THIS SECURITY EXCEPT (A) TO THE GOVERNMENT, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, OR (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER APPLICABLE JURISDICTION. THIS

LEGEND MAY BE REMOVED SOLELY IN THE DISCRETION AND AT THE DIRECTION OF THE GOVERNMENT.”

The one-year resale restriction period referred to in the above legend may be extended, in our discretion, in the event of one or more issuances of additional notes, as described under “Description of the Notes – Further Issues of Notes.” The above legend (including the restrictions on resale specified thereon) may be removed solely in our discretion and at our direction.

(5) You acknowledge that we, the initial purchaser and others will rely upon the truth and accuracy of the above acknowledgments, representations, warranties and agreements. You agree that if any of the acknowledgments, representations, warranties or agreements you are deemed to have been made by your purchase of the notes is no longer accurate, you will promptly notify us and the initial purchaser. If you are purchasing any notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

ENFORCEABILITY OF CIVIL LIABILITIES UNDER U.S. FEDERAL SECURITIES LAWS AND OTHER MATTERS

We have been advised by Melvin Douglas, Acting Solicitor General of Bermuda, that there is no treaty in force between the United States and Bermuda providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. As a result, whether a U.S. judgment would be enforceable in Bermuda against the Government or its officials depends on whether the U.S. court that entered the judgment is recognized by the Bermuda court as having jurisdiction over the Government or its officials, as determined by reference to Bermuda conflicts of law rules. A judgment debt from a U.S. court that is final and for a sum certain based on U.S. federal securities laws will not be enforceable in Bermuda unless the judgment debtor had submitted to the jurisdiction of the U.S. court in connection with such an action and the issue of submission and jurisdiction is a matter of Bermuda, as opposed to U.S., law.

In addition, and irrespective of jurisdictional issues, the Bermuda courts will not enforce a U.S. federal securities law that is either penal or contrary to public policy. Certain remedies available under the laws of U.S. jurisdictions, including certain remedies under U.S. federal securities laws, would not be available under Bermuda law or enforceable in a Bermuda court, as they would be contrary to Bermuda public policy. Further, no claim may be brought in Bermuda against the Government or its officials in the first instance for violation of U.S. federal securities laws because these laws have no extraterritorial jurisdiction under Bermuda law and do not have force of law in Bermuda. A Bermuda court may, however, impose civil liability on the Government if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law.

All of the Government's officials and all or a substantial portion of the Government's assets are located outside of the United States. Accordingly, the enforceability in Bermuda of a judgment based on U.S. federal securities laws against the Government or its officials may be limited. The Government is a sovereign government and agencies and instrumentalities thereof are generally immune from lawsuits and from the enforcement of judgments under U.S. law. With respect to the contractual liability of the Government to perform its respective obligations under the indenture, with respect to itself or its property, the Government: (1) has agreed that the execution, delivery and performance by it of the indenture constitute private and commercial acts done for private and commercial purposes; (2) has agreed, to the extent it or any of its revenues, assets or properties shall be entitled, with respect to any claim, counterclaim or dispute of any kind or nature whatsoever arising out of or in any way relating to the indenture at any time brought against it or any of its revenues, assets or properties, or with respect to any suit, action or proceeding at any time brought solely for the purpose of enforcing or executing any judgment in any state or U.S. federal court in the State of New York or in any jurisdiction in which any other court is located, to any immunity from suit, from the jurisdiction of any such court, from attachment prior to judgment, from attachment in aid of execution of judgment, from execution of a judgment or from any other legal or judicial process or remedy, and to the extent that in any such jurisdiction there shall be attributed such an immunity, not to claim and irrevocably waive such immunity to the fullest extent permitted by the laws of such jurisdiction (including, without limitation, the U.S. Foreign Sovereign Immunities Act of 1976); and (3) to the extent it or any of its revenues, assets or properties shall be entitled, in any jurisdiction, to any immunity from setoff, banker's lien or any similar right or remedy, and to the extent that there shall be attributed, in any jurisdiction, such an immunity, has irrevocably agreed not to claim and has irrevocably waived such immunity to the fullest extent permitted by the laws of such jurisdiction with respect to any claim, suit, action, proceeding, right or remedy arising out of or in connection with the Indenture.

Securities may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act 2003, Exchange Control Act 1972 and related regulations of Bermuda which regulate the sale of securities in Bermuda.

TAXATION

Purchasers of notes may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase. Prospective purchasers should consult their tax advisors as to the tax laws of applicable jurisdictions and the specific tax consequences of acquiring, holding and disposing of the notes.

Certain Bermudian Tax Considerations

At the date of this offering memorandum, there is no Bermudian income tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by holders of the notes (other than holders of the notes ordinarily resident in Bermuda) in respect of their investment in the notes.

Certain U.S. Federal Income Tax Considerations

The following is a summary under current law of certain material U.S. federal income tax considerations relating to the purchase, ownership and disposition of the notes, but does not purport to be a complete analysis of all of the potential tax considerations. Except as otherwise indicated below, this summary deals only with U.S. Holders (as defined below) that will purchase the notes in the original offering at the original issue price and hold the notes as “capital assets”, and does not address tax considerations applicable to you if you are subject to special tax rules including those applicable to banks, tax-exempt organizations, insurance companies, dealers, traders in securities or other persons who are required or who elect to mark to market, persons liable for the alternative minimum tax, persons that will hold notes as a position in a hedging, straddle, conversion or integrated transaction, or persons that have a functional currency other than the U.S. dollar. If a partnership holds a note, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partnership or a partner of a partnership holding a note, you should consult your own tax advisor.

This summary does not cover any state or local or foreign tax implications of the acquisition, ownership, or disposition of the notes. This summary does not address any U.S. federal tax laws other than the U.S. federal income tax laws (such as the estate and gift tax or the Medicare tax on net investment income). The discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), U.S. Treasury regulations, rulings and other pronouncements of the U.S. Internal Revenue Service (the “IRS”) and judicial decisions as of the date hereof. Such authorities may be repealed, revoked or modified (with possible retroactive effect) so as to result in U.S. federal income tax consequences different from those discussed below.

To ensure compliance with U.S. Treasury Department Circular 230, you are hereby notified that any discussion of U.S. federal tax matters set forth in this offering memorandum was written in connection with the promotion or marketing of the transactions or matters addressed herein and was not intended or written to be used, and cannot be used by any prospective investor, for the purpose of avoiding penalties under the Code. Each prospective investor should seek advice based on its particular circumstances from an independent tax advisor.

As used herein, “U.S. Holder” means the beneficial owner of a note that for U.S. federal income tax purposes is (i) an individual citizen or resident of the United States, (ii) a corporation created or organized in the United States or under the laws of the United States or of any state or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of source, or (iv) a trust if a court within the United States is able to exercise primary supervision over the trust’s administration and one or more U.S. persons have authority to control all of the trust’s substantial decisions (or for certain trusts formed prior to August 20, 1996, if such trust has a valid election in effect under U.S. law to be treated as a U.S. person).

Interest Payments

Interest payable on a note will be taxable to you as ordinary interest income at the time it is accrued or paid, in accordance with your method of accounting for U.S. federal income tax purposes. Interest received or accrued by you on a note generally will be income from sources outside the United States for purposes of computing the foreign tax credit limitation. You should discuss the foreign tax credit rules with your own tax advisor.

Dispositions

Upon the sale, exchange, redemption or other disposition of a note, you generally will recognize gain or loss equal to the difference between the amount realized on the sale, exchange, redemption or other disposition (other than any amount attributable to accrued but unpaid interest, which will be taxed as ordinary interest income to the extent not previously included in income) and your tax basis in such note. Your tax basis in a note generally will be the purchase price of such note. Gain or loss so recognized will be capital gain or loss. You should consult your tax advisor regarding the treatment of capital gains (which may be taxed at lower rates than ordinary income for certain non-corporate taxpayers if the notes are held for more than one year) or losses (the deductibility of which is subject to limitations). Such gain or loss generally will be U.S. source gain or loss.

Non-U.S. Holders

Subject to the discussion of backup withholding below, interest on a note paid to a person that is neither a U.S. Holder nor a partnership or other entity treated as a partnership for U.S. federal income tax purposes (a “Non-U.S. Holder”) will not be subject to U.S. federal withholding tax and will not be subject to U.S. federal income tax unless the interest is effectively connected with such Non-U.S. Holder’s conduct of a trade or business (and, where a treaty applies, attributable to a permanent establishment) in the United States. In such event, the interest will be subject to U.S. federal income tax on a net basis and, if the Non-U.S. Holder is a foreign corporation, it may also be subject to a 30% (or lower applicable treaty rate) branch profits tax.

Gain on the disposition of a note will be includible in the income of the Non-U.S. Holder if the gain is effectively connected with the Non-U.S. Holder’s conduct of a trade or business (and, where a treaty applies, attributable to a permanent establishment) in the United States or, in the case of capital gains of an individual, if the Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met.

The notes generally will not be includible for purposes of U.S. federal estate tax in the gross estate of a non-resident of the United States who was not a citizen of the United States at the time of death.

Information Reporting and Backup Withholding

Backup withholding of U.S. federal income tax and certain information reporting requirements may apply to certain payments made on notes and to the proceeds from the disposition of a note if the holder is not entitled to an exemption. U.S. Holders that provide a correct taxpayer identification number and otherwise comply with applicable requirements of the backup withholding rules and other holders that properly certify that they are not U.S. Holders are generally exempt from backup withholding. Non-U.S. Holders should consult their own tax advisors about the specific application of and the availability of exemption from the backup withholding and information reporting rules.

Any amounts withheld under the backup withholding rules can be claimed as a credit against the holder’s U.S. federal income tax liability, and may entitle a holder to refund, provided the required information is timely provided to the IRS.

Recently enacted legislation requires certain U.S. Holders to report to the IRS information with respect to their investment in notes unless certain requirements are met. Investors who fail to report required information could become subject to substantial penalties. Prospective investors are encouraged to consult with their own tax advisors regarding the possible implications of this new legislation on their investment in notes.

THE ABOVE DISCUSSION IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO YOU. EACH PROSPECTIVE INVESTOR IS STRONGLY URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN THE NOTES.

PLAN OF DISTRIBUTION

We and HSBC Securities (USA) Inc., as initial purchaser, have entered into a purchase agreement with respect to the notes. Subject to the terms and conditions stated in the purchase agreement, the initial purchaser has agreed to purchase all of the notes offered hereby. The initial purchaser must purchase all of the notes if it purchases any of the notes. The initial purchaser may offer and sell the notes through certain of its affiliates.

The initial offering price is set forth on the cover page of this offering memorandum. The initial purchaser may offer the notes to selected dealers at the initial offering price set forth on the cover page of this offering memorandum less a selling concession. After the notes are released for sale, the initial purchaser may change the offering price and other selling terms.

In the purchase agreement, the Government has agreed that:

- the Government will not offer or sell any debt securities having a tenor of more than one year (other than the notes) for a period of 30 days after the date of this offering memorandum without the prior written consent of the initial purchaser; and
- the Government will indemnify the initial purchaser against certain liabilities, including liabilities under the Securities Act, or contribute to payments that the initial purchaser may be required to make in respect of those liabilities.

The notes have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or any other jurisdiction. Accordingly, the notes are subject to restrictions on resale and transfer as described under “Transfer Restrictions.”

In the purchase agreement, the initial purchaser has represented, warranted and agreed that:

- the notes may not be offered or sold within the United States or to U.S. persons except pursuant to an exemption from the registration requirements of the Securities Act or in transactions not subject to those registration requirements; and
- during the initial distribution of the notes and otherwise until 40 days after the later of the commencement of this offering and the closing of this offering, it will offer or sell notes:
 - inside the United States only to persons whom it reasonably believes to be qualified institutional buyers in transactions pursuant to, and in accordance with, Rule 144A; or
 - outside the United States in accordance with Regulation S.

The notes will constitute a new class of securities with no established trading market. Application has been made to list the notes on the official list of the Luxembourg Stock Exchange and to trading on the Euro MTF Market. Application will also be made to list the notes on the BSX. However, we cannot assure you that the listing applications will be approved. We cannot assure you that the prices at which the notes will sell in the market after this offering will not be lower than the offering price or that an active trading market for the notes will develop and continue after this offering. The initial purchaser has advised us that it currently intends to make a market in the notes. However, the initial purchaser is not obligated to do so and may discontinue any market making activities with respect to the notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of or the trading market for the notes.

In connection with the offering, the initial purchaser may engage in overallotment, stabilizing transactions and covering transactions. Overallotment involves sales in excess of the offering size, which creates a short position for such initial purchaser. Covering transactions involve purchases of notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions involve bids to purchase notes so long as the stabilizing bids do not exceed a specified maximum. Any of these transactions may have the effect of preventing or retarding a decline in the market price of the notes. These transactions may also cause the price of the notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions.

The initial purchaser may conduct these transactions in the over-the-counter market or otherwise. If the initial purchaser commences any of these transactions, it may discontinue them at any time in their sole discretion.

We estimate that the total expenses of this offering payable by us, including the initial purchaser's discount and estimated offering expenses, will be approximately \$2.2 million.

Neither we nor the initial purchaser are making an offer to sell, or seeking offers to buy, the notes in any jurisdiction where the offer and sale is not permitted. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the notes or possess or distribute this offering memorandum, and you must obtain any consent, approval or permission required for your purchase, offer or sale of the notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. Neither we nor the initial purchaser will have any responsibility therefor.

The initial purchaser has represented, warranted and agreed that:

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, each a "Relevant Member State," with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, or the "Relevant Implementation Date," no offer of notes may be made to the public in that Relevant Member State other than (1) to any legal entity which is a qualified investor as defined in the Prospectus Directive; (2) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive subject to obtaining the prior consent of the representative or representatives nominated by us for any such offer; or (3) in any other circumstances falling within Article 3(2) of the Prospectus Directive; *provided* that no such offer of notes shall require us or any initial purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive. For the purposes of the foregoing provision, the expression an "offer of notes to the public" in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Member State; "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State; and "2010 PD Amending Directive" means Directive 2010/73/EU; and

It has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the United Kingdom Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any notes in circumstances in which Section 21(1) of the FSMA does not apply to the Government; and it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

The initial purchaser, either directly or through affiliates, has provided from time to time and, in the future, may provide, certain investment banking, financial advisory services and commercial banking to us or our affiliates from which they have received and in the future will receive customary fees. HSBC Securities (USA) Inc. acted as sole book-running manager in connection with our offering of notes in 2010. HSBC Bank Bermuda Limited, an affiliate of HSBC Securities (USA) Inc., provided us with a credit facility in a principal amount of \$200 million in 2010, which was repaid with the proceeds of our 2010 note offering. Affiliates of the initial purchaser are lenders under certain of our short-term credit and overdraft facilities, which will be repaid with the proceeds of this offering.

We expect that delivery of the notes will be made against payment therefor on or about the settlement date specified on the cover page of this offering memorandum, which is the fifth business day following the date of pricing of the notes (this settlement cycle being referred to as "T+5"). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market in the United States generally settle in three business days, purchasers who wish to trade notes before the third business day prior to settlement will be required, by virtue of the fact that the notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement and should consult their own advisor.

OFFICIAL STATEMENTS

Certain information included herein which is identified as being provided by the Ministry of Finance, the Bermuda Monetary Authority or H.M. Customs has been derived from the Bermuda 2010 Census, the Mid-Year Population Projections July 1, 2000 to July 1, 2030, and the Bermuda Digest of Statistics 2011, all published by the Statistical Department of the Cabinet Office, the Bermuda 2011 Economic Review, published by the Ministry of Finance, and certain other publications of the Government or one of its agencies or instrumentalities. This information is included herein on the authority of such publications or updates thereof as public official documents of the Government. All other information herein under “Summary – Bermuda” and “Bermuda” is included as a public official statement.

LEGAL MATTERS

The validity of the notes will be passed upon on behalf of the Government by Melvin Douglas, Esq., Acting Solicitor General of Bermuda, and Milbank, Tweed, Hadley & McCloy LLP, U.S. counsel to the Government, and on behalf of the initial purchaser by Simpson Thacher & Bartlett LLP, U.S. counsel to the initial purchaser, and Appleby (Bermuda) Limited, Bermudian counsel to the initial purchaser. All statements in this offering memorandum with respect to matters of Bermudian law have been passed upon by the Acting Solicitor General of Bermuda.

GENERAL INFORMATION

1. The notes, which include the Rule 144A Notes and Regulation S Notes, have been accepted for clearance through Euroclear and Clearstream Banking. For the Rule 144A Notes, the CUSIP number is 085209 AB0, the ISIN number is US085209AB07 and the common code is 080073704. For the Regulation S Notes, the CUSIP number is G10367 AA1, the ISIN number is USG10367AA14 and the common code is 080073682.

2. The issuance of the notes by the Government was done in accordance with the Government Loans Act 1978 and was authorized by the Minister of Finance on May 22, 2012. All consents, approvals, authorizations and other orders of all regulatory authorities under the laws of Bermuda have been given for the issuance of the notes and the execution and issue of the Indenture, and are in full force and effect.

3. Except as disclosed in this offering memorandum, there has been no change in the last audited financial statements of the Government.

4. Neither the Government nor any Ministry of the Government is involved in litigation or arbitration proceedings which are material in the context of the issue of the notes nor, so far as the Government is aware, are any such litigation or arbitration proceedings pending or threatened.

5. Copies of documents referred to in this offering memorandum, including the Indenture and the Government's annual financial statements, are available at your request, without charge, by writing to the Ministry of Finance at 30 Parliament Street, Hamilton HM 12, Bermuda, Attention: Financial Secretary. The Ministry of Finance's telephone number at that address is (441) 295-5151 (ext. 1496); facsimile: (441) 295-5727.

6. Application has been made to list the notes on the official list of the Luxembourg Stock Exchange and to trading on the Euro MTF Market. We will also apply to list the notes on the BSX. The following documents are available for inspection at the address for the government listed above, at the offices of the Trustee, at the offices of the Bermuda Stock Exchange, Washington Mall/3F, Church Street, Hamilton, Bermuda for a period of ten business days during each year, and are available for inspection and collection at the offices of the paying agent in Luxembourg:

- The audited financial statements of the Government;
- Copy of the Indenture; and
- This offering memorandum.

The Government will maintain a paying and transfer agent in Luxembourg for so long as any notes are listed on the official list of the Luxembourg Stock Exchange for trading on the Euro MTF Market.

THE GOVERNMENT OF BERMUDA

Ministry of Finance
30 Parliament Street
Hamilton HM 12, Bermuda

**TRUSTEE, REGISTRAR, TRANSFER AGENT
AND PRINCIPAL PAYING AGENT**

The Bank of New York Mellon
Attention: International Corporate Trust
101 Barclay Street, 4th Floor East
New York, New York 10286
United States

**LUXEMBOURG TRANSFER AGENT,
PAYING AGENT AND LISTING AGENT**

The Bank of New York Mellon
(Luxembourg) S.A.
Vertigo Building - Polaris
2-4 rue Eugène Ruppert
L-2453
Luxembourg

**BERMUDA STOCK EXCHANGE
LISTING SPONSOR**

Bermuda International Securities
Limited

6 Front Street
Hamilton HM 11
Bermuda

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GOVERNMENT OF BERMUDA
