



GOVERNMENT OF BERMUDA

U.S.\$665,000,000 3.717% Senior Notes Due 2027

The Government of Bermuda is offering \$665,000,000 aggregate principal amount of its 3.717% Senior Notes due 2027. The notes will bear interest at a rate of 3.717% per year, accruing from October 19, 2016. Interest will be payable on January 25 and July 25 of each year, commencing on July 25, 2017.

The notes will mature on January 25, 2027, unless earlier redeemed. The Government may redeem the notes, in whole or in part, at any time by paying the greater of the outstanding principal amount of the notes and a “make-whole” amount calculated by the Government. In addition, we may redeem the notes, in whole or in part, at any time on or after October 25, 2026 (three months prior to the maturity date of the notes) at a redemption price equal to 100% of the principal amount of notes to be redeemed, plus accrued and unpaid interest. 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. It is understood that this provision will not be construed so as to require the Government to make payments under the notes ratably with payments being made under any other external indebtedness. The notes will be backed by the full faith and credit of the Government. The notes will contain “collective action clauses.” Under these provisions, which differ from the terms of the Government’s Public External Debt issued prior to this offering, the Government may amend the payment provisions of any series of debt securities issued under the indenture (including the notes) and other reserve matters listed in the indenture with the consent of the holders of: (1) with respect to a single series of debt securities, more than 75% of the aggregate principal amount of the outstanding debt securities of such series; (2) with respect to two or more series of debt securities, if certain “uniformly applicable” requirements are met, more than 75% of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate; or (3) with respect to two or more series of debt securities, more than 66-2/3 % of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate, and more than 50% of the aggregate principal amount of the outstanding debt securities of each series affected by the proposed modification, taken individually. See “Description of the Notes—Meetings, Amendments and Waivers.”

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 has also been made to list the notes on the Bermuda Stock Exchange (the “BSX”). Estera Securities (Bermuda) 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 9 of this offering memorandum.

Offering Price: 99.986%, plus accrued interest, if any, from October 19, 2016.

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

The notes are expected to be delivered to the purchaser on or about October 19, 2016 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*.

This offering memorandum constitutes a prospectus for purposes of Part IV of the Luxembourg law on prospectus securities dated July 10, 2005, as amended.

Sole Bookrunner

HSBC

The date of this offering memorandum is November 23, 2016.

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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.

The notes and this offering memorandum have neither been registered with nor approved by any regulatory authority in Bermuda.

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 to 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 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 has also been 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 on 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 providing 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.

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 of the economic and financial data and statistical information presented herein includes estimates and forecasts based on available data and, accordingly, are subject to revision.

Unless otherwise indicated, estimates in this offering memorandum are estimates of Bermuda's Ministry of Finance, Ministry of Tourism, Transport and Municipalities, 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 Bermuda's fiscal year, which begins April 1 of each year and ends on March 31 of the following year (e.g., 2015/2016 fiscal year refers to the fiscal year that began on April 1, 2015 and ended on March 31, 2016).

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 the Public Sector Accounting Board and the Accounting Standards Board of the Chartered Professional Accountants of Canada (which are promoted by the Chartered Professional Accountants of Bermuda by signed agreement and therefore generally accepted in Bermuda) 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 year ended March 31, 2015 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. Unless otherwise stated, the financial information provided for the 2015/2016 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.

The Office of the Auditor General audited the historical financial statements of the Consolidated Fund of the Government (the "Consolidated Fund") as at and for the fiscal year ended March 31, 2015, which is not included or incorporated by reference in this offering memorandum. It was the independent opinion of the Auditor General that the annual accounts of the Consolidated Fund are presented fairly, in all material respects. This unqualified opinion is consistent with the March 31, 2014 auditor's reports. Under the Audit Act 1990, section 6(1)(b), the Auditor General is able to include in her report any other comments she considers appropriate. In the March 31, 2015 report, the Auditor General has, for the fifth consecutive year, included an explanatory paragraph as an 'other matter' that discusses ongoing incidents of non-compliance with the Government of Bermuda's Financial Instructions. The Office of the Auditor General has explained that this is in relation to concerns about Information Technology controls, the effectiveness of bank reconciliations, as well as other items. Capital Asset Recognition ceased to be a contributor to other matters for the 2015 report. The Auditor General has also, for the fourth consecutive year, included an additional explanatory paragraph as an 'other matter,' which discusses the increased level of net debt and the need for the Government to take action to reduce the total amount of debt outstanding. These explanatory paragraphs do not alter the Auditor General's unqualified opinion.

In this offering memorandum, references to "GDP" are to gross domestic product. References to "real GDP" are to real gross domestic product at constant 2006 prices (which is GDP at 2006 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 and certain other operating data are available is the calendar year ended December 31, 2014. GDP data for periods ending after December 31, 2014 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 of Bermuda (the “Government,” “we,” “us,” or “our”). 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 to 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;
- the impact of the impending departure of the United Kingdom from the European Union on our economy, regulatory regime and legal system;
- 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 terrorism 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.

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, approximately 570 nautical miles southeast of the state of North Carolina. Bermuda covers an area of approximately 21 square miles with an estimated population of 61,695 as of July 2016. Bermuda is the most populous United Kingdom Overseas territory and has an affluent and educated population. Per capita nominal GDP in 2015 was \$96,018, one of the highest in the world.

Historical Highlights

- *Political, economic and social stability.* Bermuda has a demonstrated history of political, economic and social stability. Bermuda has the third-oldest continuous parliament in the world with a democratic government dating back to 1620. Originally functioning under the British government, Bermuda has had its own constitution since 1968. Bermuda has a strong economy and has proven its fiscal responsibility through its recent recovery from the global economic crisis that started in 2008.
- *Global leader in GDP per capita.* Bermuda has one of the highest per capita incomes in the world, serving as a preferred jurisdiction for financial services and international business while offering luxury tourist facilities. Bermuda’s per capita nominal GDP of \$96,018 for fiscal year 2015 is the fifth highest in the world and approximately 57% higher than per capita GDP in the United States.
- *Commitment to foreign trade and foreign investment.* Foreign direct investment is widely recognized by the Government of Bermuda as one of the main drivers of economic activity. With low personal and corporate taxes, a professional and skilled labor force, proximity to the United States and its markets, and extensive air transportation and communication network, Bermuda is highly attractive for foreign direct investment. Furthermore, as a British Overseas Territory, Bermuda’s legal system is grounded in the common law of the United Kingdom. Its legal, regulatory and accounting systems adhere to high ethical and transparency standards. Bermuda effectively and impartially enforces laws to combat corruption and money laundering. The Government’s policies facilitate the free flow of financial resources in the product and factor market, and the U.S. Securities and Exchange Commission has recognized the Bermuda Stock Exchange (BSX) as a Designated Offshore Securities Exchange. Bermuda’s culture of investment has created a climate of responsible business conduct among producers.
- *Commitment to equality.* In 1834, slavery was abolished in Bermuda and schools were integrated during the 1960s. 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. The Ministry of Human Affairs subsequently evolved into the Human Rights Commission, a non-Ministry department that provides research and policy advice to the Government in order to promote evidenced-based decision making and to foster partnerships to protect rights and advance equality. It also monitors Bermuda’s compliance with relevant international conventions.
- *A balanced democracy.* Mr. Michael Dunkley, a member of the One Bermuda Alliance party (“OBA”), became Premier on May 19, 2014, following the resignation of the former Premier, Craig Cannonier. Of the 36 seats in the House of Assembly, 18 seats are held by the OBA and 17 voting seats are held by the Progressive Labor Party (“PLP”). One former OBA member now sits in the House as an Independent after resigning from the OBA party. The elected Speaker of the House (the “Speaker”) is also a member of the PLP, but as Speaker is not permitted to take part in House of Assembly discussions or to vote on matters, unless there is a tie. The leader of the official opposition is Marc Bean

of the PLP. In general, the policies of the PLP are pro-democracy and are relatively similar to those of the OBA.

Bermuda's Economy

Overview

The economy of Bermuda is based primarily on international business and the high-end segment of the tourism sector. 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 and from Europe and the United Kingdom;
- Recognized by the OECD, the IMF and other international bodies as having internationally acknowledged transparency standards;
- Transparent and consistent application of financial services policy towards the financial services sector;
- Close international relations in the financial sector, including bilateral relations with the G7 and G20 countries as well as other markets that are of significant economic importance to Bermuda;
- Well-established reputation as a domicile of choice for insurance and reinsurance;
- The BSX is one of the world's largest offshore, fully electronic securities markets and is recognized by the U.S. Securities and Exchange Commission as a "Designated Offshore Securities Market";
- Modern business facilities;
- Excellent living conditions and reliable infrastructure;
- Well-educated labor force;
- Absence of direct taxation and exchange controls for international business; and
- Stable regulatory framework.

The largest concentrations of international companies doing business in Bermuda are involved in the insurance and financial services sectors. In 2015, international companies and tourism, both of which are significant sources of foreign exchange receipts, represented approximately 28.0% and approximately 4.2%, respectively, of Bermuda's nominal GDP of \$5.9 billion or real GDP of \$4.6 billion. In 2015, Bermuda marked the fourth consecutive year during which the international business sector's nominal contribution to GDP increased. International business and tourism together accounted for \$2.3 billion (excluding financial services) in foreign currency receipts in 2015.

Bermuda's preliminary quarterly GDP results for the quarter ending March 31, 2016 demonstrate the positive economic trends Bermuda has experienced in most sectors following a steady performance in 2015, as described below. During the first fiscal quarter of 2016, nominal GDP was estimated at \$1,643.7 million, a 0.6% increase compared to the same period in 2015. The main drivers were a \$29.2 million increase in household final consumption and a \$21.5 million increase in construction activity, partially offset by a \$21.6 million increase in payments related to imports of goods and services. Real GDP decreased by 0.6% in the first quarter of 2016 as compared to the same period in 2015.

Nominal GDP increased 3.7%, 2.4%, 6.3% and 0.5% in each of the first, second, third and fourth quarters of 2015, respectively, as compared to the same periods in 2014. Real GDP increased by 2.2%, 1.5%, 4.4% and 0.1% in each of the first, second, third and fourth quarters of 2015, respectively, as compared to the same periods in 2014. The main drivers of the quarterly increases in GDP were increased exports of goods and services and increased household consumption.

Real GDP increased by 0.6% in 2015, representing an improvement compared to Bermuda's five year average (2011-2015) decrease in real GDP of 2.0%. Nominal GDP was \$5.93 billion for 2015, representing an

increase of 4.0%, or \$227.6 million, compared to nominal GDP for 2014 of approximately \$5.69 billion, reflecting an increase of 0.5% or \$29.9 million from GDP of \$5.70 billion in 2013. In 2015, growth was driven largely by the international business sector and retail trade sector, which increased 5.3% and 10.9%, respectively.

Bermuda's net surplus on trade in goods and services for the first quarter of 2016 was \$311.2 million, as compared to \$340.8 million for the first quarter of 2015, a decrease of 8.7%. The net surplus on trade in goods and services increased 13.4%, 12.1% and 45.2% in each of the first, second and third quarters of 2015, respectively, compared to the corresponding periods in 2014, due to an increase in earnings from exports of services and decreased payments for imports of goods. The net surplus decreased slightly by 0.8% in the fourth quarter of 2015 due mostly to higher payments for imports of services.

The unemployment rate in Bermuda was estimated at 7% as of March 31, 2015, compared to 9% as of March 31, 2014. The Government expects Bermuda's employment rate to continue to improve with the upcoming Louis Vuitton America's Cup World Series preliminary regattas, which culminate with the 35th America's Cup to be held in Bermuda during the month of June 2017 (the "America's Cup"), legalization of casino gambling and various other employment initiatives, including improved work permit policies and numerous hotel and airport redevelopment projects discussed in detail elsewhere in this memorandum.

The Bermuda Consumer Price Index ("CPI") increased at an average annual rate of 1.5% in 2015, a 0.5% decrease from the rate recorded in 2014. This is the lowest increase in the CPI in two years.

Two-Pronged Strategy For Strengthening the Economy

Since becoming the ruling party in 2012, the One Bermuda Alliance party ("OBA") has pursued a two-pronged strategy to improve Bermuda's economy, consisting of (i) implementing measures to foster economic growth, foreign investment and job creation and (ii) increasing the focus on fiscal discipline in an effort to reduce the national debt.

Stimulating Economic Growth, Foreign Investment and Job Creation

- *Focus on increasing tourism and reaching new tourist demographics.* In 2014, the Government created the independent and privately run Bermuda Tourism Authority (the "BTA"), which replaced the Department of Tourism as the organization responsible for promoting and increasing tourism in Bermuda. Since its inception, the BTA has pursued several initiatives to grow the tourism industry in Bermuda, including: (i) re-branding Bermuda's tourism website and advertising campaigns, (ii) targeting groups such as business travelers and athletes to increase tourism during Bermuda's low season and (iii) promoting vacation rental properties in order to appeal to a wider tourist demographic. Since the creation of the BTA, Bermuda has experienced an increase in tourism, and expects further increases with the launch of an "athletic season" and adoption of legislation to establish higher quality and safety standards for vacation rental properties.
- *Attracting additional international business through legislation.* Bermuda has long been an appealing location for international businesses. Recent legislation has been adopted to make Bermuda more attractive to entrepreneurs, developers and companies that want to establish residence in Bermuda. The Government has eliminated work permit term limits and adopted the Limited Liability Company Act 2016, which is based on the Delaware Limited Liability Company Act. The Government is also drafting legislation, which is expected to be adopted in November 2016, to streamline the gaming license application process for developers of new hotels in Bermuda.
- *Targeting new international markets and providing concierge services to businesses.* The Bermuda Business Development Authority ("BDA") has carried out strategic overseas business development meetings in order to increase the number of international companies doing business in Bermuda. The BDA's focus on Latin America in 2015 led to an increase in the number of businesses from that region establishing residence or offices in Bermuda. For the 2016/2017 fiscal year, the BDA is exploring new markets such as China and Southeast Asia, providing support to the America's Cup events and promoting Bermuda's jurisdictional reputation overseas. In addition, the Ministry of Economic Development's Business Development Unit, in collaboration with the Bermuda Business Development

Agency, has created a business concierge service to assist companies and entrepreneurs seeking to establish business in Bermuda.

Reducing Public Debt

The Government has demonstrated its commitment to decreasing Bermuda's deficit through fiscal policy, aiming to increase revenue and decrease expenditures, while promoting transparency.

- *Commitment to reducing expenditures and increasing efficiency.* The Government has worked to reduce expenditures by analyzing various public departments to assess efficiency. The Government has (i) gradually reduced the number of public sector employees from 5,262 as of March 31, 2013 to 4,707 as of March 31, 2016, a 10.5% decrease, (ii) entered into public-private partnerships for certain infrastructure and development projects and (iii) designated certain departments as quasi-independent organizations, such that they are responsible for securing their own revenue to cover expenses.
- *Commitment to increasing revenue.* Based on recommendations from independent panels and authorities, the Government has focused on tax reforms, limiting or eliminating tax concessions and pursuing long-term development plans designed to increase revenue and allow the Government to reduce the deficit at an aggressive pace. The Government enacted a 1.0% payroll tax increase in 2016 and is currently considering restructuring the payroll tax system, implementing changes to the notional taxable payroll structure to combat abuse of the current system, increasing certain customs duties and adopting a general services tax. The proposed tax reforms will not include the adoption of an income tax.
- *Designating independently run organizations as advisors to the Government.* Since 2015, the Government has created the Fiscal Responsibility Panel and the Financial Policy Council, each an independent organization, to assist in implementing fiscal policies that will help the Government reduce the deficit, while promoting economic growth and government transparency. The Fiscal Responsibility Panel is run by independent experts in the financial sector and reports on the Government's actual fiscal policy, as compared to established fiscal rules. The Financial Policy Council provides input into the macro-prudential oversight processes, advises on the further development of the financial stability network in Bermuda and makes policy recommendations designed to support the general economic and fiscal well-being of Bermuda. The Government has used the recommendations of these experts to guide its public finance policy.

Recent Developments

In August 2016, the Bermuda Ministry of Finance reported fiscal performance for the first quarter of fiscal year 2017. Total revenues were \$233.3 million, a 4.3% increase compared to the quarter ended June 30, 2015. This increase resulted primarily from an increase in payroll tax collections of approximately \$7.3 million compared to the same period in 2015 and an increase in collections of customs duties of \$1.3 million compared to the same period in 2015. These increases were offset by lower collections in stamp duties year-over-year. Total revenues for the three months ended June 30, 2016 were slightly lower than 2017 budget estimates of \$234.6 million.

Current account expenditures (excluding debt service) for the first three months ended June 30, 2016 were \$237.6 million, a 2.4% increase compared to the three months ended June 30, 2015. Government current account spending has increased mainly due to increases in various operational grants, increased Government overhead costs due to health insurance premiums, the expiration of the partial suspension of the Government's matching contribution to the Public Service Superannuation Fund ("PSSF") and payment of insurance premiums in the first fiscal quarter of 2016.

Capital account expenditures for the period ending June 30, 2016 were \$14.7 million, an increase of 37.2% compared to the three months ended June 30, 2015. This increase was mainly due to increased and new capital grant amounts. Total current expenditures, excluding debt service, for the three months ended June 30, 2016 are slightly higher than 2017 budget estimates of \$230.4 million.

Debt service costs for the three months ending June 30, 2016 were \$46.8 million, an increase of 10.4% compared to the three months ended June 30, 2015. The increase in debt service costs was due to higher levels of debt outstanding. These costs include \$32.2 million of interest payments and a \$14.6 million contribution to the Government Sinking Fund, which represents approximately one quarter of the \$58.4 million annual contribution. Additionally, gross debt outstanding as of June 30, 2016 was \$2.34 billion. Debt net of the Sinking Fund as of June 30, 2016 was \$2.25 billion.

The Offering

Issuer	Government of Bermuda.
Issue	\$665,000,000 aggregate principal amount of 3.717% Senior Notes due 2027.
Currency of Issue	U.S. dollars.
Final Maturity Date	January 25, 2027.
Interest Rate	3.717% per year, accruing from October 19, 2016.
Interest Payment Dates	January 25 and July 25 of each year, commencing on July 25, 2017.
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. It is understood that this provision will not be construed so as to require the Government to make payments under the notes ratably with payments being made under any other external indebtedness. 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 after such withholding or deduction the amounts that they would have received absent such withholding or deduction. See “Description of the Notes—Additional Amounts.”
Optional Redemption	<p>The Government may redeem the notes, in whole or in part, at any time by paying the greater of the outstanding principal amount of the notes and a “make-whole” amount calculated by the Government, in each case plus accrued and unpaid interest. See “Description of the Notes—Optional Redemption.”</p> <p>In addition, we may redeem the notes, in whole or in part, at any time on or after October 25, 2026 (three months prior to the maturity date of the notes) at a redemption price equal to 100% of the principal amount of notes to be redeemed, plus accrued and unpaid interest.</p>
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 Government intends to use the net proceeds from this offering to (i) fund the deficit for the current fiscal year, (ii) to repay U.S.\$200,000,000 of our obligations under our credit facility with

	Bank of N.T. Butterfield & Son Limited and (iii) to pay the purchase price to holders of 5.603% Notes due 2020 and 4.138% Notes due 2023 that are validly tendered and accepted to be purchased by the Government pursuant to the terms of a partial cash tender offer being conducted by the Government concurrently herewith. 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, <i>société anonyme</i> .
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 has also been 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, Registrar, Paying Agent and Transfer Agent.....	The Bank of New York Mellon.
CUSIP, ISIN and Common Code	For the Rule 144A Notes, the CUSIP number is 085209AD6, the ISIN number is US085209AD62 and the common code is 150605849. For the Regulation S Notes, the CUSIP number is G10367AD5, the ISIN number is USG10367AD52 and the common code is 150605814.
Risk Factors.....	See “Risk Factors” beginning on page 9 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 2016
	2011	2012	2013	2014	2015	
	(dollars in millions, except ratios and GDP per capita)					
Bermuda's economic data						
Nominal GDP ⁽¹⁾	5,620.4	5,585.4	5,670.1	5,699.9	5,927.7	N/A
Nominal GDP growth (%) ⁽¹⁾⁽²⁾	(4.0)%	(0.6)%	1.5%	0.5%	4.0%	N/A
Population ⁽¹⁾	63,193	62,408	61,954	61,777	61,735	61,695
Population growth (%) ⁽¹⁾⁽²⁾	(1.5)%	(1.2)%	(0.7)%	(0.3)%	(0.1)%	(0.1)%
Per capita nominal GDP	88,939.9	89,498.3	91,521.0	92,265.7	96,017.7	N/A
Inflation ⁽¹⁾	2.7%	2.4%	1.8%	2.5%	1.5%	N/A
Real GDP growth (%) ⁽¹⁾⁽²⁾	(4.4)%	(4.0)%	(2.0)%	(0.3)%	0.6%	N/A
Unemployment ⁽¹⁾	6.0%	8.0%	7.0%	9.0%	7.0%	N/A
Government profit and loss data						
Revenues.....	996.7	914.2	866.6	883.9	880.4	935.4
Expenditures	(1,245.1)	(1,142.8)	(1,092.5)	(1,183.3)	(1,145.8)	(1,147.6)
Deficit	(248.4)	(228.6)	(225.9)	(299.4)	(265.4)	(212.2)
Interest expense	56.3	67.6	81.6	109.4	113.5	116.3
Sinking fund contribution	18.3	25.7	30.8	37.9	47.7	52.5
Government balance sheet data						
Total debt ⁽³⁾	1,087.5	1,350.7	1,574.0	2,305.0	2,185.0	2,335.0
Sinking Fund balance ⁽⁴⁾	(85.5)	(114.7)	(97.1)	(536.6)	(135.8)	(117.3)
Net debt ⁽⁵⁾	1,002.0	1,236.0	1,476.9	1,768.4	2,049.2	2,217.7
U.S.\$ denominated debt.....	1,030.0	1,230.0	1,505.0	2,225.0	2,135.0	2,285.0
Guarantees	209.0	207.3	278.6	515.4	519.1	519.1
Government cash flow data						
Capital expenditures	120.5	59.5	63.5	65.4	49.8	57.3
Loan proceeds.....	263.8	263.5	223.0	731.0	(120.0)	150.0
Decrease (increase) in Sinking Fund.....	21.0	29.2	(17.6)	(439.5)	401.3	18.5
Net increase in debt ⁽⁶⁾	243.1	234.3	240.6	291.5	280.8	168.5
Government financial ratios						
Debt service ratio ⁽⁷⁾	0.08	0.10	0.13	0.17	0.18	0.18
Net debt/Nominal GDP	17.8%	22.1%	26.0%	31.0%	34.6%	N/A
Deficit/Nominal GDP	(4.4)%	(4.1)%	(4.0)%	(5.3)%	(4.4)%	N/A

Source: Department of Statistics, Bermuda.

- (1) As of or for the year ended December 31 of the year indicated, using population figures based on mid-year population projections produced by the Department of Statistics.
- (2) Growth percentages based on year-over-year comparisons.
- (3) Excludes guarantees of payment obligations related to (i) a \$247 million guarantee by the Government of the Bermuda Hospital Board's annual service payment obligations; (ii) guarantees by the Government in respect of approximately \$183 million related to preference shares issued by the Bank of N.T. Butterfield & Son Limited; (iii) guarantees by the Government related to the West End Development Corporation payment obligations estimated at \$25 million, \$39 million and \$2.9 million; (iv) a guarantee by the Government of payment obligations of the Bermuda Housing Corporation ("BHC") estimated at \$36.7 million; (v) a \$165 million guarantee by the Government to the Morgan's Point hotel developer for the construction of a Ritz Carlton hotel and residences; and (vi) various other small business loans and education guarantees totaling approximately \$1.5 million as of March 31, 2016. For more information on Government guarantees, see "Bermuda—Public Finance—Public Debt."
- (4) Sinking Fund (as defined herein) balances include principal and interest components. See "Bermuda—Public Finance—Public Debt—Government—Sinking Fund."
- (5) Net debt is total debt (which excludes guarantees) net of the Sinking Fund balance.
- (6) Net increase in debt excludes obligations of the Government related to guarantees.
- (7) Debt service ratio is calculated as interest expense plus annual payment to the Sinking Fund divided by revenues.

RISK FACTORS

You should carefully consider the risks described below and the other information contained in this offering memorandum before making an investment decision. 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. 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 dependent upon two major sectors: international business (primarily reinsurance and financial services) which accounts for approximately 27% of GDP on average and tourism which accounts for less than 10% of GDP on average but is a major source of employment. This lack of economic diversity exposes the Bermuda economy to significant risk of instability should either sector contract significantly. The insurance and tourism sectors have had less dynamic growth in recent years and face increasing competition from other jurisdictions. In addition, Bermuda's position as an international business center is based in part upon its tax neutral regime (Bermuda has no income tax) and its political and economic stability. The potential loss of such neutral tax treatment or economic and political stability, due to, among other things, changes in tax regulations, an attempt by Bermuda to declare independence from the United Kingdom, or the impending departure of the United Kingdom from the European Union, could have a negative effect on Bermuda's position as an international business center. In addition, tourist arrivals to Bermuda have been in decline since 2013. In April 2014, the Government established the Bermuda Tourism Authority (the "BTA"), a non-governmental entity charged with promoting and controlling Bermuda's tourist industry, to replace the government-run Bermuda Department of Tourism. Since its inception, the BTA has pursued several initiatives to fortify the tourism sector, including focusing on group business travel, targeted advertising campaigns and neighborhood beautification projects. However, the Government cannot assure you that the BTA'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 or other extreme weather event could, among other things, limit access to, damage or destroy one or more of the Government's or Bermuda's properties or parts of our infrastructure, including roads and bridges. A catastrophe or other extreme weather event 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 or other extreme weather event, the Government 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.

On October 12, 2014, Category 1 Hurricane Fay made landfall in Bermuda, leaving most of the population without electric power. Less than one week later, on October 17, 2014, Category 2 Hurricane Gonzalo made landfall on the southwestern coast, severely compounding the damage to the island. At the height of the storm, approximately 31,000 of 36,000 electricity customers were without power. Overall damage caused by the two hurricanes in quick succession was estimated at between \$200 and \$400 million. The Government insurance policy covered much of the property damages that Government Departments and Quasi-Autonomous Non-Governmental Organizations sustained from the hurricane.

The United Kingdom's impending departure from the European Union could adversely affect us.

On June 23, 2016, voters in the United Kingdom approved an advisory referendum to withdraw from the European Union. The consequences of this vote, and the pending exit of the United Kingdom, together with what may be extended negotiations around the terms of the exit, are uncertain. Negotiations on withdrawal and post-exit arrangements likely will be complex and protracted, and there can be no assurance regarding the terms, timing or consummation of any such arrangements. The withdrawal could, among other potential outcomes, adversely affect the tax, tax treaty, currency, operational, legal and regulatory regimes to which Bermuda's Government is subject, as a British Overseas Territory under the jurisdiction and sovereignty of the United Kingdom. The United Kingdom's withdrawal from the European Union could lead to legal uncertainty and potentially divergent national laws and regulations as the United Kingdom determines which European Union laws to replace or replicate. Though the United Kingdom assisted in early negotiations of Bermuda's efforts to meet the European Union's Solvency II Directive 2009/138/EC ("Solvency II"), because Bermuda's negotiations were conducted directly with the European Union, it is treated as a third country. The Bermuda Monetary Authority and Ministry of Finance continue to have positive relationships with key European Union officials. Similarly, Bermuda's Tax Information Exchange Agreements ("TIEAs") were negotiated under third country status. Thus, the impact of the United Kingdom's exit from the European Union should have minimal impact on Bermuda's Solvency II equivalence and TIEAs. However, though Bermuda has likewise mostly committed itself as a third country to bi-lateral and multi-lateral agreements, and is considering changes to the current entrustment agreement with the United Kingdom, the United Kingdom's exit from the European Union could materially alter Bermuda's current political and economic relationships.

In addition, weakening of economic conditions or economic uncertainties tends to adversely impact tourism, and if such conditions emerge in the United Kingdom or in the rest of Europe, they may have a material adverse effect on Bermuda's tourism sector. The potential effects of the withdrawal of the United Kingdom from the European Union, as well as any other risks we cannot predict, may have a material adverse effect on Bermuda's financial condition and Bermuda's ability to service its debt, including the notes.

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

Despite improved economic prospects in recent quarters, Bermuda continues to experience lagging economic conditions following the 2008 – 2009 global recession. These economic difficulties were caused in part by the challenging global economic conditions that stemmed from such recession since, as a small, open and service-oriented economy without monetary policy controls, the Bermuda economy is significantly influenced by global economic trends. Along these lines, the 2008 global economic and financial crisis adversely affected the international business and tourism sectors in Bermuda, resulting in the loss of more than 5,000 jobs in the financial service sector and leading to continued deficit growth as the Government attempted to maintain public services despite declining revenues. While the Government has historically maintained a conservative fiscal policy, with a deficit to GDP ratio averaging 1.7% for the fiscal years ended March 31, 2005 through 2009, the recession resulting in reduced revenues and increased spending by the Government to support the economy. The deficit to GDP ratio was estimated at 5.3% in fiscal year 2014 and 4.4% in fiscal year 2015. These circumstances called for higher levels of borrowing by the Government to finance budget requirements, with total debt, not including guarantees, nearly quadrupling from 2008 to 2012 that necessitated the adoption of legislation to raise the debt ceiling in 2013. The gross debt to GDP ratio grew to an estimated 34.6% in fiscal year 2015 from less than 5% in 2007. While the Bermudian economy emerged from its recession in 2015 and is expected to maintain its positive economic momentum, there is no guarantee that Bermuda will avoid higher levels of indebtedness. If economic conditions in Bermuda or globally, as well as Government deficit and debt levels, do not continue to improve, this may have a material adverse effect on our financial condition and our ability to service our debt, including the notes.

Financial or other problems in the Bermudian banking sector may adversely affect the Bermuda economy.

Difficulties in the Bermuda economy, as well as the global economy, have had an adverse impact on the financial condition of Bermuda's banking sector. In the past, the banking sector was particularly affected by increases in non-performing loans, particularly within the mortgage sector, which was affected by a downturn in the real estate market. Rising bank loan deterioration in Bermuda's banking sector may pose a risk to the broader

economy, as the sector is estimated to have total assets in an amount corresponding to approximately five times Bermuda's GDP, as of December 31, 2015. The two largest banks, HSBC Bank Bermuda Limited and Butterfield Bank, accounted for approximately 92.7% 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 Bermuda's economy. In addition, the Government may have a limited ability to intervene in order to support or improve conditions in the banking sector. Many banks are foreign-owned and fall under the responsibility of the jurisdiction of their parent entity. Because the Bermuda Monetary Authority lacks an independent monetary policy, it has limited capacity to act as "lender of last resort" to the banking sector.

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

Given Bermuda's dependence on the global economy, and, in particular, its dependence on revenues derived from its status as an attractive international business center, the Bermudian economy may be affected by regulatory changes in the United States, the United Kingdom and/or the European Union, which could interfere with this favorable status. For example, the recent United Kingdom vote to leave the European Union could adversely affect Bermuda's tax treatment or its ability to do business in Europe under the same treatment Bermuda currently receives.

The Government has supported several large economic development projects, which, if unsuccessful, could have an adverse effect Bermuda's economy and increase the Government's debt obligations.

The Government of Bermuda has supported several large economic development projects in an effort to enhance Bermuda's standing as a tourist destination. For example, in 2016, the Government guaranteed a loan to a hotel developer at Morgan's Point in the amount of \$165 million for the construction of a Ritz Carlton hotel and residences. The Morgan's Point development began construction in 2015 and its first phase is expected to be completed in 2017. In August 2015, the Government entered into an agreement with the Canadian Commercial Corporation (the "CCC"), a corporation of the Government of Canada, to finance the construction of a new terminal and other renovations at Bermuda's L.F. Wade International Airport. The agreement with CCC is an interim agreement, and the final financing agreement is expected to be executed in the fall of 2016, after which construction will commence. The airport redevelopment plan aims to increase efficiency of airport operations, improve airport security, health and safety and increase its capacity. The airport redevelopment project is expected to be financed by the concessionaire, which is expected will arrange financing from institutional investors abroad. Although the financing of the airport redevelopment project is not expected to add to Bermuda's national debt, we cannot ensure that the final agreement with CCC will be executed as currently planned or that the CCC will successfully construct the new terminal and complete the planned renovations on time, on budget or at all.

In addition to the financial risks, the new development projects face operational risks and quality control risks. Construction delays, difficulty in obtaining financing or difficulty obtaining regulatory approvals may affect the timing of development projects as well as their overall costs. The Government cannot assure you that these or any other development projects will be completed as scheduled or that they will be successful in increasing tourism in Bermuda. If the projects fail to be completed as planned or face financial difficulty, the Government may be obligated to make payments on any financial guarantees that the Government provided to support the development of the projects, thereby increasing its public debt.

The Government has proposed a number of tax reforms in order to increase revenues. The Government cannot assure you that these potential tax reforms will generate the expected revenues, that it will be successful in implementing any or all of the proposed reforms or that the increased taxes will not adversely affect the Bermudian economy.

As part of the Government's efforts to balance Bermuda's budget, the Government is considering a series of tax reforms aimed at increasing revenues. The reforms are based on recommendations from the Caribbean Regional Technical Assistance Centre ("CARTAC"), a division of the International Monetary Fund ("IMF"), which conducted an analysis of Bermuda's tax system. Although the Government expects its proposed reforms to increase revenues, which would in turn allow the Government to further pay down its debt, the proposals are in the early stages of development and under consultation with various stakeholders. As a result, there can be no assurances that the reforms will be implemented in their current form or at all. Furthermore, the Government may face political

opposition to the proposed reforms, which could result in the adoption of modified versions of such reforms or the inability to enact any or all of the reforms. Additionally, any increased costs of conducting business that may result from any tax reforms may have an adverse effect on the economy as a whole. See “Bermuda—Government Revenue Sources and Tax Policy—Tax Policy—Tax Reform” for a description of the proposed reforms.

Bermuda may be adversely affected by any perceived status as a tax haven, especially following increased international attention on offshore business entities in other jurisdictions that are used to minimize or avoid taxes.

Bermuda has historically been the subject of increased scrutiny as a result of a widespread perception that it is a tax haven given its tax neutrality, which attracts multiple international business segments, including offshore accounts and special purpose companies. Following the publication of the “Panama Papers,” international attention on the tax status of offshore business entities greatly increased. Though no evidence of illegal tax activity in Bermuda has been reported, since the publication of the Panama Papers certain foreign governments, including the United States and the United Kingdom, as well as multilateral organizations, have recommended measures to increase tax transparency. In an effort to support these initiatives and to combat the perception of Bermuda as a tax haven, in April 2016, Bermuda adopted the tax transparency regime recommended by the Organization of Economic Cooperation and Development (“OECD”). Under the agreement (which takes effect in 2017), Bermuda companies which are MNEs must submit detailed operational reports in every country in which they operate to the tax administration in the country where their parent company is located. The reports will then be shared automatically in all relevant jurisdictions. The potential loss of favorable tax treatment or economic stability due to, among other things, changes in the regulatory and supervisory regimes as a result of this agreement or others, could have a material adverse effect on Bermuda’s financial system or on its position as an international business center.

Risks Related to the Notes

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.”

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 notes will contain provisions that permit Bermuda to amend the payment terms without the consent of all holders.

The notes will contain provisions regarding voting on amendments, modifications and waivers which are commonly referred to as “collective action clauses.” Under these provisions, certain key terms of the notes may be amended, including the maturity date, interest rate and other payment terms, without your consent. See “Description of the Notes—Meetings, Amendments and Waivers.”

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 it may 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 \$663,506,900, after deducting the initial purchaser's discounts and estimated offering expenses. The Government intends to use the net proceeds from this offering to (i) fund the deficit for the current fiscal year, (ii) to repay U.S.\$200,000,000 of our obligations under our credit facility with Bank of N.T. Butterfield & Son Limited and (iii) to pay the purchase price to holders of 5.603% Notes due 2020 and 4.138% Notes due 2023 that are validly tendered and accepted to be purchased by the Government pursuant to the terms of a partial cash tender offer being conducted by the Government concurrently herewith.

BERMUDA

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 continuous parliament in the world. Today, Bermuda is a self-governing British Overseas Territory comprising the Bermudas or Somers Islands, an archipelago of some 150 islands in the Atlantic Ocean approximately 570 nautical miles southeast of the state of North Carolina. Bermuda is approximately 22 miles long, 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, with an estimated population of 61,695 as of July 2016. The population density is relatively high, with over 3,000 people per square mile. Approximately 71% of the population was born in Bermuda. The official language of Bermuda is English. The majority of foreign-born residents without Bermudian status consists primarily of 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 territory's growing needs. Therefore, the Government has taken measures to increase the number of people in the work force, including lifting term limits on work permits and proposing legislation to grant permanent residency status to certain groups of Bermuda residents.

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. Bermudians 18 years of age and older are eligible to vote, as well as 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 appointed members: five members appointed on the advice of the Premier, three on the advice of the leader of the opposition party, 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 a period of up to 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 selected by the party in power and then formally appointed by the Governor. The Premier nominates the Cabinet Ministers, who are responsible for the operations and strategy of their respective ministries. Currently, the Government has 12 ministries including the Cabinet Office. The Cabinet is responsible to the Legislature.

General elections are held at least every five years, with the most recent being held on December 17, 2012. The Constitution permits the Premier to call an election at any time within a five year period, with a maximum three-month delay between the announcement and election polling.

Government

Mr. Michael Dunkley, a member of the One Bermuda Alliance party (“OBA”), became Premier on May 19, 2014, following the resignation of the former Premier, Craig Cannonier. The OBA holds 18 seats in the House of Assembly and the Progressive Labor Party (“PLP”) holds 17 voting seats. One former OBA member now sits in the House as an Independent after resigning from the OBA party. The elected Speaker of the House is also a member of the PLP, but as Speaker is not permitted to take part in House of Assembly discussions or to vote in matters, unless there is a tie.

The leader of the official opposition is Marc Bean of the PLP. In general, the policies of the PLP are pro-democracy and are relatively similar to those of the OBA.

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 (“OECD”) are extended to Bermuda, which, among other things, enables Bermuda’s debt to be regarded in the OECD as being within Zone A. Zone A is made up of OECD members and those countries that have concluded special lending arrangements with the IMF and are associated with the IMF’s general arrangements to borrow (for OECD purposes).

The U.S.-Bermuda Tax Convention Act of 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 passed the Tax Information Exchange Agreement Implementation Act of 2005 to give effect to tax information exchange agreements concluded between the Government of Bermuda and other jurisdictions. In 2000, Bermuda committed to the OECD to uphold the standards of transparency and exchange of tax information. 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”), which was ratified 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 the list’s publication on April 2, 2009.

Bermuda is currently a party to 42 TIEAs on a bilateral basis with various countries, each based on the OECD’s internationally agreed standard for transparency and exchange of information. Of these, three are double taxation agreements. Bermuda’s exchange of information network is primarily comprised of members of the G20 and European Union and other OECD countries. 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 jurisdiction 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 member hosted that event, demonstrating Bermuda’s status as a leading financial services center.

In keeping with transparency and exchange of information principles, and as part of its efforts to combat tax evasion, the Government of Bermuda has implemented U.S. FATCA and United Kingdom FATCA Intergovernmental Agreements based on the U.S. IGA Model 2 Agreement, pursuant to which Bermuda’s financial institutions exchange information with U.S. and United Kingdom authorities. Bermuda has also signed the Multilateral Convention on Mutual Assistance in Tax Matters (the “Convention”), which is a multilateral information exchange mechanism designed to foster the sharing of information among the approximately 100 developed and developing nations that are signatories to the Convention.

In 2014, the Organization for Economic Co-operation and Development announced the introduction of the Common Reporting Standard (“CRS”), which has now been widely accepted as the international standard for financial account reporting for tax purposes outside of the United States. The CRS sets out the financial account information to be exchanged between participating countries, the financial institutions required to report, the types

of accounts and taxpayers covered, as well as common due diligence procedures to be followed by financial institutions. Bermuda became a participant of the CRS pursuant to a multilateral competent authority agreement executed in 2014. Unlike FATCA, which requires the direct reporting of requisite information to the relevant authorities in the U.S., under CRS financial institutions are required to report requisite data to the Government's Minister of Finance, as the competent authority in Bermuda, for onward inter-governmental exchange. Bermuda legislation has been amended to ensure all Bermuda persons comply with the obligations of the CRS, FATCA and any other arrangements or agreements entered into by the Government of Bermuda for the exchange of information for tax purposes.

The Government does not expect the impending exit of the United Kingdom from the European Union to have any impact on Bermuda's tax treaties because Bermuda has signed bilateral tax treaties, directly with individual countries. Bermuda's participation in the Convention will also be unaffected by the United Kingdom's exit from the European Union because the Convention is administered jointly by the OECD and the Council of Europe, and is not administered by the European Union.

Bermuda is committed to combating money laundering and the financing of terrorism. The Government has implemented a comprehensive Anti-Money Laundering and Combating the Financing of Terrorism ("AML/CFT") legal regime and has done significant work to fulfill its ongoing commitment to update Bermuda's AML/CFT laws to reflect the revised international standards from the Financial Action Task Force ("FATF") on Combating Money Laundering and the Financing of Terrorism and Proliferation. Bermuda is a member of the Caribbean Financial Action Task Force ("CFATF"), which was established specifically to combat money laundering and terrorist financing in the Caribbean region. The Government's commitment is evidenced by the important contributions Bermuda continues to make at the CFATF and FATF working group and plenary meetings, and key leadership roles that Bermuda has taken within CFATF. Bermuda has served as Chair of the first joint FATF and CFATF joint typologies project on Money Laundering and Terrorist Financing using Trust and Corporate Service Providers, and since 2010 has been one of two co-Chairs of the CFATF's Working Group on FATF Initiatives. Furthermore, Bermuda is a member of CFATF's Steering Group, and chair of its Budget and Audit Committee.

Bermuda has implemented a comprehensive AML/CFT legal framework. Important laws include the Proceeds of Crime Act of 1997 ("POCA"); the Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing Supervision and Enforcement) Act of 2008 ("SEA"); the Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing) Regulations of 2008 (the "Regulations") and the Anti-Terrorism (Financial and Other Measures) Act of 2004 ("AFTA").

POCA criminalizes money laundering and prescribes the predicate offenses for the crime. POCA provides the ability to support prevention and detection of money laundering and establishes the National Anti-Money Laundering Committee as the coordinating function for AML/CFT matters. The committee also plays an advisory role in the prescription of AML/CFT policy, establishes the confiscatory and civil asset recovery regimes, and stipulates the reporting requirements for suspicious transactions.

AFTA enables Bermuda to fight terrorist financing, money laundering of terrorist property, and financing of proliferation, regardless of where the threat originates. It also stipulates the reporting requirements related to suspected breaches of the Act. AFTA includes provisions similar to Schedule 7 of the United Kingdom Counter-Terrorism Act of 2008. Under AFTA, the Minister of Legal Affairs has power to impose directions on financial institutions in relation to terrorist financing risks or activities related to the financing of proliferation that are deemed to pose a significant risk to the national interests of Bermuda. For instance, the Minister may require entities to conduct enhanced customer due diligence, conduct enhanced ongoing monitoring of clients, systematically report to specified authorities about certain transactions or business relationships, or to limit or cease conducting specified business. The BMA supervises and monitors compliance with the directions or with any conditions imposed by the Minister of Justice in exemption licenses issued under these provisions.

The Regulations established a comprehensive framework for regulated institutions to have appropriate systems and controls in place to undertake "know your client" ("KYC") customer due diligence procedures. These regulations also stipulate standards to be followed by regulated institutions with respect to customer due diligence both at the beginning of a relationship and on an ongoing basis, the treatment of foreign politically exposed persons, transaction monitoring, correspondent banking relations, wire transfers, training of staff, and record keeping requirements. In January 2016, amendments to the Regulations were adopted to require identification and

mitigation of risk in relation to customers, transactions, products; certain treatment of domestic politically exposed persons; maintenance and implementation of an AML/ATF audit function; and the enhancement of KYC requirements. Institutions subject to the provisions of these Regulations include trust and corporate service providers, insurance managers and brokers and operators of investment funds.

SEA was established to provide the legislative framework to empower supervisory authorities to monitor and enforce compliance by regulated financial institutions and other regulated non-financial businesses and professions in regard to their obligations under POCA, ATFA and the Regulations. Under SEA, the Bermuda Monetary Authority (“BMA”) was designated as the supervisory authority for the AML/ATF regulated financial institutions. Enforcement responsibilities for regulatory breaches are entrusted to a specialized enforcement unit. In addition to sanctioning powers, under SEA, the BMA may also impose civil penalties up to BDA \$500,000 and may publicize its decision to do so.

In 2007, the Financial Intelligence Agency (“FIA”), Bermuda’s national financial intelligence unit was established. The FIA is responsible for the receipt, collection, analysis and dissemination of suspicious activity reports. A 2010 amendment expanded the FIA mandate by designating the agency an AML/ATF supervisory authority. The amendment incorporated the FIA into the AML/ATF supervisory framework, providing the agency with powers to issue directives for failure to comply with AML/ATF requirements. The agency can also now impose civil penalties up to a maximum of BDA \$250,000. Starting December 1, 2016, the FIA will supervise all dealers registered under the SEA in high value goods for compliance with the AML/ATF law.

A complementary SEA amendment was passed by Parliament in July 2016 to facilitate the FIA’s expanding role. The July 2016 SEA amendment also established a new regime for the supervision of real estate agents for compliance with POCA, AFTA and the Regulations. The Superintendent of Real Estate is the designated supervisory authority responsible for real estate supervision effective as of September 1, 2016. Although real estate agent licensing regime will continue under pre-existing legislative framework, the Superintendent of Real Estate has been vested with additional powers to impose civil penalties up to a maximum of BDA \$250,000 for breaches of AML/ATF laws.

The SEA also allows for the Minister to designate a professional, self-regulating body to supervise a professional group. For example, in 2010 the Minister designated the Barristers and Accountants AML/ATF Board (the “Board”) to oversee lawyers and accountants in Bermuda. The Board was established jointly by the Institute of Chartered Public Accountants of Bermuda (now the Certified Professional Accountants of Bermuda) and the Bar Council. Under this supervisory body, accountants and lawyers are required to comply with AML/ATF law and maintain requisite systems and procedures in place to conduct due diligence with respect to their clients (at inception and on an ongoing basis) to detect and deter money laundering or terrorist financing, and to report any suspicious activity to the FIA.

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 fulfill its statutory mandate and provide information on relevant matters to ensure persons and entities in Bermuda understand their obligations under the AML/ATF legislation and are aware of related global developments. Through NAMLC, the Ministry of Legal Affairs currently has in place a dedicated team of professionals focusing on AML/ATF matters. This Office carries out the secretariat functions for NAMLC and provides a platform for coordination between NAMLC member agencies that are responsible for administering the various components of Bermuda’s AML/ATF regime, including its international commitments.

In order to modernize Bermuda’s anti-corruption/anti-bribery legal framework and to satisfy the FATF’s requirement for implementation of the United National Convention Against Corruption (“UNCAC”), Bermuda is undertaking a revision of its anti-bribery/anti-corruption laws, with a view to legislating a stand-alone Bribery Act. This Act will be modeled on the United Kingdom’s Bribery Act, which is widely considered to represent best practice in this area. The proposed legislation will update Bermuda’s existing bribery offenses, which currently only target public officials in Bermuda who receive or solicit bribes. The proposed anti-bribery legislation will address the criminal culpability of both the offeror and the receiver of bribes and will not be limited to bribes aimed at or received by public officials. The legislation will also criminalize bribery of a foreign public official by or on behalf of Bermudian persons and impose new requirements on commercial organizations to ensure that they implement adequate procedures to prevent bribery from being committed on their behalf. To facilitate public consultation on

the proposed legislation, a Consultative Bribery Bill was introduced in the House of Assembly on July 15, 2016 and the public was asked to submit comments on the Bill by August 15, 2016. The finalized bill is expected to be considered in Parliament during a special session scheduled to be held in September 2016.

Work is also being done to incorporate into public procurement legislation the UNCAC requirements that will enhance the transparency and efficacy of public procurement procedures. Once the above work is complete, the Government intends to petition the United Kingdom to extend to Bermuda both UNCAC and the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions

The efforts detailed above are part of initiatives intended to bring Bermuda to substantial compliance with international standards. As part of these efforts, in 2013 Bermuda undertook its first national risk assessment (NRA) project, to determine AML/ATF money laundering risks and vulnerabilities. This important initiative began the process of identifying and understanding the threats and vulnerabilities unique to Bermuda, as part of its ongoing effort to ensure that Bermuda's regime continues to appropriately address the challenges related to the fight against money laundering and terrorist financing. A summary report of the NRA's findings was finalized in early 2016 and communicated to the Government. Subsequently, the Government established the enhancement of Bermuda's compliance with the FATF standards as a national priority, and approved the National AML/CFT Strategy and Action Plan developed by NAMLC to enhance the effectiveness of Bermuda's regime and to ensure that the findings of the 2013 NRA on money laundering are appropriately reflected in the framework.

As a result of these and other relevant measures, Bermuda's framework has been significantly strengthened. In connection with the considerable increases in resources and attention devoted to AML/ATF matters, there have been more money laundering convictions and seizures and confiscations of money laundering-related assets have substantially increased.

Bermuda is considered to have a strong and robust AML/ATF regime. The U.S. State Department consistently places Bermuda in the "lowest risk" category in its assessments of vulnerabilities and threats to U.S. national security and the stability of the global financial system, recognizing Bermuda's enhancements to its AML/ATF framework. This assessment is presented in Volume 2 of the State Department's 2016 International Narcotic Control Strategy Report. Bermuda has been in the "lowest risk" category since 2002.

Military

Royal Bermuda Regiment

The Royal Bermuda Regiment is the only military force in Bermuda. It is a battalion-sized light infantry unit with land and marine capabilities only. The Royal Bermuda Regiment has a 30 person professional staff, which usually contains two or more soldiers on assignment from the United Kingdom or Jamaica.

Because Bermuda is a British Overseas Dependent Territory, overall military command is exercised by the Governor, who is appointed by the monarch of the United Kingdom, and who is commander-in-chief. As commander-in-chief, the Governor is advised by a Defense Board made up of Bermudians appointed by the commander-in-chief. However, powers with regard to military finance rests with a Minister of the Government, who is responsible for public safety. The Royal Bermuda Regiment also supports the Bermuda Police Service in internal security operations on land and sea.

The Royal Bermuda Regiment is currently maintained through a volunteer-first enlistment process that is supplemented by a conscription process should the volunteer annual intake be insufficient. The conscription process requires every male Bermudian to register for military service upon turning eighteen. The annual selection of conscripted soldiers is completed by ballot, which normally results a combined volunteer and conscripted intake of approximately 100 soldiers entering the Royal Bermuda Regiment and commencing actual military service. Women may also volunteer for military service, and since 1979 the Royal Bermuda Regiment has always had a small number of servicewomen in its ranks. Service is part-time, with a minimum obligation of 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 or natural disaster operations. Soldiers may volunteer for duty and active service overseas.

Bermuda Police Service

The Bermuda Police Service is organized into four main divisions: the Community Policing Division, the Serious Crime Division, the Crime Division and the Intelligence and Information Division. The budget allocation for the Bermuda Police Service for the 2016/2017 fiscal year is \$64.6 million, or approximately 5.4% of the projected total current Government expenditure for the 2016/2017 fiscal year. Bermuda experiences very low levels of crime.

Independence

Bermuda has maintained under review the question of whether to remain a self-governing British Overseas Territory or become an independent member of the British Commonwealth. In a poll carried out in July 2015 by Profiles of Bermuda, over 70% of Bermudians opposed independence for Bermuda.

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).

Infrastructure

Bermuda has 140 miles of public roads, 42 bridges and 97 docks of various sizes and complexity. An extensive telecommunications system connects Bermuda to the world's financial centers. There are four international submarine cables linking Bermuda to mainland North America. Approximately 89% of Bermuda's households have internet access and approximately 96% of households have access to a cell phone or smart phone. Bermuda has 11 radio stations, three television broadcast stations, two cable communications companies and one daily newspaper.

L.F. Wade International Airport

The L.F. Wade International Airport is the only airport serving Bermuda. Approximately 800,000 passengers travel through L.F. Wade International Airport annually. After several assessments commissioned by the Government concluded that the useful life of the existing airport terminal was nearing expiration, in 2015 the Government entered into an agreement (the "Airport Development Agreement") with the Canadian Commercial Corporation ("CCC"), a wholly-owned corporation of the Government of Canada, to finance the construction of a new terminal and other renovations. The Government expects that this contract with the CCC will provide Bermuda an efficient and fiscally responsible route to modernizing its airport.

As of the date of this offering memorandum, Bermuda and the CCC have signed a memorandum of understanding, a letter of agreement and the Airport Development Agreement. According to these agreements, the CCC will select a concessionaire for the airport redevelopment who will be responsible for the design, build and financing of a new airport terminal and the related operations and maintenance, including the new terminal and existing facilities, during the concession term, which is expected to be 30 years. After the concession term ends, the operating and maintenance responsibilities will revert back to the Government.

The Government will also bear ongoing financial responsibility for certain projects during the redevelopment, which will be included in Bermuda's annual fiscal budget. The agreement is anticipated to be finalized by the end of 2016, after which construction of the new terminal building is expected to commence. The airport redevelopment plan aims to improve efficiency of airport operations, airport security, health and safety and expand airport capacity.

America's Cup World Series

In October 2015, Bermuda co-hosted the Louis Vuitton America's Cup World Series, a world-class competition among sailors on wingsailed catamarans. The 2015 Louis Vuitton America's Cup was the first stage of competition in the 35th America's Cup World Series, which will be hosted in Bermuda in 2017. Preparations for the

2017 America's Cup include construction of an event village at the Royal Naval Dockyard as well as other associated sites. The tendered project is currently ahead of schedule, with financing for the projected \$39 million cost provided by a local banking institution.

Since April 2015, several America's Cup competitors have constructed bases and boat building operations in Bermuda in preparation for their participation in the competition. For example, Artemis (a Swedish competitive team) employed over 70 local subcontracting companies in constructing their base and boat building operation at Morgan's Point. Teams cumulatively spent over \$10.2 million in fiscal year 2015/16 in setting up business operations in Bermuda. This local spending figure does not include additional economic activity generated by the relocation of some 147 America's Cup team employees to Bermuda along with their families.

The hotel, retail, transportation and restaurant sectors of the economy all reported increased activity in the lead up to and during the 2017 America's Cup. In addition, Bermuda gained strong visibility from television and media coverage as well as visiting sponsors and spectators. The media exposure is expected to continue this year with confirmed Louis Vuitton World Series events in Oman, New York, Chicago, the U.K., and France, where Bermuda will be prominently featured as the host venue for 2017.

The Government estimates expenditures related to the 2017 America's Cup to be approximately \$11.7 million, including \$4 million in sponsorship and \$4.9 million in capital costs. To date, these projections are on budget, with the capital development projects on schedule. The total Government budget for America's Cup-related expenses during the 2016/17 fiscal year is \$24 million.

In addition to the continuing economic impact and prestige generated by the America's Cup teams and international World Series Events, Bermuda will further benefit from the America's Cup Endeavour Programme in 2016. This program focuses on the development of young Bermudians, both on the water and through educational programming in schools. The selection of a Bermuda youth team to represent the Island in the Red Bull Youth America's Cup in 2017 will also provide young Bermudians with world-class exposure and opportunity.

Water and Sewage

Water

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 is a very low-cost method for potable water collection.

Approximately 66% of Bermuda's residential drinking water is harvested from rainwater. Residential building codes specify that each home must have at least 80% of the roof area guttered so that rainwater can be harvested and stored in water tanks. More than 21,000 water tanks store water for individual domestic and commercial use. Additionally, there are over 3,000 abstraction wells, which must be licensed by the Environmental Authority as administered by the Department of Environment and Natural Resources of the Bermuda Government. Water produced from licensed wells may only be used for non-potable uses such as WC flushing, irrigation and clothes washing purposes, unless the water is treated to meet potable standards and permitted by the Ministry of Health, e.g. by using reverse osmosis technologies.

Bermuda is now more reliant on supplemental water than in the past, and a significant amount of potable water is obtained from sea or brackish water using reverse osmosis. The required supplemental water is obtained either from ground abstraction (commercial or private) or sea water. Supplemental water is regularly used by 34% of Bermuda's residences, while the percentage of commercial entities that require additional water is estimated to be greater. Recent developments of multi-story buildings have increased supplementary use because their roof areas do not catch a sufficient volume of rain to support the consumption patterns of their occupants. Supplemental water is obtained either via piped water from Government or private entities (depending on location) or from water truckers who provide a top up service to the water tanks of the buildings. The amount of supplemental water obtained will be correlated to the amount and distribution of rainfall over the year.

There are several reverse osmosis plants in Bermuda. The Tynes Bay Seawater Reverse Osmosis plant ("TBSWRO") was built in 2009 to increase the Government's water production capacity. The TBSWRO is able to produce up to 1 million imperial gallons per day. With the TBSWRO's capacity, as well as other government-run

water treatment plants, Bermuda's supplemental water needs are expected to be comfortably met for the short- to medium-term future.

Sewage

There is no centralized sewage system for all homes in Bermuda. All domestic properties must either have their own deep dug-in and properly approved cesspits, as far away as possible from water tanks and water lenses or, if they are close to the water table, high water mark or are within cave protection areas, then they must construct septic tanks connected either to deep sealed boreholes or sand filters. The Government operates a sewage receiving facility that receives excess from wastewater treatment plants. Most hotels have their own sewage treatment plants that meet secondary or tertiary effluent quality standards. There are also four sewer mains that collect raw wastewater from (i) the City of Hamilton, some areas in Pembroke, Cedarbridge and from the Government Septage Facility, (ii) Corporation of St George's, (iii) Bermuda Land Development Corporation ("BLDC") at St David's, and (iv) the West End Development Corporation ("WEDCO") at Dockyard.

The Government has two solid waste receiving sewage facilities. The Waste Management Section of the Ministry of Public Works is responsible for the safe disposal of all household and commercial waste and recycling in Bermuda, including collection of garbage and recyclables from most residents. Garbage is taken to the Tynes Bay Waste To Energy Facility and recyclables are taken to the Material Recovery Facility for processing and either shipped abroad or used in Bermuda. The waste is shipped out of Bermuda for reprocessing and/or disposal. The Waste Management Section is also responsible for composting, special waste, airport waste management, 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 derated maximum amount of power BELCO's generation plant produces is 165MW of electricity. The power stations consist of diesel engines and gas turbines. The diesel engines carry the base load of power used on a daily basis; while slower to start up than the gas turbine engines, diesel engines are more efficient to operate. In contrast, gas turbine engines can be used almost immediately upon being started, helping to meet peak demand. Individual engine capacity ranges between 4.5 and 14.5 megawatts. The demand for electricity is typically greater in the summer than in the winter. Diesel for BELCO's peaking engines comes from SOL Petroleum Bermuda Ltd., and heavy fuel oil is sourced from Shell Oil Company.

As of July 2016, there are approximately 35,750 metered connections. Kilowatt hour sales in the period from January to July 2016 decreased from 324,968,332 to 323,770,475, or 0.37%. BELCO's transmission and distribution system consists of 34 substations, approximately 135 miles of underground transmission cable, approximately 120 miles of underground distribution cable, approximately 545 miles of overhead distribution lines and approximately 370 miles of overhead service lines. The electric system's transmission voltage levels are 34,000 and 23,000 volts, the distribution voltage level is 4,160 volts, the residential service voltage level is 120/208 volts and the operating frequency is 60 Hertz.

The Government proposed new National Electricity Sector Policy and legislation in 2016 to facilitate high-quality, secure, affordable and environmentally sustainable electricity service in Bermuda through the creation of a new electricity regulatory framework. This new legislation is a key step in changing how Bermuda sources and uses electricity as a consequence of continuing developments in renewable energy, energy efficiency, and conventional energy technologies. In the last few years Bermuda has seen an increasing adoption of solar energy by homes and businesses.

Hurricanes

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.

On September 5, 2003, Category 3 Hurricane Fabian swept over Bermuda with winds of up to 150 miles per hour. Overall damage was estimated 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, Category 2 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, Category 4 Hurricane Igor passed just west of Bermuda with 75 mph winds causing short term power outages throughout much of Bermuda.

On October 12, 2014, Category 1 Hurricane Fay made landfall in Bermuda, leaving most of the population without electric power. Less than one week later, on October 17, 2014, Category 2 Hurricane Gonzalo made landfall on the southwestern coast, severely compounding the damage to the island. At the height of the storm, approximately 31,000 of 36,000 electricity customers were without power. Overall damage caused by the two hurricanes in quick succession was estimated at between \$200 and \$400 million. The Government insurance policy covered much of the property damages that Government Departments and Quasi-Autonomous Non-Governmental Organizations sustained from the hurricane.

Education

Bermuda has a high standard of education and high literacy rates. There is free compulsory education in Government schools for students from the age of 5 to 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. Approximately 87% of the adult population graduated from secondary school, and a significant proportion of secondary school graduates attend college. Bermuda College, founded in 1974, 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 both locally and overseas.

The Government continues to maintain strong commitment to education. In March 2010, the Ministry of Education published its Blueprint for Reform in Education (the "2010 Education Blueprint"), a five-year strategic plan for public education. The plan laid 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 reflects 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.

Since the establishment of the 2010 Education Blueprint, the Government has focused on key priorities in the education system, including:

- introducing the internationally recognized United Kingdom Cambridge curriculum in 2011, making Bermuda the only public school system to adopt the Cambridge curriculum;
- certifying teacher leaders in Cambridge Teacher Certification and deputy principals in Cambridge Leadership Certification;
- increasing teacher and leadership capacity through the engagement of new school principals and the transfer of teachers and principals;
- improving the quality of teaching and learning in the classroom with extensive professional development and re-training of teachers and principals undertaken in 2014 and 2015;
- amending the Education Act 1996, to introduce the Education (Parent Council) Rules 2015; and

- establishing a Parental Involvement Committee to maximize the contribution and overall involvement of parents and the community.

In the last few years, the Government 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, reduction of staffing costs (primarily through early retirement), and the centralization of requests and approval for non-staff spending.

Additionally, 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 2013/14 to 2015/16 budgets with only essential positions being filled. The College also negotiated furlough days for 2014/2015 and during the past four years, the College successfully decreased its staffing without impacting services as a result of normal and early retirements. Bermuda College no longer offers free tuition to its students and has introduced lab fees for the undertaking of relevant courses. It has also been able to decrease its operating expenses by renegotiating major operational contracts.

The education expenditure projected for the 2016/2017 fiscal year is estimated to total \$124.9 million, or approximately 11.3% of the projected total current Government expenditure for the 2016/2017 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 over \$1.643 billion as of June 30, 2016. Weekly contributions are approximately \$68.94 per employee, divided evenly between the employee and the employer. Maximum monthly payments to retirees are approximately \$1,469. The Contributory Pension Plan provides a first tier, or basic, pension. Additionally, all employers are required by law to provide pension plans for their Bermudian employees. Most of these private sector plans are defined contribution plans with contributions of 10% of pay, typically divided equally between employee and employer.

In addition, public sector employees participate in the PSSF. The PSSF 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 PSSF, with assets of \$552.5 million as of June 30, 2016, was estimated in March 2014 under conservative actuarial assumptions to have an unfunded liability of \$796.6 million, representing a decrease of \$186.5 million from \$983.1 million in 2013. This improvement is the result of the suspension of the automatic cost of living adjustment provision in the PSSF. This action was implemented to ensure the sustainability of the PSSF.

Health

The Health Insurance Act of 1970 made hospital insurance available for all working residents and their non-employed spouses. It also provided for free hospital care for children, the indigent and subsidized rates for the elderly. Bermuda has two hospitals: one general hospital and one mental health facility each providing acute and long term care. Both facilities provide in-patient and outpatient services for acute, chronic and long term care needs of the island. For the 2016/2017 fiscal year, the Ministry of Health and Seniors has been provided a budget of \$194.4 million, or an estimated 16.3% of the projected total current Government expenditure for the 2016/2017 fiscal year.

The Bermuda Health Council Act of 2004 created The Bermuda Health Council (the “Health Council”), a vehicle for the Government to address health policy direction. The Health Council consists of a Government-appointed Board comprised of representatives of medical institutions, insurance companies, financial and banking services, and other health related agencies; its operations are managed by a Secretariat. The mission of the Health Council is to regulate, coordinate and enhance the delivery of healthcare services in order to ensure that Bermuda achieves its vision of a quality, affordable and sustainable health system accessible to all residents. The Health Council oversees the health system, with expenditures of \$693 million in fiscal year 2014, representing

12.16% of Bermuda's GDP for 2014. It has direct regulatory authority to influence health insurance financing of \$160 million (Standard Health Benefit). Accordingly, some key functions of the Health Council 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 (a report of health financing and expenditures) for informed decision-making; directing the actuarial review of the Standard Premium Rate for the Ministry of Health and Seniors; and providing advice to the Ministry of Health and Seniors on strategic policy.

FutureCare

FutureCare is an affordable health insurance plan specifically for persons age 65 and older. All policy holders pay the same premium for the same level of coverage. The plan offers medical, dental, specialist overseas care and includes pharmaceutical coverage. The Government provides capital injections to FutureCare to ensure that premiums are maintained at an affordable level. There are currently 3,850 seniors enrolled in this plan, approximately 44% of the senior population in Bermuda. The plan is evaluated on an annual basis and benefits are adjusted to respond to the needs of the increasing aging population.

HIP (Health Insurance Plan)

The Government also offers HIP, which provides standard hospital benefits as well as supplemental benefits relating to medical, dental, specialist, and overseas care for those specifically less than 65 years of age. Both HIP and FutureCare are administered by the Health Insurance Department of the Ministry of Health and Seniors. Any employed, self-employed or unemployed person can enroll in HIP. HIP ensures that all Bermudians have access to a health insurance plan at a standard price regardless of their state of health. In this respect, 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 capital injections to HIP to ensure that premiums are maintained at an affordable level. The plan benefits are evaluated and redesigned on an annual basis based on the prevalent health care needs of the population under 65 years of age. This plan insures approximately 3,250 persons.

Financial Assistance

Bermuda does not have unemployment insurance. However, the Department of Financial Assistance is mandated to ensure that individuals with insufficient financial resources have access to services in order to gain, maintain, or regain a minimum standard of living while encouraging personal and economic independence. Financial assistance also encourages individuals to develop their skills and resources. Financial assistance payments increased significantly following the 2008 financial crisis due to the downturn in international business and tourism in Bermuda.

The budget allocation for financial assistance for the 2016/2017 fiscal year is \$54.6 million, or approximately 4.9% of the projected Government expenditure for the 2016/2017 fiscal year. The following table shows the last five years of Government expenditure on financial assistance:

	As of or for fiscal year ended March 31				
	2012/13	2013/14	2014/15	2015/16	2016/17⁽¹⁾
	(dollars in millions)				
Budget allocation.....	\$43.1	\$48.5	\$51.9	\$55.1	\$54.6
% of total expenditure.....	4.0%	4.0%	4.7%	5.1%	4.9%
Change from previous year.....	8.3%	12.5%	7.0%	6.2%	(0.9)%

Source: Department of Statistics, Bermuda.

(1) 2016/17 figures are projected expenditures for current fiscal year.

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.

ECONOMY

Once almost entirely dependent on tourism for foreign exchange earnings, Bermuda has developed its position as an international business center since World War II. The economy of Bermuda is based primarily on international business and tourism, which are Bermuda's primary sources of foreign exchange earnings.

Economic Policy

Since becoming the ruling party in 2012, the One Bermuda Alliance party ("OBA") has pursued a two-pronged strategy to improve Bermuda's economy, consisting of (i) implementing measures designed to foster economic growth, foreign investment and job creation and (ii) increasing the focus on fiscal discipline in order to reduce the national debt. For more on the second prong of the OBA's strategy, see "Public Finance—Government Revenue Sources and Tax Policy—Tax Policy."

In an effort to reduce the costs and time delays associated with doing business in Bermuda, the Government has also worked to accelerate the approval processes for a wide range of economic activities, including with respect to work permits, planning approvals and company formation. The acceleration of these procedures and related reduction in the costs of doing business is expected to improve Bermuda's competitiveness. In addition, in 2013, the Government established the Economic Development Committee, a Cabinet committee charged with, among other things, reducing the time frames for the granting of approvals for direct investment into Bermuda.

The Bermuda Business Development Agency is a public-private organization funded by the Government of Bermuda, which has targeted business development efforts across key industries. The BDA carries out strategic overseas business development meetings in order to increase the numbers of new international companies establishing businesses in Bermuda. In 2015, the BDA's focus on Latin America and Canada yielded positive growth results. For the 2016/2017 fiscal year, the BDA is focusing on exploring new markets such as China and Southeast Asia, providing support to the America's Cup events and promoting Bermuda's jurisdictional reputation overseas.

The Financial Policy Council was created in 2015 in order to advise the BMA and the Ministry of Finance on financial system stability. It provides an independent assessment of the risks and vulnerabilities to Bermuda's financial stability and recommends policies to mitigate these risks. It also provides recommendations on the development of a robust recovery and resolution framework for Bermuda's banks. The BMA also plans to enact a regulatory regime modeled on the European Union's Alternative Investment Fund Managers Directive 2011/16/EU ("AIFMD"), aimed at strengthening the rules on enforcement and investor protection, thereby making Bermuda eligible for the European Union "funds passport," which permits firms and investment funds to engage in cross-border activities within the European Union.

In July 2016, the Government passed the Limited Liability Company Act 2016 (the "LLC Act"), establishing LLC's as a corporate structure in Bermuda for the first time. The LLC Act is modelled on the Delaware Limited Liability Company Act, and is therefore expected to be welcomed in Bermuda as a favorable and familiar structure. The Act is anticipated to come into force October 1, 2016.

Also in July 2016, the Government passed the Bermuda Civil Aviation Authority Act 2016 ("CAA") and the Bermuda Shipping and Maritime Authority Act 2016 ("SMA"). These two acts grant their respective authorities status as quasi-autonomous, non-governmental organizations, in line with the SAGE Commission's recommendation for greater independence of certain government departments. The CAA and the SMA are expected to make Bermuda a more competitive player in the global aviation and shipping markets, while increasing efficiency in the regulation and oversight of civil aviation and shipping.

GDP

In July 2015, the Department of Statistics began publishing quarterly GDP data. The publication uses the expenditure approach to measure GDP on a more frequent basis than the annual official measure of GDP, which highlights economic activity by various sectors during each period. The two GDP measures are reconciled in September of each year, when the Department of Statistics publishes its annual statistics.

Nominal GDP increased 3.7%, 2.4%, 6.3% and 0.5% in each of the first, second, third, and fourth quarters of 2015, respectively, as compared to the same periods in 2014. Real GDP increased by 2.2%, 1.5%, 4.4% and 0.1% in each of the first, second, third and fourth quarters of 2015, respectively, as compared to the same periods in 2014. The main drivers of the quarterly increases in GDP were increased exports of goods and services and increased household consumption.

Real GDP increased by 0.6% in 2015, representing an improvement compared to Bermuda's five year average (2011-2015) decrease in real GDP of 2.0%. Nominal GDP was \$5.93 billion for 2015, representing an increase of 4.0%, or \$227.6 million, compared to nominal GDP for 2014 of approximately \$5.69 billion, reflecting an increase of 0.5% or \$29.9 million from GDP of \$5.70 billion in 2013. In 2015, the Bermuda economy grew on a nominal basis by 4.0%, driven largely by the international business sector and retail trade sector, which increased 5.3% and 10.9%, respectively.

During the first quarter of 2016, nominal GDP was estimated at \$1,643.7 million. This represented a 0.6% increase compared to the same period in 2015. The main drivers were a \$29.2 million increase in household consumption and a \$21.5 million increase in construction activity, partially offset by a \$21.6 million increase in payments related to imports of goods and services. Real GDP decreased by 0.6% in the first quarter of 2016 as compared to the same period in 2015.

Bermuda does not have a central bank, and the Bermuda dollar has been pegged at a one-to-one ratio with the U.S. dollar since 1970. The BMA is responsible for the operation of the currency peg under strict rules that ensure the value of the currency. As a result, the Bermudian economy is closely aligned to the U.S. economy, and interest rates in Bermuda historically have closely paralleled those in the United States. This policy has historically promoted stable import prices and relatively moderate domestic inflation.

Compared to original 2015/2016 fiscal year estimates, the Government's spending is projected to increase by 3.9% to \$1.20 billion in the 2016/2017 fiscal year from \$1.15 billion in the 2015/2016 fiscal year. The increase is due to an increase in contributions for financial assistance and other grants, and increased government expenditures due primarily to higher health insurance premiums and the expiration of the partial suspension of the Government's matching contribution to the PSSF, described above. These increases were partially offset by reductions in other expenditures, such as professional services costs. In the 2016/2017 budget, the Government prioritized funding for healthcare, the environment, national security, education and seniors.

The 2016/2017 fiscal year budget represented the Government's focus on decreasing public debt and its belief that Bermuda's economic foundations must be strengthened. To achieve this goal, the Government has followed a year-to-year, two-track strategy to strike a balance between responsible growth and disciplined financial management. The first track seeks to implement specific pro-growth economic policies to stimulate foreign investment, boost the tourism sector and create new jobs. The second track seeks to eliminate wasteful government spending, thereby reducing the national debt over time. The Government expects that these policies, which have resulted in growth of the Bermuda economy for the first time since the recession that began in 2008, will continue to result in more jobs, prosperity, opportunity, and stability in the years to come.

Bermuda continues to maintain an economy focused on international business, finance, tourism and construction. The following table shows GDP by industry for the years indicated.

Nominal gross domestic product by economic sector 2011-2015

	For the year ended March 31,				
	2011	2012	2013	2014	2015
	(dollars in thousands)				
Agriculture, forestry and fishing.....	\$ 43,782	\$ 41,023	\$ 41,539	\$ 36,732	\$ 41,877
Manufacturing	65,214	52,102	49,078	44,388	49,114
Electricity, gas and water supply	97,644	86,598	83,677	86,728	92,724
Construction and quarrying	203,776	177,278	177,697	178,685	190,606
Wholesale and retail, repair services	381,961	373,340	372,056	376,099	416,937
Hotels and restaurants.....	263,838	246,945	261,906	262,205	270,114
Transportation and communications.....	265,765	268,693	269,419	259,267	245,393
Financial intermediation	719,640	729,916	714,128	721,737	706,320
Real estate and renting activities	960,311	954,379	948,247	962,994	983,551
Business activities.....	535,089	507,559	480,446	525,030	532,405
Public administration.....	331,318	340,427	341,204	323,355	327,379
Education, health and social work	468,298	485,254	489,715	463,929	484,717
Communications, social and personal services	122,650	120,750	112,499	111,203	126,427
International business activity	1,432,012	1,455,409	1,570,036	1,575,025	1,659,278
Total GDP.....	5,891,299	5,839,672	5,911,648	5,927,377	6,126,843
Less: Imputed bank service charge.....	450,856	423,955	416,506	398,855	393,205
Add: Import duties.....	179,936	169,693	174,951	171,470	194,015
Nominal GDP	5,620,380	5,585,410	5,670,093	5,699,992	5,927,652
Change from previous year.....	(4.0)%	(0.6)%	1.5%	0.5%	4.0%

Source: Department of Statistics, Bermuda.

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 prior approval of the Minister of Finance. Foreign ownership of housing is restricted to houses at the top end of the market and to specified condominiums.

Bermuda Monetary Authority

The Bermuda Monetary Authority (“BMA”) is the integrated regulator of the financial service sector in Bermuda. Established under the Bermuda Monetary Authority Act 1969, as amended (the “BMA Act”), 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, promotes financial stability, 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 of Directors consists of ten non-executive directors from various industry sectors who are appointed by the Minister of Finance. In addition, the Minister of Finance appoints the Chairman of the Board. The Chief Executive Officer is also a member of the Board of Directors and is appointed by the Minister of Finance on the

recommendation of the Board of Directors. 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, corporate service providers, money service businesses and insurance companies. The BMA also regulates the BSX.

International Affiliations

Over the years, the BMA has entered into a series of Memoranda of Understanding ("MOUs") with foreign regulatory authorities. This includes MOUs with the following: U.S. Commodity Future Trading Commission (1997), States of Jersey Financial Services Department (1997), Isle of Man Financial Supervision Commission (2002), United Kingdom Financial Services Authority (2004), Luxembourg (*Commission de Surveillance du Secteur Financier*) (2005), Cayman Islands Monetary Authority (2005), Financial Services Board of the Republic of South Africa (2005), International Organization of Securities Commissions (2007), Malta Financial Services Authority (2008), The Office of the Superintendent of Financial Institutions of Canada (2008), New York State Insurance Department (2008), Luxembourg (*Commissariat Aux Assurances*) (2009), Florida Office of Insurance Regulation (2009), Nebraska Department of Insurance (2009), Pennsylvania Insurance Department (2009), Financial Market Supervisory Authority (2010), Regional Regulatory Authorities (2011), Financial Supervisory Authority of Norway (2012), Ohio Department of Insurance (2013), Arizona Department of Insurance (2013), Missouri Department of Insurance (2013), Illinois Department of Insurance (2013), Division of Insurance and Financial Oversight of the Georgia Department of Insurance (2014), Texas Department of Insurance (2014), National Association of Insurance Commissioners (2015) and Maryland Insurance Administration (2016).

The BMA has also entered into a Multilateral Memorandum of Understanding with the International Association of Insurance Supervisors (2009).

The BMA is a member of the following international standard setting bodies: the International Association of Insurance Supervisors, the International Organization of Securities Commissions, the Group of International Insurance Companies Supervisors and the Group of International Financial Centre Supervisors.

Bank Regulations

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, 2015 was 21.3%, significantly above the applicable capital requirements.

The BMA has completed a significant amount of work to enhance Bermuda's robust capital and liquidity standards for the banking sector, in accordance with the Basel II Capital Accord (the "Accord"). The BMA successfully implemented Basel II in Bermuda as of January 1, 2009. This followed a policy development process which resulted in the publication 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. To prepare for anticipated changes in global standards that will result from Basel III, the BMA 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. In January 2015, the BMA implemented the Basel III regulatory framework with the issuance of the policy document "Basel III

for Bermuda Banks—Final Rule.” All banks were required to report under both Basel II and III for 2015, with the Basel III requirements becoming effective as at January 1, 2016.

Bermuda has also implemented protective policies and enhanced regulatory authority in the event of a bank failure. In 2012, Bermuda established the Bermuda Deposit Insurance Corporation (“BDIC”), an independent body, to administer and enforce the Deposit Insurance Scheme (“DIS”) and to manage the DIS fund. The DIS is designed to protect small depositors by guaranteeing up to a maximum specified amount of their deposits in the event of a bank failure.

Other developments in banking regulation include the enactment of the Banking (Special Resolutions Regime) Act 2016 (the “Special Resolutions Regime”). In February 2016, the Government enacted the Special Resolutions Regime (“SRR”), which designates the Minister of Finance as one of the resolution authorities of the SRR, the power to temporarily take control of a failing bank, to direct and accelerate the transfer of part or all of a failing bank’s business to a willing private sector purchaser and to take other remediation measures.

The Government has also enacted a regulatory framework similar to the measures set out in the AIFMD in Bermuda. In this regard, Bermuda’s regulatory regime is similarly aimed at strengthening the rules on enforcement and investor protection, thereby making Bermuda eligible for the European Union “funds passport,” which permits firms and investment funds to engage in cross-border activities within the European Union.

Insurer Solvency

Bermuda’s strict minimum solvency margin requirements, coupled with the BMA’s application of the Bermuda Solvency Capital Requirement (“BSCR”), continued to support overall stability of the insurance sector.

In 2016, the BMA instituted a number of changes to the statutory and prudential reporting requirements that apply to commercial insurers. The implementation of the Economic Balance Sheet framework modified commercial insurer reporting requirements and procedures for obtaining exemptions from accounting provisions or filing requirements. These legislative measures are designed to simplify the statutory regulatory reporting regime for commercial insurers, while providing a consistent and reliable valuation basis that is in line with international standards.

Solvency II and NAIC Equivalency

Directive 2009/138/EC (referred to herein as “Solvency II”) concerning the capital adequacy, risk management and regulatory reporting for insurers and reinsurers, became effective on January 1, 2016. Solvency II adopts a risk-based approach to insurance regulation. Solvency II is a harmonising framework that provides a single set of rules for reinsurers. Its principal goals are to improve the correlation between capital and risk, effect group supervision of insurance and reinsurance affiliates, implement a uniform capital adequacy structure for insurers across the European Union, establish consistent corporate governance standards for insurance and reinsurance companies, and establish transparency through standard reporting of insurance operations. As of January 1, 2016, the Solvency II requirements apply to reinsurance companies and European Union insurance groups operating in the European Union, with the exception of those reinsurers covered under Article 4 of the Solvency II directive.

Effective January 1, 2016, Bermuda’s regulatory regime in respect of commercial reinsurers and groups has been deemed to be fully “equivalent” with Solvency II for an unlimited period for all three relevant equivalence areas: Articles 172, 227 and 260, with the exception of rules on captives and special purpose insurers, which are subject to a different (bifurcated) regulatory regime in Bermuda. The BMA’s focus for gaining equivalency has been on Bermuda’s commercial insurers due to significant business conducted in Europe by these classes and the risk that they could be competitively disadvantaged if Bermuda’s enhanced commercial insurance regime was not deemed equivalent to Solvency II. Bermuda and Switzerland are the only non-EU jurisdictions world-wide that have been granted full equivalence under the Solvency II directive.

The determination of Solvency II equivalence results in Bermuda based reinsurers being exempted from the requirement to post collateral in the European Union and requires reinsurance contracts concluded with undertakings having their head office in Bermuda to be treated in the same manner as reinsurance contracts concluded with undertakings authorized in Europe in accordance with Solvency II (Article 172); European Union insurance groups

can conduct their EU prudential reporting for a subsidiary in Bermuda under local rules instead of Solvency II if deduction and aggregation is allowed as the method of consolidation of group accounts (Article 227); and Bermuda insurance groups which are active in the European Union are exempt from some aspects of group supervision in the European Union as Member States will rely on the equivalent supervision exercised by the BMA (Article 260).

Bermuda is one of only six other jurisdictions worldwide that has received the U.S. National Association of Insurance Commissioners' ("NAIC") "qualified jurisdiction" status. This designation is given only when a jurisdiction meets the requirements for accreditation under the NAIC financial standards. Qualified jurisdiction status significantly benefits Bermudian reinsurers, emphasizing the United States' confidence in the BMA as an insurance supervisor and allowing more efficient (and less costly) operation in the United States. Bermudian reinsurers are also eligible for reduced reinsurance collateral requirement in United States jurisdictions under certain circumstances.

As a result, reinsurers licensed in Bermuda will be eligible to be certified for reduced reinsurance collateral requirements in U.S. jurisdictions that have adopted the revised Credit for Reinsurance Model Law and Regulations (Reinsurance Models). Currently, 18 U.S. states (including Connecticut, Florida, New York and Pennsylvania), representing 53.0% of direct insurance premiums, have adopted the Reinsurance Models. An additional five U.S. states are expected to adopt the Reinsurance Models in 2014, bringing the total of direct insurance premiums of adopting U.S. states to 75.0% of the U.S. total.

Principal Sectors of the Economy

Financial Services and International Business

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 internationally acknowledged transparency standards;
- Transparent and consistent application of the financial services policy towards the financial services sector;
- Shaping of international relations in the financial sector, 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 is one of the world's largest offshore, fully electronic securities markets and is recognized by the U.S. Securities and Exchange Commission as a Designated Offshore Securities Market;
- Modern business facilities;
- Excellent living conditions and reliable infrastructure;
- Well-educated labor force;
- Absence of direct taxation and exchange controls for international business; and
- Stable regulatory framework.

Bermuda also has a long-established and transparent legal system, modeled on United Kingdom common law principles with recourse to the Privy Council, as well as an extensive, well-qualified support system of attorneys, auditors and investment professionals. Equally important are Bermuda's stable economic and political history.

The financial sector in Bermuda remained strong in 2015 against the background of a modest recovery in economic growth.

In nominal dollars, the international business sector contributed the greatest amount to the Bermuda economy in 2015. This sector provided over \$1.66 billion in total output in 2015, which represented 28.0% of the total nominal GDP, a 5.3% increase over 2014. 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 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 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 incurring local tax or exchange control consequences.

As of March 31, 2016, there were 12,569 international companies and partnerships (known as "exempted companies") registered in Bermuda. The number of companies registered in Bermuda has been relatively stable since 2009. Prior to that, the number had been growing at a compound annual growth rate of 3.0% during the five years from 2004 to 2008. In the first quarter of 2016, there were 185 new international business registrations, which is the same as the number registered in the corresponding period in 2015.

The objective of the Ministry of Economic Development is to ensure that businesses already located in Bermuda stay and grow, and to simultaneously attract more businesses to organize in Bermuda. The Ministry is streamlining the process for reviewing and analyzing proposals so as to ensure a coordinated approach for achieving government consents, with the object of developing an environment and system that is less cumbersome and easier to navigate for companies and entrepreneurs seeking to be established in Bermuda and for those seeking support and direction from the Government. To assist with this, the Ministry's Business Development Unit ("BDU"), in collaboration with the Bermuda Business Development Agency ("BDA"), has created a business concierge service.

The BDA is an independent, public-private partnership funded by both the Bermuda Government and the private sector. The agency is governed by an experienced Board of Directors comprised of senior industry professionals representing the diversity of Bermuda's financial services sector. The BDA carries out pro-active, targeted marketing and business development strategies to stimulate growth in the Bermuda economy and create and maintain jobs.

The BDA acts as a partner for existing Bermuda-based companies, and assists entities that are considering establishing operations. They connect prospective companies with industry partners and relevant representatives in the Bermuda Monetary Authority and the Government's Business Development Unit, to encourage and facilitate direct investment.

The BDA has segmented business development efforts into four distinct pillars, or industry areas of focus: Risk (insurance, reinsurance, captives, ILS), Asset Management, Trust & Private Client, and International Commerce (technology, international markets, etc.). These are key sectors of the Bermuda financial services industry, or areas for potential growth, and the BDA has separate business development managers, strategies and goals for each.

The following table sets forth the number of new international business registrations during the years indicated, as well as the total number of international business registrations on register as of December 31 of each indicated year.

International business registrations

	As of or for the twelve months ended December 31,				
	2011	2012	2013	2014	2015
New registrations during period					
Exempted companies.....	794	743	888	888	752
Exempted partnerships	49	68	77	65	96
Non-resident entities ⁽¹⁾	26	44	36	69	48
Total	869	855	1,001	1,022	896
Number on Register at year end					
Exempted companies.....	1,436	11,540	11,352	11,403	11,548
Exempted partnerships	951	941	980	985	1,022
Non-resident entities ⁽¹⁾	502	520	531	577	603
Total ⁽²⁾	12,889	13,001	12,863	12,965	13,173
Change from previous year ⁽³⁾	(3.32)%	0.87%	(1.06)%	0.79%	1.60%

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 generate tax, licensing and fee revenue to the public and private sectors. The greatest impact to the economy from these activities results from companies that have a physical presence in Bermuda and hire workers who earn income and spend locally.

Insurance Regulation

Bermuda has a multi-license system of regulation that categorizes reinsurance companies into six classes, long-term life insurance companies into five classes and Special Purpose Insurers (“SPIs”) into their own class. Bermuda also provides licenses for composite, or dual system, insurers. The classification system is based on type of insurance company (*i.e.* long term or general insurer), size of the company and both level of risk and types of risks related to the company. The regulation is designed to facilitate the creation of insurance companies and products, while ensuring that companies operate responsibly within specific margins of solvency.

Bermuda’s regulatory legislation for the insurance industry has been in place since 1978. It is continually reviewed and updated, taking into account risks in the market and applicable international standards. The licensing process is detailed and comprehensive. Most recently, from 2008 to 2015, legislative amendments introduced further improvements to the insurance framework, including provisions to establish an enhanced capital and solvency regime for Bermuda’s commercial reinsurers. More specifically, these provisions included the following: the introduction of the Bermuda Solvency Capital Requirement, the BMA’s risk-based capital adequacy model; established frameworks for group supervision; standardized stress testing information on market and underwriting risk; adoption of the Own Risk Solvency Assessment to impose capital add-ons where deemed appropriate; and requirements for commercial insurers to file audited U.S. GAAP financial statements as a further step to increasing financial disclosure within the sector.

During the fourth fiscal quarter of 2015, the European Commission recognized Bermuda’s efforts to adjust its regulatory environment meet Solvency II in its publication of the Delegated Act (the “Delegated Act”). The Delegated Act confirmed Bermuda’s prudential framework for commercial reinsurance and group supervision was in line with the requirements of Solvency II. On March 4, 2016, the Delegated Act was published in the Official Journal of the European Union and on March 24, 2016, the Delegated Act entered into force, with effect from January 1, 2016.

Bermuda Insurance Market

Bermuda groups are companies that are supervised by the BMA and that have global operations. The following table presents several financial soundness indicators for those firms.

Table 1. Select Financial Soundness Indicators (FSIs) for Bermuda Insurance Groups.

	As of or for the twelve months ended December 31,				
	2011	2012	2013	2014	2015
(In percentages unless indicated otherwise)					
Capital Adequacy and Asset Quality					
Assets (in U.S.\$ billions)	118.9	126.2	121.3	125.0	133.8
Reserves to assets (reserve ratio).....	55.8	55.0	55.3	53.8	52.6
Reserves to equity (reserve leverage) ⁽¹⁾	169.4	162.2	166.3	157.8	154.4
Assets to equity (financial leverage) ⁽²⁾	303.7	295.1	300.9	293.4	293.7
Net written premiums to equity	54.3	53.9	60.3	59.9	55.5
Profitability and Actuarial Issues					
Gross profit (excl. capital gains) (In US\$ billions)	(0.3)	4.4	5.5	5.4	5.0
Investment income to net income	(592.7)	50.0	46.9	38.6	66.9
Combined ratio	113.3	91.2	85.2	85.9	88.1
Average claims to reserves	2.6	2.4	2.3	2.3	2.4
Return on equity	(1.1)	11.2	11.1	11.9	6.5
Return on investment	3.0	2.7	2.6	2.3	2.2
Cash and “AAA” assets to claims	151.2	189.8	199.3	201.2	207.6

Source: BMA Staff Calculations

(1) Reserve leverage is the ratio between reserves and shareholder’s equity (defined as share capital plus additional paid-in capital and retained earnings)

(2) Financial leverage is based on total assets divided by total common equity.

The Bermuda insurance market has been growing over the past years in terms of total assets, capital and surplus and premiums. Since 2009, the total asset growth has been 17.6% while the growth in capital and surplus and gross written premium has been 17.8% and 26.7%, respectively. Total assets currently are \$583.3 billion while capital and surplus was \$214.5 billion for 2014. Net income for the market reached \$13.1 billion, almost 2.5 times Bermuda GDP for 2015. In the past years, a new insurance asset class has emerged with the issuance of insurance linked securities (“ILS”) and, more specifically, CAT Bonds. Domestic ILS issuance activity was \$5.6 billion comprised of 36 ILS issuances completed during the year. The average deal size during 2015 was \$156 million. Companies domiciled in Bermuda accounted for 69% (\$18.1 billion of \$26.3 billion) of the total outstanding ILS capacity at the end of 2015 while there were 157 SPI registrations at 2015 year-end.

Bermuda has become the leading jurisdiction for CAT Bond issuance in the world. According to the latest BMA data, Bermuda-based SPIs accounted for 62.0% (\$1.4 billion of \$2.2 billion) of new issuance volume during the quarter of 2016. During the first quarter of 2016, Bermuda-based SPIs underwrote \$1.2 billion of property and catastrophe (P&C) risks comprised of six ILS transactions, covering North American, Asian and multi-regional exposures. Overall, Bermuda-issued ILS represents 69.0% (\$18.4 billion of \$26.5 billion) of total outstanding capacity at the end of the first calendar quarter of 2016.

The table below shows selected aggregate insurance statistics for the Bermuda insurance market during the following fiscal years:

(in U.S. billions)	2010	2011	2012	2013	2014
Assets.....	524.7	452.2	505.5	607.6	583.3
Capital and Surplus.....	185.2	168.8	193.0	191.6	214.5
Gross Written Premium	107.7	107.6	120.5	163.0	151.8
Net Income	16.0	5.2	16.3	16.8	13.1

Source: Bermuda Monetary Authority.

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 not been any significant 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.

Banking and Deposit Companies

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); The Bank of N.T. Butterfield & Son Limited ("Butterfield Bank"); Clarien Bank Ltd., formerly known as Capital G Ltd., a privately held bank; and the Bermuda Commercial Bank Limited (a wholly-owned subsidiary of Somers Limited formerly known as Bermuda National Limited). Butterfield Bank and Somers Limited are listed on the BSX and commencing September 16, 2016, began trading on the New York Stock Exchange. HSBC Holdings plc has a secondary listing on the BSX. There is also one credit union in Bermuda. According to the BMA's 2015 annual report, total combined (consolidated) assets of the four banks as of December 31, 2015 stood at over \$24.1 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 92.7% of the total combined assets of the sector. Given this large concentration, a significant deterioration in the credit quality of either of these two may have an adverse effect on the Bermudian economy.

The following table shows the aggregate balance sheet of the Bermuda banking system.

Aggregate Balance Sheet of Bermuda Banks

(In US\$ billions)	Fiscal year ended March 31,				
	2011	2012	2013	2014	2015
Assets					
Cash	0.1	0.1	0.1	0.1	0.1
Deposits	6.3	6.4	6.4	5.3	3.8
Investments	9.1	8.0	9.4	8.6	10.4
Loans and advances	9.2	8.8	8.3	8.3	9.1
Premises and equipment	0.6	0.5	0.5	0.5	0.4
Other assets	0.3	0.3	0.3	0.3	0.3
Total Assets	25.5	24.2	25.1	23.1	24.1
Liabilities					
Demand deposits	10.2	9.7	10.2	10.5	11.7
Savings	5.3	5.2	5.9	6.0	6.5
Time deposits	6.6	5.6	6.2	3.8	3.2
Subtotal - deposits	22.0	20.5	22.3	20.3	21.4
Other liabilities	0.5	0.6	0.4	0.4	0.6
Subtotal - liabilities	22.5	21.1	22.7	20.8	21.9
Equity and subordinated debt	3.0	3.0	2.4	2.3	2.1
Total liabilities and capital	25.5	24.2	25.1	23.1	24.1

Source: Bermuda Monetary Authority.

Despite continued challenging economic conditions, banking sector credit portfolios have shown some signs of recovery. The most notable improvement came from reduced exposure to nonperforming loans. Banks also maintained a risk-averse credit strategy such that loan growth over the 2014/2015 fiscal year was marginal. As the banks sought to secure income from products with lower risk, there was an increase in other balance sheet exposures, including investments in sovereign-related debt instruments. Despite balance sheet reallocations during the 2014/2015 fiscal year, capital levels remained high and above international regulatory requirements.

Assets and Liabilities

Consolidated assets of the banking sector increased by 4.3%, from \$23.1 billion as of December 31, 2014 to \$24.1 billion as of December 31, 2015. The net increase was primarily due to a 20.6% increase in investments, a 9.4% increase in loans and advances and a 27.8% decrease in interbank deposits.

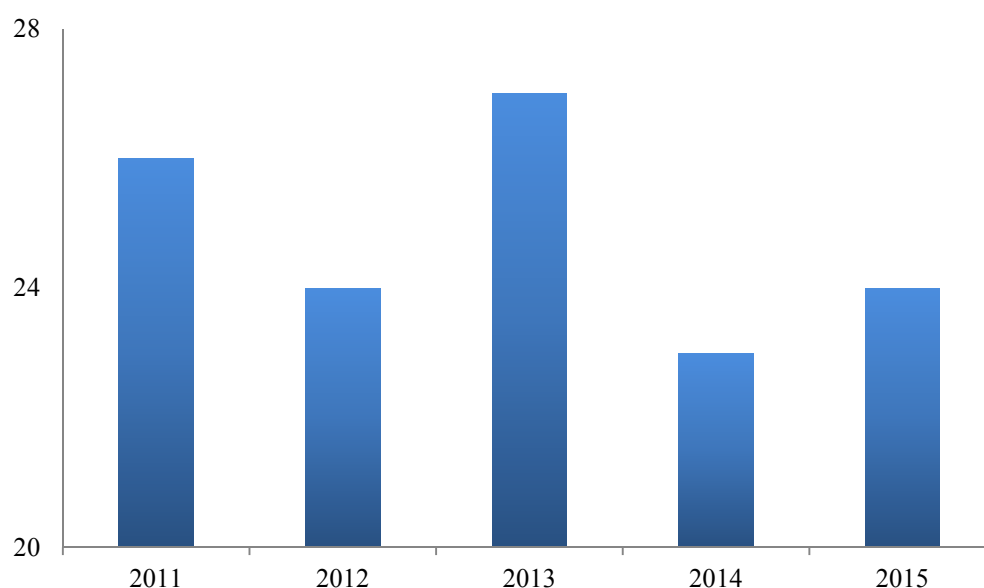
Although other assets decreased by 13.8%, the relative size of this asset class meant it had a negligible impact on total assets. The overall increase in the balance sheet was driven by a 5.0% increase in deposit liabilities, from \$20.3 billion as of December 31, 2014 to \$21.4 billion as of December 31, 2015 due to a 10.7% increase in demand deposits and a 7.5% increase in savings deposits (which were partially offset by a 15.0% decrease in time deposits).

Balance Sheet Structure

Total assets continued to be relatively stable, with slight growth in 2015, but there have been significant changes in the composition of the industry's balance sheet. Investments grew faster than loans while cash and interbank deposits decreased as the banks sought income from low-risk products.

The share of loans increased from 35.9% as of December 31, 2014 to 37.7% as of December 31, 2015, while the share of investments increased from 37.4% as of December 31, 2014 to 43.3% as of December 31, 2015. During the same period the share of cash and deposits decreased from 22.9% to 15.8%.

Bank and Deposit Companies (consolidated) Total Assets (In U.S. \$ billions)



Source: Bermuda Monetary Authority

Earnings and Profitability

Net income for the banking sector increased \$25.7 million, or 16.9%, in 2015. This increase was largely due to a \$43.3 million, or 7.0%, decrease in non-operating and operating expenses in 2015, coupled with a decrease in total income of \$17.0 million, or 2.3%, in 2015. Banking income contributed 83.3% of the sector's total income in 2015, while net interest income accounted for 77.1% of total banking income. During 2015, net interest income was relatively unchanged with a slight increase of 0.5% compared to 2014. As a percentage of total income, net interest income increased from 62.5% in 2014 to 64.3% in 2015. The interest margin for the sector remained stable in 2015 at 91.7% of interest income. Operating costs remained relatively unchanged, with a slight decrease of 0.5%,

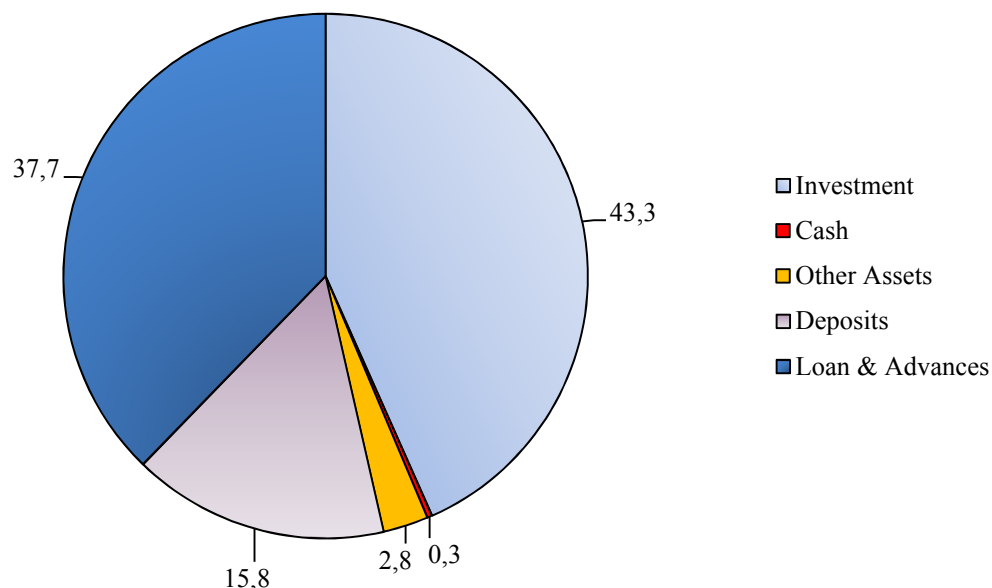
while non-operating expenses decreased by 44.4%, driven primarily by a 37.8% decrease in provisioning for bad loans.

Capital Adequacy

Capital adequacy in the Bermuda banking sector, as measured by the risk asset ratio (“RAR”), remained strong throughout 2015, once again exceeding regulatory minimum capital requirements and in excess of international benchmarks, including Basel III. RAR for the sector was 21.3% at the end of 2015, compared with 22.8% at the end of 2014. This reduction reflected a 6.0% decline in Tier 1 Capital, while Total Risk Weighted assets increased by 1.0%.

The following chart shows the composition of assets of bank and deposit company.

Banks and Deposit Companies’ Total Assets as of December 31, 2015 (in percentages)



Source: Bermuda Monetary Authority.

Investment Sector

As of December 31, 2015, the Bermuda Fund Administrator licensees reported a total of US\$144.2 billion in assets under administration, and a total of 1,307 administered funds (of which 489 were Bermuda-licensed fund administrators). Moreover, 70% of the fund clients are Bermudian, American or Canadian.

The BMA continues 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 supervision of fund service providers.

On May 30, 2013, the BMA announced that Bermuda was approved as a signatory for the cooperation agreement with EU Member States in relation to the AIFMD. The Directive, which seeks to provide harmonized regulatory standards for fund managers across Europe, was implemented on July 22, 2013. The BMA plans to enact a regime similar to the AIFMD in Bermuda, in order to strengthen the rules on enforcement and investor protection.

The new law is aimed at making Bermuda eligible for the European Union “funds passport,” which permits firms and investment funds to engage in cross-border activities within the European Union.

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

Investment Fund Statistics						
	As of September 30, 2014	As of December 31, 2014	As of March 31, 2015	As of June 30, 2015	As of September 30, 2015	As of December 31, 2015
Number of:						
Mutual Funds	457	438	433	434	434	429
Umbrella Funds	40	38	38	39	39	38
Segregated Account Companies....	65	70	69	69	70	69
Unit Trusts.....	52	54	50	49	50	52
Umbrella Trusts.....	47	47	37	37	37	36
Total Number of Funds	661	647	627	628	630	624
Net Asset Value (In U.S.\$ billions)	175	164.8	166.7	152.6	145.1	144.2

Source: Bermuda Monetary Authority.

Bermuda Stock Exchange

The BSX is the national stock exchange of Bermuda. Established in 1971, the BSX is a fully electronic offshore securities market which operates under the supervision and regulation of the BMA.

As of December 31, 2015, the total market capitalization of securities listed on the Bermuda Stock Exchange (“BSX” or “Exchange”) (excluding collective investment vehicle listings) exceeded \$349.0 billion, of which approximately \$1.85 billion represented domestic companies. Total trading volume in 2015 was 6.3 million shares with a corresponding value of \$22.9 million, compared to 12.5 million shares with a corresponding value of \$37.4 million for 2014. The RG/BSX Index ended 2015 at 1,304 units, representing a 3.9% decrease from 2014. As of August 4, 2016, the RG/BSX Index was at 1,204 units. A total of 218 new securities were listed on the Exchange during 2015, including 58 ILS with total market capitalization of \$6.1 billion. New listings continued across most sectors including international equities, debt and collective investment vehicle listings.

In July 2012, in an effort to ease foreign ownership restrictions and boost the economy, Bermuda amended the Companies Act to allow companies listed on the BSX to apply for a license to exceed the current 40% foreign ownership limit. Many hotels and telecommunications companies are eligible to apply for this license to seek additional foreign investment, as do Bermuda’s four banks.

Tourism

Tourism is a vital and integral component of the Bermuda economy and the Government estimates that in 2014 this sector directly and indirectly accounted for about 8.4% of employment. Also, the total output generated by tourism activity including hotels, restaurants, travel agencies and passenger transport businesses equaled \$449 million during 2014. Until the mid-1990s, tourism had been Bermuda’s largest economic sector, but since that time it has been overtaken by the international business sector.

In 2015, approximately 78% of Bermuda’s tourists arriving via air were from the United States, 10% were from Canada, 8% were from the United Kingdom, and the remaining 4% from Europe and the rest of the world. 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. Bermuda is approximately two hours by air from New York City and is served by a number of airlines.

As of June 30, 2016, approximately 74% of Bermuda’s air visitors have been residents of the United States, 10% from Canada, 9% from the United Kingdom, and the remaining 7% from Europe and the rest of the world. As of June 30, 2016, air visitors to Bermuda have increased by 7% compared to the same period in 2015.

One of the Government's priorities has been to strengthen Bermuda's tourism industry, which has been contracting as a contributor to GDP since the 2008-2009 global recession. The Government formed the Bermuda Tourism Authority ("BTA") as a measure to improve the tourism sector and work with investors to build and revitalize hotel properties across Bermuda. The BTA has launched a new brand platform, established relationships with a new advertising agency, a new public relations firm, and new social media and website platforms.

The Government believes that recent initiatives by the BTA have positioned the tourism sector for both short- and long-term growth. For example, the Government and the BTA have worked closely with airlines to increase airline seat capacity to Bermuda by 15% through June 2016 from capacity at December 31, 2015, providing greater access for vacationers and greater opportunity to lure business and leisure groups. Further, more cruise ships will visit Bermuda in 2016 than in 2015, with the schedule projecting an 8% increase in visitors and a corresponding potential increase in spending.

The BTA has also focused on increasing the variety of tourists and group visits during Bermuda's low season, which is from November-March. The BTA has created an "athletic season" in order to attract athletes and sports teams that need training facilities. The Government will pay the facility fees for athletes and teams who travel to Bermuda to use the National Sports Center during the months of January-April. The BTA has advocated for the Government to legitimize vacation rental properties, which typically attract younger tourists, families, and adventure tourists, in order to provide more diverse lodging for travelers in Bermuda. The BTA is also promoting the gaming legislation, which is expected to be proposed and voted on during the November/December 2016 legislative session.

Tourism Data

Total leisure arrivals to Bermuda in 2016 through June 30 have increased by 6.5% as compared to the same period in 2015, due to a 10% increase in air leisure arrivals and a 5% increase in cruise visitors. Total arrivals to Bermuda increased by 2.7% in 2015 as compared to 2014, primarily due to a 6.0% increase in cruise visitors. Visitor arrivals in 2015 totaled 600,316, as compared to 576,400 arrivals recorded for the year 2014.

Total air visitor arrivals have increased by 7% as of June 30, 2016, with 107,963 visitors arriving to Bermuda compared to 100,940 air arrivals during the comparable period in 2015. Air arrivals from the U.S. have grown 11% year-over-year in 2016 while Canada and the UK have decreased 10% and 2%, respectively. Air arrivals decreased by 1.2% in 2015, with 139,802 tourists arriving to Bermuda by airplane as compared to 141,509 air arrivals in 2014. Weakening of the Canadian dollar has been a major contributing factor in the decline in visitors from Canada.

Visitors vacationing in Bermuda arriving by air have increased by 10% as of June 30, 2016 compared to the same period in 2015, representing 63% of all air visitors to Bermuda. Business visitors have decreased by 4% as of June 30, 2016 compared to the same period in 2015, representing 21% of all air visitors to Bermuda. Visitors vacationing in Bermuda decreased by 1.2% in 2015 compared to 2014, representing 64% of all visitors to Bermuda. Business visitors decreased by 4.7% in 2015 compared to 2014, representing 20% of all visitors to Bermuda.

Air arrivals for the purpose of visiting friends and family increased by 9% in 2016 compared to the comparable period in 2015, and decreased by 6.8% in 2015 compared to 2014.

The average length of stay for air visitors to Bermuda remains relatively consistent, with visitors staying an average of 5.9 nights through June 30, 2016. Visitors staying in hotels, resorts and guest houses stayed 4.6 nights on average and represented 75% of all air visitors as of June 30, 2016. Hotel occupancy for the island's 10 largest properties (or approximately 80% of the room inventory) increased as of June 30, 2016 from 49.6% in 2015 to 51.8% in 2016.

The average length of stay for visitors to Bermuda remained relatively consistent in 2015, increasing by 0.3%, with visitors staying an average of 6.3 nights. Visitors staying in hotels, resorts and guest houses stayed 4.83 nights on average and represented 69% of all visitors in 2015. Hotel occupancy for the island's 10 largest properties (or approximately 80% of the room inventory) decreased from 53.4% in 2014 to 52.5% in 2015.

Cruise ship arrivals in 2016 have also increased to 154,152 through June 30, 2016 from 146,798 in 2015, with an increase in cruise calls for the year, consisting of a majority of occasional callers. Cruise arrivals also increased in 2015 to 377,396 from 355,880 in 2014, with an increase of 8 cruise calls for the year, consisting of a majority of occasional callers.

The number of visitors who arrived in Bermuda by pleasure yacht in 2016 has shown a 39% increase in 2016 as compared to 2015, with 3,426 yachtsmen sailing to Bermuda as of June 30, 2016. Visitors who ventured to Bermuda by pleasure yacht showed a decrease of 27.5% for 2015 compared to 2014, with 3,104 yachtsmen sailing to Bermuda during the year compared to 2014.

Bermuda Hotels and Guest Houses

Bermuda has approximately 43 licensed hotels and guest houses, with a total of 2,372 rooms. The five largest hotels (the Fairmont Southampton, the Hamilton Princess, the Grotto Bay Beach Hotel, the Rosewood Tucker's Point Hotel and the Elbow Beach Hotel) account for almost half of total hotel room inventory in Bermuda. Bermuda also has six golf courses, the most per square mile in the world, and numerous tennis courts. The 2014 Tourism Satellite Account report prepared by the Government's Department of Statistics indicates that 1,606 people (or approximately 5% of total jobs) are employed in hotels and similar accommodations across the island.

The Bermuda Tourism Authority has also focused on the growing market for vacation rental property, especially popular among U.S. visitors. A vacation rental is the renting of a furnished apartment or house on a temporary basis to tourists as an alternative to a hotel. In Bermuda there are approximately 444 vacation rental units/bedrooms, which is the equivalent of 19% of Bermuda's licensed accommodation room count. Through its research and policy recommendations, the BTA plans to develop a 'light-touch' regulatory framework for the vacation rental market to ensure a consistent and quality experience for visitors. The regulations are not expected to include any registration requirements for vacation rental properties. The Government is seeking to leverage this existing market as a competitive advantage in the tourism industry by providing an alternative to hotels and thus reaching a wider tourist demographic.

Tourism Expenditures

Total direct expenditure from air visitors as of June 30, 2016 in 2016 has increased by 13% as compared to the same time period in 2015 due to a combination of higher average per person spending and an increase in the number of air visitors. The dollar value of the total expenditure by air visitors as of June 30, 2016 in 2016 is estimated at \$135.2 million, an increase of \$16 million as compared to the same period in 2015. Cruise visitor spending information for 2016 is available only at year-end.

Average visitor expenditure per person for 2015 decreased by 6.1% as compared to 2014. The dollar value of the average expenditure by vacationing visitors traveling by air was an estimated \$1,286.7 per person, a decrease of \$82.7, or 6.2%, as compared to 2014. Average spending by business visitors decreased 11.1% from \$1,291.8 per person in 2014 to \$1,155.9 per person in 2015. However, spending by non-resident Bermudians increased 17.9% from \$635.8 per person in 2014 to \$760.6 per person in 2015.

Estimated expenditure of vacation and business visitors

As of December 31,	Expenditure during period (dollars in millions)				Year-on-year % change			
	Air	Cruise	Yacht	Total	Air	Cruise	Yacht	Total
2011	334.9	61.1	2.5	398.5	1.6%	46.2%	(30.6)%	6.3%
2012	311.4	76.8	3.3	391.5	(7.0)%	25.7%	32.0%	(1.8)%
2013	316.0	42.2	2.3	360.5	1.5%	(45.1)%	(30.3)%	(7.9)%
2014	280.2	54.4	2.7	337.4	(11.3)%	28.9%	17.4%	(6.4)%
2015	258.0	45.3	1.7	305.0	(7.9)%	(16.8)%	(37.6)%	(9.6)%

Source: Bermuda Tourism Authority.

Tourism Initiatives and Assistance

Bermuda has taken a series of initiatives to preserve its status as a favored and frequently visited destination for an expanded market of travelers, as per the National Tourism Plan created in 2012. The Government formed the BTA, an independent body created in 2014 to revitalize and grow the tourism economy. Since its formation, the BTA has made significant progress in rebranding Bermuda's public image, and the Government believes it is well positioned to achieve its growth objectives for Bermuda tourism.

As a result of Government collaboration with airlines and the BTA's marketing initiatives, airline seat capacity to Bermuda is expected to increase 8% in 2017 compared to 2016. This will provide greater access to Bermuda for vacationers and greater opportunity to lure business and leisure groups – a performance area that lagged in 2015 as a result of poor group sales prior to the creation of the BTA. Group travel is critical to a healthy tourism industry, providing a base of business that can be used to manage favorable pricing for individual vacationers. For this reason, the BTA reorganized and redeployed its group sales team in 2015, a change that has helped increase group sales for 2016, 2017 and beyond.

Furthermore, more cruise ships are expected to visit Bermuda in 2016, including more occasional visits to Hamilton and St. George by smaller ships that generally attract visitors with greater disposable income. The schedule projects a 10% increase in visitors and a 12% increase in spending for an estimated \$91 million in total spending.

To support these initiatives, the Bermuda Ministry of Tourism Development & Transport received a budget allocation of \$24.8 million for the 2016/2017 fiscal year, an increase of 4.6% over the previous year, to develop and promote the tourism industry while improving Bermuda's tourism 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 is highly affected by conditions in the global economy, including recent global economic difficulties, although plans have recently been approved for significant investment in the hospitality industry, which are scheduled to begin in the near future. The tourism sector is expected to bolster Bermuda's overall economic performance in the coming years, as construction activity should counteract potential downturn in other areas of the economy.

Increased capacity at L.F. Wade International Airport and the initiatives to develop and promote the tourism industry are important steps as Bermuda prepares to host the America's Cup in 2017. Bermuda hosted its first America's Cup in 2015, which brought over 1,400 visitors to Bermuda and had an estimated economic impact of \$8.6 million.

Retail Sales

Total gross turnover, defined as total dollar value of retail store sales, was \$1,033.0 million in 2015, which represents a 2.7% increase compared to 2014. The 2% decrease in the unemployment rate and subsequent increase in employment income had a positive effect on retail sales. Consumer confidence grew with the decrease in unemployment, leaving consumers with more disposable income to spend on retail goods and services.

According to the Retail Sales Index, most sectors recorded sales growth in 2015 compared to 2014 except for service stations, which decreased 4.9%, liquor stores, which decreased 0.9% and other store types, which decreased 0.4%. The decrease in service station sales was mainly due to declining fuel prices.

Motor vehicle stores experienced the largest sales increase of all retail sectors, recording double digit sales growth eight months of the 2015 year. Building material stores also increased by 3.9% in 2015 compared to 2014 due largely to an increase in sales of construction related goods. Food store sales volume increased by an average of 3.8% in 2015 compared to 2014, due to steady growth in food prices throughout the year, while food store sales volume increased each month in 2015 except November. The most recent estimates by the Department of Statistics for household personal consumption are for the year 2014. During that year, total household personal consumption was \$3.02 billion, reflecting an increase of 1.8% over 2013.

The latest available data for the Retail Sales Index is through May 2016. Between January and May 2016, local retail sales increased 8.8% to \$448.1 million. Combined local and overseas retail sales declined by 8.2% to \$469.2 million during that period.

Between January and May 2016, all sectors in the Retail Sales Index recorded increased sales activity, with the exception of apparel stores. Motor vehicle stores experienced the largest increase in sales of all sectors, growing by 13.4% due to increased demand for motor vehicles. Monthly sales in service stations increased by 5.0%, due in part to increases in the cost of fuel.

Construction

In 2015, construction activity decreased by 32.9%, with the value of work completed decreasing from \$116.1 million in 2014 to \$78.0 million in 2015. The value of new projects started increased by 31.6% in 2015. Based on the increase in new projects started, the construction sector is expected to expand during 2016, as evidenced by the number of new hotel developments that will continue or start in the near future. The major hotel developments include the third phase of the Hamilton Princess' \$100 million restoration, which is expected to create 100 new construction jobs. Pink Beach is currently undergoing a \$50 million redevelopment and Coral Beach has started the first phase of a \$14 million renovation. Both Morgan's Point and Ariel Sands have recently received planning approval for multi-million dollar developments on their respective properties. An agreement was recently signed for the construction of a new St. George's hotel, which is expected to begin in the third calendar quarter of 2016.

During the first calendar quarter of 2016, the value of the work performed in the construction industry grew from \$23.2 million in the first calendar quarter of 2015 to \$36.6 million, an increase of 57.8%. Of the work performed in the construction industry, an estimated 35% represents residential construction. The value of new projects in 2016 was \$12.4 million in the first calendar quarter of 2016, as compared to \$43.2 million in the first calendar quarter of 2015. Work on offices, shops and warehouses, and work performed in the industrial plant and other categories contributed 32.0% and 16.4%, respectively, to total activity in the industry.

During the first calendar quarter of 2016, residential construction created ten new units, which represented a decrease of two units as compared to the same period in 2015. Studio apartment construction was unchanged at one unit; one bedroom apartment construction increased by one unit; two bedroom construction grew from no units in the first quarter of 2015 to one unit 2016; and three bedrooms and over decreased by four units from five to one.

The new airport terminal is expected to break ground in the first calendar quarter of 2017, and should result in creation of hundreds of new construction jobs. Furthermore, infrastructure preparation for the America's Cup will continue to create employment opportunities for Bermudians in the construction sector.

Major construction projects (2012-2015) For the calendar year ended December 31,

	2012	2013	2014	2015
	(dollars in millions)			
Value of new projects started ...	\$106.8	\$85.1	\$122.5	\$161.8
Type of Project:				
Residential	34.3	30.0	21.5	27.9
Commercial	43.1	23.7	4.7	13.6
Tourism	1.3	9.0	34.3	13.0
Social ⁽¹⁾	99.7	57.5	30.7	4.3
Infrastructure ⁽²⁾	5.3	16.9	8.8	3.6
Industrial	7.2	10.7	16.1	15.4
Total	<u>\$190.9</u>	<u>\$147.8</u>	<u>\$116.1</u>	<u>\$77.9</u>

	2012	2013	2014	2015
Sector:				
Public	103.9	78.3	49.2	25.7
Private	87.0	69.5	66.9	52.1

Source: Department of Statistics, Bermuda.

- (1) Schools, hospitals and community centers.
- (2) Roads, bridges and airports.

The Bermuda Land Development Company Limited (“BLDC”), a Bermuda government-owned company, 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 sector company owned by the Government. The Government granted, for a period of 131 years commencing in 1996, the right to the BLDC to lease the land to a third party for 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, commercial, sports and recreational needs. In the east, near to Bermuda’s international airport, “Southside” has one of Bermuda’s deep water port areas, offering industrial, business and marina development opportunities. In the west end of Bermuda, “Daniel’s Head” is designated for tourism development. “Tudor Hill” in the southwest of Bermuda has been set-aside for tourism and housing opportunities.

The Government’s planned capital expenditure program for the 2016/2017 fiscal year budget is \$87.3 million. Along with private sector projects, the Government will continue to provide stimulus to the construction sector with its capital expenditure program. Although capital expenditure has been reduced in recent years, the Government anticipates continuing its road work improvements and remedial works on the swing bridge in St. Georges.

Exports and Imports

In 2015, the top exports of Bermuda were spirits and liquors (35.6%); chairs, sofas and similar items (12.3%); orthopedic appliances and equipment (6.3%); goods imported by post or a courier service (3.9%); and watches (2.7%). Its top export destinations were the United States (74.5%), the United Kingdom (12.1%), Puerto Rico (6.3%), Switzerland (3.1%) and Canada (2.0%).

In 2015, the top imports of Bermuda were unused postage, revenue or similar stamps, banknotes, stock and bond certificates and similar documents of title (8.7%); goods imported by post or a courier service (6.3%); fuel oil (other than petroleum or crude) (4.6%); light oils and preparations (1.6%) and prescription medications (1.4%). The top import origins were the United States (65.6%), Canada (14.7%), the United Kingdom (3.9%), China (2.7%) and the Bahamas (1.5%).

In 2014, the top exports of Bermuda were spirits and liquors (20.0%); collection items and collectors’ pieces (10.7%); radio-broadcasting or television equipment (6.3%); sails (4.9%) and generators (4.7%). Its top export destinations were the United States (79.0%), the United Kingdom (5.4%), Canada (1.2%), Germany (1.1%) and Barbados (0.7%).

In 2014, the top imports of Bermuda were unused postage, revenue or similar stamps, banknotes, stock and bond certificates and similar documents of title (6.8%); fuel oil (other than petroleum or crude) (6.4%); goods imported by post or a courier service (6.4%); light oils and preparations (3.2%) and heavy atmospheric gas oils (2.5%). The top import origins were the United States (71.1%), Canada (13.0%), the United Kingdom (3.3%), China (1.7%), and Italy (0.9%).

Manufacturing and Agriculture

Manufacturing

Bermuda has limited manufacturing activity. Bermuda's manufacturing sector accounted for 0.8% of GDP in 2015 and approximately 1.8% of total employment in 2015. 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.

Agriculture

Once largely an agricultural island with fertile land that supplied vegetables and other crops to the United States, Bermuda currently has limited agriculture because of escalating property values. Acreage under cultivation has declined from 3,000 acres in 1920 to less than 360 acres currently. As such, Bermuda is highly dependent upon food imports. 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 public sector in Bermuda remains small relative to the size of Bermuda's economy, reflecting primarily the absence of significant defense and overseas representation costs which are provided by Great Britain. Total government expenditure in 2015 was 19.3% of total GDP, with government expenditure in 2016 projected to be approximately 19.1% of total GDP.

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

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

For calendar year ended December 31,	Revenue	Current account expenditure	Capital expenditure	Total expenditure
2012.....	16.4%	20.2%	1.1%	20.6%
2013.....	15.3%	17.1%	1.1%	19.3%
2014.....	15.5%	17.0%	1.1%	20.8%
2015.....	14.9%	15.8%	0.8%	19.3%

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

Employment, Union Representation & Salaries

Employment

Based on official 2015 employment data, the total number of jobs in Bermuda decreased 0.5% from 33,475 in 2014 to 33,319 in 2015. The unemployment rate was 7% in the Labor Force Survey (based on the reference week of May 13-19, 2015), a decrease of 2% from 2014. Unemployment declined from 3,210 people in 2014 to 2,348 by 2015. Furthermore, Bermuda's employment is expected to benefit from the upcoming America's Cup, legalization of casino gambling, and various other employment initiatives such as new work permit policies and numerous hotel and airport redevelopment projects.

Approximately 71% of the jobs in Bermuda in 2015 were held by Bermudians, 24% by non-Bermudians, and 6% by non-Bermudian spouses of Bermudians. The employment survey is conducted in August of each year.

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

As of December 31,				
2011	2012	2013	2014	2015

Bermudians	26,187	25,132	24,504	23,833	23,576
Non-Bermudians.....	9,203	8,343	7,841	7,723	7,830
Non-Bermudian spouses of Bermudians	2,009	1,968	1,932	1,919	1,913
Total.....	<u>37,399</u>	<u>35,443</u>	<u>34,277</u>	<u>33,475</u>	<u>33,319</u>
Percentage of jobs held by Non-Bermudians.....	24.6%	23.5%	22.9%	23.1%	23.5%

Source: Department of Statistics Employment Survey.

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

	As of December 31,				
	2011	2012	2013	2014	2015
Agriculture, forestry and fishing.....	639	594	589	581	602
Manufacturing	792	671	624	585	573
Electricity, gas and water.....	389	386	341	325	321
Construction	2,549	2,264	2,143	1,925	1,928
Wholesale trade and motor vehicles	1,467	1,429	1,376	1,401	1,331
Retail trade and motor vehicles	3,062	2,785	2,737	2,692	2,646
Hotels.....	2,563	2,428	2,339	2,287	2,174
Restaurants, cafes and bars.....	1,970	1,957	1,878	1,833	1,838
Transport and communications.....	2,293	2,176	2,139	2,046	2,037
Financial intermediation.....	2,747	2,501	2,559	2,253	2,369
Real estate and rental.....	491	488	432	452	460
Business services	3,976	3,702	3,523	3,425	3,565
Public administration.....	4,284	4,298	4,237	4,163	3,936
Education, health and social work.....	3,895	3,750	3,600	3,642	3,688
Other community, social and personal services.....	2,205	2,136	1,992	1,928	1,951
International business activity	4,077	3,878	3,768	3,937	3,900
Total.....	<u>37,399</u>	<u>35,443</u>	<u>34,277</u>	<u>33,475</u>	<u>33,319</u>

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 21% of Bermuda's employees currently are represented by labor unions. Relations between employers and organized labor have been generally stable.

The Government recently concluded negotiations with the Bermuda Police Association, with members agreeing to one furlough day per month for the 14 months commencing on February 1, 2016. This new agreement is expected to reduce payroll costs for the police budget. Negotiations are currently ongoing with other unions representing other public sector employees.

Salaries

With calendar year 2015 nominal GDP at approximately \$5.93 billion, Bermuda maintained a high per capita GDP of approximately \$96,018, with Bermudian jobs paying relatively high annual salaries. The following table shows a breakdown of income by employment for economic sector for the 2014 and 2015:

Occupational distribution of employment and average income by job, 2014 and 2015

	As of December 31,			
	2014		2015	
	Number	Median Income	Number	Median Income
Agriculture, forestry, fisheries, mining and quarrying.	581	\$ 38,951	602	\$ 40,286

Manufacturing	585	\$ 55,404	573	\$ 55,333
Electricity, gas and water.....	325	\$ 79,978	321	\$ 80,400
Construction	1,925	\$ 62,077	1,928	\$ 57,375
Wholesale trade and motor vehicles	1,401	\$ 48,889	1,331	\$ 50,688
Retail trade and repair services	2,692	\$ 44,958	2,646	\$ 44,937
Hotels.....	2,287	\$ 35,916	2,174	\$ 36,883
Rest., cafes and bars	1,833	\$ 35,478	1,838	\$ 34,988
Transport and communications.....	2,046	\$ 55,061	2,037	\$ 54,880
Financial intermediation	2,253	\$ 78,659	2,369	\$ 80,473
Real estate and rentals	452	\$ 63,652	460	\$ 62,667
Business service.....	3,425	\$ 73,002	3,565	\$ 71,297
Public administration.....	4,163	\$ 73,707	3,936	\$ 74,441
Education, health and social work	3,642	\$ 70,246	3,688	\$ 70,373
Other community, social and personal services.....	1,928	\$ 49,000	1,951	\$ 52,247
International business activity	3,937	\$ 125,114	3,900	\$ 128,871

Source: Department of Statistics, Bermuda.

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, revenues from the service industries and factor income from international business (invisible exports) normally ensure a surplus in the current account of the balance of payments. The surplus on the current account increased to \$817 million in 2015 from \$807 million in 2014, primarily due to a significant decrease in the level of imports into Bermuda from the U.S. and Canada.

The following table sets forth the compared of the balance of payments on a historical basis for the years indicated:

Balance of payments

	Year ended December 31,				
	2011	2012	2013	2014	2015
	(dollars in millions)				
Exports.....	\$ 13	\$ 11	\$ 13	\$ 22	\$ 19
Imports.....	900	900	1,012	969	935
Merchandise trade balance (deficit).....	(887)	(889)	(999)	(947)	(915)
Services and income – receipts.....	3,200	3,180	3,825	3,347	3,311
Services and income – payments.....	2,605	2,465	2,984	2,542	2,494
Net invisible receipts	-	-	-	-	-
Transfer (net)	-	-	-	-	-
Current account balance	595	715	841	804	817
Capital and financial account					
Net financial account balances:					
Direct investment	228	(107)	(4)	116	120
Portfolio investments	(2,375)	1,295	1,613	(9)	1,506
Other investment (including derivatives).....	2,111	(1,580)	(682)	859	(816)
Reserve assets	(11)	5	11	(14)	7
Total net financial account.....	(48)	(388)	(937)	(959)	(817)
Total net capital account	-	-	-	-	-
Total net lending.....	48	388	937	959	817
Balancing item.....	\$ (547)	\$ (327)	\$ 97	\$ 153	\$ 1

Source: Department of Statistics, Bermuda.

Balance of Payments Developments

Bermuda's balance of payments has displayed a persistent current account surplus over a number of years. This is mainly due to the contributions of employee compensation from the international business sector. The balance of goods is negative due to the fact that most goods are imported, while there is a surplus in services and travel. The current account is currently estimated to account for 11%-15% of GDP, similar to the figures of oil exporting countries. This indicates the significance of the international business sector, and Bermuda's ability to retain and expand the sector. Solvency II equivalence is expected to attract additional reinsurers to Bermuda and recently, one large reinsurer has relocated back to Bermuda. As Solvency II is implemented in Europe and in Bermuda, other companies may consider domiciling in Bermuda, further improving its balance of payments position.

Employee compensation from the international business sector, which is an indicator of foreign exchange exports, increased from \$1.2 billion in 2011 to \$1.4 billion in 2015. While air arrivals have been decreasing since 2008 from 263,613 to an estimated 219,308 in 2015, which has adversely affected Bermuda's balance of payments position, imports of goods declined from \$969 million in 2014 to an estimated \$934 million in 2015, which has positively affected Bermuda's balance of payments position.

The financial account of Bermuda shows significant variation from year to year with large increases and decreases in both acquisition of foreign assets and incurrence of liabilities. Banks perform transactions with entities outside of Bermuda relating to international business services and consequentially large fluctuations occur in the financial account. Bermuda's international investment position was positive at \$4.7 billion at December 31, 2015. All sectors, with the exception of non-financial corporations are net creditors with non-financial corporations being net debtors with the rest of the world at \$825 million at December 31, 2015. However, this amount stems from direct investment which is less likely to move outside of Bermuda. Financial corporations are net creditors at \$5.4 billion at December 31, 2015, with this position stemming from non-resident deposits invested in overseas portfolio investment.

Foreign liabilities are mostly comprised of debt and equity securities, with financial derivatives amounting to only \$27.0 million as of December 31, 2015.

Current account surpluses are required to maintain the currency board, while Bermuda insulates itself from being a debtor country vis-à-vis the rest of the world. The BMA has sufficient reserves to cover its M0 monetary base, thus satisfying its role as an authority of an orthodox currency board. The M0 money supply stands at \$124.0 million while the BMA reserves stand at \$143 million as of December 31, 2015 indicating that adequate reserves are available to cover all notes and coins in circulation in Bermudian dollars. The coverage ratio is 117.3%.

Overall, the balance of payments reflects a reliance on employee compensation and service exports. To the extent that Bermuda remains a competitive jurisdiction for international business, foreign exchange receipts will support both the currency board and also improve Bermuda's ability to generate income for its residents.

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 increased by \$10 million, or 1.2%, from \$807 million in 2014 to \$817 million in 2015.

The trade deficit on goods was estimated at \$915 million for 2015, which represents a decline in the deficit of \$32 million compared to 2014. 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, business services and tourism are Bermuda's primary sources of foreign exchange earnings. The Department of Statistics estimates that during 2015 tourism and international business combined to provide \$2,188.7 million in foreign currency receipts. The amount of foreign currency received from these two sectors of the economy represented 66.1% of the total balance of payments current account receipts.

In 2015, imports totaled \$929 million, which represented a 3.5% decline when compared with 2014. The majority of the imports are sourced from the United States (approximately 65.6% of total imports), while Canada provides 14.7%, the Caribbean 2.6%, the United Kingdom 3.9%, and the remaining 13.2% are from other countries.

Capital and Financial Account

For 2015, the total net financial accounts recorded a net lending to foreigners of \$817 million, the total net capital account was zero and total net lending to foreigners recorded an increase of \$7 million.

Money Supply and Foreign Currency Position

Bermuda Dollar Money Supply and Foreign Currency Position

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 expanded by 3.1%, from \$3,342 million in the fourth quarter of fiscal year 2014 to \$3,447 million in the fourth quarter of fiscal year 2015. The increase was driven by a 3.1% (or \$100.6 million) increase in deposit liabilities during the year.

The following table shows historical money supply figures at year-end for the years indicated:

	Money supply				
	As of and for the fiscal year ended March 31,				
	2011	2012	2013	2014	2015
	(dollars in millions)				
Notes and coins in circulation ⁽¹⁾	133	130	145	127	133
Deposits	3,521	3,351	3,343	3,259	3,359
Banks and deposit companies	3,654	3,480	3,488	3,386	3,492
Less: Cash at banks and deposit company	(53)	(46)	(66)	(44)	(45)
Bermuda money supply	3,602	3,434	3,422	3,342	3,447
% growth (Year-on-Year)....	(3.7)%	(4.7)%	(0.40)%	(2.30)%	3.10%

Source: Bermuda Monetary Authority.

(1) Notes and coins in circulation include the supply of Bermuda dollars only.

Since the start of the financial crisis, in 2008, the United States Federal Reserve rates were reduced to historical low levels more frequently, and by larger amounts, than the rates of Bermuda banks. Over the same period the Bermuda dollar base lending rate was also lowered to current levels and has remained static since the start of 2011.

During 2015, neither of the two Bermuda banks adjusted interest rates. As of December 31, 2015, Butterfield Bank's base rate was 3.75%, resulting in a gap of 3.5% greater than the U.S. Federal Funds Target rate of 0.25%, while HSBC Bank Bermuda Limited's base rate was 3.50%.

Foreign Currency Position

The net foreign currency position of the banking and deposit-taking sector had a surplus in 2015, with net foreign currency assets exceeding net foreign currency liabilities by \$104 million at December 31, 2015. The net position increased by \$225 million during 2015 from a deficit of \$121 million in 2014, as a result of a relatively higher increase in net foreign currency assets of 7.4% as compared to an increase in net foreign currency liabilities of 5.7%.

The following table shows Bermuda's foreign currency positions at year-end for the years indicated:

	Foreign currency position				
	As of and for the fiscal year ended December 31,				
	2011	2012	2013	2014	2015
	(dollars in millions)				
Total foreign currency assets.....	19,672	18,759	19,942	18,349	19,715
Less: Other assets	(167)	(196)	(154)	(239)	(183)
Less: Foreign currency loans to residents	(918)	(819)	(696)	(804)	(999)
Net foreign currency assets.....	18,587	17,744	19,092	17,306	18,533
Foreign currency liabilities	(18,757)	(17,434)	(19,101)	(17,256)	(18,313)
BD\$ deposits of non-residents.....	(214)	(178)	(184)	(172)	(116)
Net foreign currency liabilities	(18,971)	(17,612)	(19,285)	(17,428)	(18,429)
Net foreign currency position (consolidated)	(383)	132	(193)	(121)	104

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.

As of May 2016, Bermuda's rate of inflation was 1.1%. As of the same month, the average inflation rate was 1.2%, with January and February showing the highest rates of inflation in 2016, at 1.7% and 1.3% respectively, and March showing the lowest rate of inflation at 1.0%. As of May 2016, the 12-month average rate of inflation was 1.4%. The Consumer Price Index ("CPI") increased at an average annual rate of 1.1% in 2015. In 2015, the largest price increases were recorded in the health and personal care sector, the food sector, the household goods sector, the services and supplies sector and the rent sector.

The increase in price levels of the health and personal care sector was the most significant contributor to the increase in inflation in 2015. The average rate of price increases for the health and personal care sector was 7.8%, which can be mainly attributed to a 9.8% increase in the average price of health insurance premiums in April 2015. Other categories experiencing higher costs in this sector were doctor's visits, personal care items and over-the-counter medicines.

During 2015, the monthly increases in the food sector ranged from 1.6% to 3.7%, with the average rate of price growth for the year settling at 2.7%. Four of the twelve months recorded price increases of over 3.0%.

The household goods and services sector experienced cost increases at an average rate of 2.1% in 2015. Increased costs in this sector can be mainly attributed to increased costs of postal rates, childcare and various cleaning materials.

The rent sector experienced cost increases at average rate of 0.6% in 2015, which can be attributed to marginal increases in the prices of both rent controlled and non-rent controlled properties

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

Comparison of Inflation Rates (%)

	For the year ended December 31,			
	2012	2013	2014	2015
Bermuda ⁽¹⁾	2.4	1.8	2.0	1.5
United States ⁽²⁾	1.7	1.5	0.8	0.7
Canada ⁽³⁾	1.5	0.9	2.0	1.1
United Kingdom ⁽⁴⁾	3.2	3.0	2.4	1.1

Sources:

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

PUBLIC FINANCE

Overview

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 2015 was 15.8%, with capital expenditure of \$49.8 million, or 0.8% 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 was \$2.217.7 billion at the end of the 2015/2016 fiscal year. Bermuda is not unique in facing the economic challenges resulting from the global crisis. The former administration's policy response during this difficult and challenging period was to protect vital sectors of the economy through tax concessions and relief, which was financed by borrowing. The former administration also tried to maintain the focus on sound social policy and programs and strived to preserve key delivery of Government services. The current administration considers the rise in debt as unsustainable and recognizes that it will take time and changes in policy to actually begin paying down the debt. Meanwhile, the Government will focus on growing the economy coupled with continuous cost containment to reduce the debt to more manageable levels.

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 (the "Audit Act"). 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 latest report of the Auditor General was released in November 2015 on the Government's Consolidated Fund for the years ended March 31, 2010, 2011 and 2012. The report noted, amongst other items, deficiencies in internal control over the management of various capital development projects. In December, the Government announced its intention to establish a commission of inquiry (the "Commission") to investigate the findings of the Auditor General's Report on the Consolidated Fund for the Financial Years 2010, 2011 and 2012, and appointed members of the Commission in February 2016. The Commission has commenced its work and will complete its report by December 31, 2016.

The Office of the Auditor General audited the historical financial statements of the Consolidated Fund of the Government (the “Consolidated Fund”) as at and for the fiscal year ended March 31, 2015, which is not included or incorporated by reference in this offering memorandum. See “Presentation of Economic, Financial and Statistical Information.” It was the independent opinion of the Auditor General that the annual accounts of the Consolidated Fund are presented fairly, in all material respects. This unqualified opinion is consistent with the March 31, 2014 auditor’s reports. Under the Audit Act 1990, section 6(1)(b), the Auditor General is able to include in her report, any other comments she considers appropriate. In the March 31, 2015 report, the Auditor General has, for the fifth consecutive year, included an explanatory paragraph as an ‘other matter’ that discusses ongoing incidents of non-compliance with the Government of Bermuda’s Financial Instructions. The Office of the Auditor General has explained that this is in relation to concerns about Information Technology controls, the effectiveness of bank reconciliations, as well as other items. Capital Asset Recognition ceased to be a contributor to other matters for the 2015 report. The Auditor General has also, for the fourth consecutive year, included an additional explanatory paragraph as an ‘other matter,’ which discusses the increased level of the net debt and the need for the Government to take concerted action to address it. These explanatory paragraphs do not alter the Auditor General’s unqualified opinion.

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. Also, the Office of Project Management and Procurement (“OPMP”) was established in 2011 to act as the Government’s center of excellence for procurement and project management related matters. To ensure transparency, consistency and objectivity in the tendering process, all contract awards must be vetted and signed-off by the OPMP before proceeding to the Cabinet.

When the Auditor General presents 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 presented, and attempts to identify financial shortcomings of the Government in light of issues raised in the Auditor General’s reports. The committee then presents 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 in February of each year, which contains a forecast of revenue and expenditure for the upcoming year.

Public Finance Policy

As part of the OBA’s focus on improving the Bermudian economy, the Government has taken measures to impose discipline on the management of public finances in order to reduce the national debt. Accordingly, the Government will continue with its fiscal consolidation strategy of reducing primary current account spending over the next several years and enhancing revenue by broadening the tax base and implementing policies that generate income from economic growth.

In early 2013, the Minister of Finance introduced the Sage Commission Bill, which was officially gazetted on April 1, 2013. The new law established the Spending and Government Efficiency Commission (the “Sage Commission”), which is tasked with the responsibility of streamlining government processes, improving delivery of public services and making the Government more efficient, cost-effective, transparent and user-friendly. The Sage Commission sought to determine the best means of structuring Government, streamlining Government processes, improving delivery of services and introducing cost saving measures coupled with greater transparency. The Sage Commission Report, dated October 31, 2013, identified a number of challenges relating to Government operations and recommended several transformative measures. The Government has already commenced work to address critical areas including:

- structure and accountability within the public service;
- reduction in the size and cost of the public service through disposal of non-core functions; and
- advancement of work that considers the implications of the structure of pension funds.

The Sage Commission Report and the recommendations contained therein combined with the many reviews and reports conducted by internal resources, as well as external consultants, serves as the foundation for formation of The Public Service Reform Initiative (“PSRI”). The PSRI objectives are directly aligned with those set out for the Sage Commission work. It is expected that there will be seamless integration between the research and recommendation phase, referred to as the Sage Commission era, and the implementation phase, the Public Service Reform Initiative era.

A Public Service Reform Strategic Framework has now been completed and adopted by the PSRI with a view to implementation of meaningful actions that will result in substantial and sustainable change. To this end, several working groups have been established. These include:

- The Human Resources Working Group,
- The Asset Rationalization Working Group,
- The Digital Services Working Group, and
- The Pension and Benefits Working Group.

The Government accepts that the cost of running Government and substantial debt threatens to destabilize the financial foundation of the organization; further, public expectations coupled with budget cuts require realignment of the organization and the delivery of services.

In 2015, the Ministry of Finance and Bermuda Monetary Authority (“BMA”) established a Financial Stability Framework for Bermuda. To meet the objectives in relation to financial stability a Financial Policy Council (the “Council”), a Financial Stability Committee (“FSC”) and a Fiscal Responsibility Panel (“FRP”) have been established.

The role of the Council is to ensure the overall coherence of financial policy in Bermuda and to provide a channel through which, as necessary, financial policy issues can be exposed to and assessed by the Cabinet. In this respect it would take account of the findings of the FRP established by the Ministry. The Council will also be responsible for ensuring that agreed actions are carried through effectively and in a timely manner.

The role of the FSC will be to support the Council in discharging of its responsibilities, including particularly the provision of appropriate data and background information and the associated analysis.

The FRP consists of three international experts in public policy finance. The FRP was created to provide an independent, external report of the Government’s actual fiscal conduct, as compared to the established fiscal rules. The FRP will provide Bermuda’s Parliament, Minister of Finance and the Council with an annual published assessment of Bermuda’s fiscal strategy, focusing on progress in meeting the Government’s medium term objectives for public spending, taxation, borrowing and debt reduction. The FRP published its first report in December 2015, which was prepared without any oversight or approval from Government. The report recommended the Government take a more aggressive approach to reducing its debt over the next eight years and that the Government focus on increasing revenues through actions such as tax increases and limiting concessions. The FRP will publish at least three more reports over the coming three years assessing the Government’s fiscal policy actions. Since the publication of the report, the Government has increased the standard payroll tax and has proposed a number of tax reforms to increase revenue. The Government has also worked to gradually limit and eliminate certain concessions.

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 for any purpose is insufficient or that a need has arisen for expenditure for a purpose for which no amount has been appropriated or (b) moneys have been expended for any purpose in excess of the amount appropriated for that purpose or for a purpose to which no amount has been appropriated, then the Minister of Finance may designate funds in excess of the amounts appropriated or for a purpose for which no amount has been appropriated 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 2011-2015)

	Fiscal years ended March 31,				
	2011	2012	2013	2014	2015
Total revenue	(dollars in millions, except percentages)				
Forecast – beginning of year	1,058.8	940.0	909.6	871.2	901.7
Actual collections	990.8	914.2	866.6	883.9	880.4
Forecast error	(62.1)	(25.8)	(43.1)	12.7	21.3
Forecast error (%)	(6.4)	(2.8)	(4.7)	1.5	(2.4)

Source: Ministry of Finance, Bermuda.

Medium-Term Expenditure Framework

In 2014/15 the Ministry of Finance introduced the Medium Term Expenditure Framework (MTEF) strategy, which established hard multi-year budget ceilings for the Government. This strategy supports the Government's commitment to eliminate the deficit and ultimately reduce the debt over the medium term. The 2016/17 fiscal year represents the third year of the MTEF. An MTEF program also 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 and Tax Policy

Government Revenue Sources

Bermuda has a consumption-based tax system, which has been in place since the 1800s. One of the first legislated taxes, the Revenue Act 1898 made provision for the collection of customs duty, and 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. The two most important revenue sources are taxes on payrolls and customs duties levied on merchandise imports, which, in fiscal year 2015/2016, accounted for 39.4% and 21.6% of Government revenue, respectively. Most other revenue derives from transfer taxes and fees levied on certain transactions, such as the sale or transfer of land or properties; annual fees levied on financial and non-financial companies registered in Bermuda; fees levied on motor vehicles; and fees levied on work permits issued to foreigners.

The Government is projecting budgeting revenue of \$996.9 million in the 2016/2017 fiscal year, 7.0% higher than the original estimate for the 2015/2016 fiscal year.

In order to reduce the deficit and provide needed services, the Government has focused on increasing revenues. Accordingly, for the 2016/17 fiscal year, the Government increased the standard payroll tax from 14.5%

to 15.5% in 2016/17. There was also a 1.0% increase of most other tax rate categories. The rate of tax recoverable from employees increased from 5.5% to at 6.0% in 2016/2017, in order to distribute the cost of the payroll tax increase between employers and employees. Payroll concessions currently in place for the hospitality, restaurant and retail sectors were partially rolled back in 2016, with businesses in these sectors paying a rate of 8.0%. The Government estimates the yield from payroll tax following the revised rate structure and partial rollback for payroll tax concessions to be approximately \$390 million in the 2016/17 fiscal year.

The Government also implemented the biennial review of Government fees, resulting in an increase in the Government fees for an array of services provided to the public by approximately 4% for most fees, with an anticipated increased yield of \$1-2 million.

The Government plans to increase the duty on fuel by 8 cents per liter in April 2017 and 5.5 cents per liter for fuel imported by BELCO to achieve additional customs revenue estimated at approximately \$11.7 million. The Government also plans to increase the duty on cigarettes and tobacco, beer, wines and spirits in April 2017 to achieve additional customs revenue of approximately \$4.0 million.

The Government anticipates \$3 million in receipts from sale of Government property that is surplus to requirements.

The following table shows annual revenue by source for the Government since the 2012/2013 fiscal year:

Central Government Revenue by Source

	Estimate 2016/2017						
	2012/2013	2013/2014	2014/2015	Revised 2015/2016 Estimates	2016/ 2017	Percentage of Revenue	2015/2016 as % of 2007/2008
	(dollars in millions, except ratios and other data)						
Customs duties.....	169.7	174.9	171.5	194.0	209.5	21.01	91
Payroll tax.....	328.0	330.8	333.9	353.4	390.0	39.12	131
International companies taxes and insurance	62.2	62.5	62.8	60.8	66.1	6.63	127
Local companies fee	2.8	2.8	2.7	2.8	2.8	0.28	103
Foreign currency purchase tax	22.1	20.8	20.1	19.8	21.0	2.11	241
Land tax	55.8	60.5	61.1	63.2	63.2	6.34	146
Hotel occupancy tax	10.0	9.2	9.2	10.5	11.0	1.1	91
Vehicle licenses and registration fees.....	26.0	26.7	28.4	27.2	28.0	2.81	103
Passenger tax	34.6	33.9	32.9	40.2	43.2	4.33	141
Stamp duty	18.8	21.4	23.9	23.8	24.2	2.42	48
All other receipts ⁽¹⁾	136.6	140.4	134.1	139.7	138.0	13.85	107
Total.....	\$ 866.6	\$ 883.9	\$ 880.4	\$ 935.4	\$ 996.9	100.00	113
% Increase (Year-on- Year)	(5.21)%	2.00%	(0.40)%	6.25%	6.58%	--	--

Source: 2016/2017 fiscal year National Budget.

(1) Includes, among others, receipts from postal services, immigration, ferry and bus fares, shipping and air terminal fees, and all other fees and charges.

Tax Policy

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 estimated ratio of total Government receipts in relation to GDP was approximately 15.2% of GDP in fiscal year 2014/2015. By contrast, for the federal government of the United States, the same ratio was approximately 15.2% of GDP in 2015. 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, all of which are

provided by the British government. In 2005 (the most recent year for which data are available), such costs were estimated in the range of \$10 million to \$15 million, equivalent to approximately 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 permitted to 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. With regard to tax policy, Bermuda is committed to international cooperation, transparency and global responsibility. In this regard, Bermuda was the first jurisdiction to ascend to the OECD “White List” after its publication on April 2, 2009, and has to date signed 42 tax information exchange agreements on a bilateral basis with various countries, and implemented U.S. Foreign Account Tax Compliance Act (“U.S. FATCA”) and United Kingdom Foreign Account Tax Compliance (“U.K. FATCA”) Intergovernmental Agreements. 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. Bermuda’s tax regime applies equally to local and international companies and other entities.

The tax system was designed 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.

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 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 comparable to 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 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.

Tax Reform

Bermuda’s tax system has historically been based on three kinds of taxes: taxes on remuneration such as the payroll tax, taxes on consumption such as customs duties and taxes on property such as the land tax. In the 2015/16 Budget Statement, the Minister of Finance announced the Government’s intention to commission a review of Bermuda’s tax system. To this end, the Government engaged CARTAC to conduct an analysis of Bermuda’s tax system and make recommendations for tax reform while adhering to certain guidelines by the Government, including:

- No income tax,
- No Value-Added Tax or VAT, and
- The need to raise revenue to help reduce the deficit.

The tax economists from CARTAC consulted widely before providing their report. CARTAC recommended many widespread changes to Bermuda’s tax system and many of their recommendations form the basis for the tax reform measures announced in the 2016/2017 Budget. These measures also took into account consultations with major stakeholders and modifications by Government.

Payroll Tax

The Government enacted a 1.0% payroll tax increase in 2016. Currently, payroll taxes are payable by the employer at rates up to 15.5% of the remuneration paid to staff members. Up to 6.0% of the 15.5% tax, or 0.93%, may be recovered by the employer from employees. The Government is currently considering reforms to the Payroll Tax structure to make it more progressive, equitable and to yield additional revenue. The current structure takes little or no account of the ability to pay of employers or their employees. In order to achieve the right balance, Government will continue its consultation with businesses and will obtain more detailed data from employers in order to model the outcomes of various payroll options over the current fiscal year. It is anticipated that the restructured payroll tax system will be implemented in fiscal 2017/18.

Notional Taxable Payroll

The payroll tax system has remained virtually unchanged for the last 20 years. An integral part of this system has included notional salaries for payroll tax purposes (“notionals”). Such notionals are applied to people who are self-employed or principals in small businesses or professional practices, such as health care and professional advisory services in a business or legal context. A review of these notionals has indicated potential abuse. The Government intends to conduct a thorough review of all the notionals in the system with a view to update them to reasonable and fair levels.

Consumption Taxes

Consumption tax refers primarily to customs duties on goods. Goods form a diminishing proportion of Bermuda’s services-based economy. The Government will therefore, as part of its tax reform plan, alter the structure of customs duties as well as broaden the tax system to include services. Proposed reforms to customs duties and excise taxes include: (i) increasing excise duties on alcohol, tobacco and petrol during the 2016/17 fiscal year, increasing annual revenue from such duties by an estimated \$14.7 million, (ii) preparing the introduction of a single unified customs duties tariff in the 2016/2017 fiscal year and (iii) establishing a separate statute from the customs tariff to impose excise taxes in the 2017/2018 fiscal year. Separating the imposition of excise taxes from customs duties would improve the transparency of the fiscal system. This tax will be payable at the border, just like customs duties and will be administered by HM Customs.

General Services Tax

In order to broaden the tax base, a new services sales tax, to be called the General Services Tax (“GST”), will be levied on turnover from the provision of most services by service providers to the public. It is proposed that this GST will be levied at a rate of 5.0%, with a net revenue estimated at \$50 million per year. As this is a change that will require significant adjustments in operations, billing, and reporting on the part of service providers and collecting, tracking and enforcement on behalf of Government, this tax will not be implemented until April 1, 2017, at the earliest. Notable exemptions to the GST will be in the sectors of banking, insurance and health care. Small service providers will also be exempted from the tax.

Land Tax

In 2015, the Government announced new land tax rates, which were increased to keep land tax revenue intake the same as it was in 2014 year despite lowering annual rental values.

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 2016/2017 fiscal year National Budget, against the background of moderately improving economic conditions, Government set the overall budget expenditure including current account and capital account outlays, debt service and the Sinking Fund contributions at \$1.196 billion. This level of spending will enable the Government to service its debt, strengthen infrastructure, provide required education, provide healthcare and security for its citizens, and assist the lower income population.

The following table shows annual expenditure by ministries since the 2012/2013 fiscal year:

Ministry	2012/2013	2013/2014	2014/2015	Revised 2015/2016 Estimates	Estimate 2016/2017		
					2016/2017 Estimates	Percentage of Expenditure	2016/2017 as % of 2007/2008
(dollars in millions, except percentages)							
Current Account:							
Non-ministry departments.....	16.4	15.4	15.1	15.9	16.1	1.74	114
Cabinet office	26.9	24.7	23.2	23.3	25.0	2.72	104
Legal affairs.....	24.1	25.9	24.8	27.4	26.3	2.85	129
Finance (excluding interest on debt and Sinking Fund)	68.6	94.9	92.4	91.6	100.4	10.89	110
Education.....	137.2	132.7	128.2	124.8	124.9	13.55	90
Health, seniors and environment	211.6	210.1	195.5	193.6	194.4	21.09	127
Tourism development and transport	117.6	114.1	105.6	98.7	89.2	9.69	75
Public works	95.8	87.7	86.4	76.6	75.4	8.18	87
Community, culture and sports.....	81.6	83.9	86.5	88.0	88.6	9.61	148
National security.....	142.7	149.2	146.2	145.2	142.8	15.49	94
Home affairs	33.0	21.1	17.4	18.8	18.7	2.03	108
Economic development ..	12.1	11.5	13.8	18.0	19.9	2.16	237
Subtotal	967.8	971.1	935.1	921.8	921.7	100.00	104
% Increase (year-on-year)	(2.26)%	0.34%	(3.71)%	(1.42)%	(0.02)%	--	--
Current account expenditure	967.8	971.1	935.1	921.8	921.7	--	104
Capital expenditure	63.5	65.4	49.8	57.3	87.3	--	56
Interest on debt	30.4	109.2	113.2	116.3	129.0	--	731
Sinking Fund contribution	30.8	37.6	47.7	52.5	58.4	--	1,038
Total	\$1,092.5	\$1,183.4	\$1,145.7	\$1,147.6	\$1,196.3	--	112

Source: 2016/2017 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 2012/2013 (based upon Government revenues and expenditures presented in the above tables):

	2012/2013	2013/2014	2014/2015	Revised 2015/2016	Estimate 2016/17
(dollars in millions)					
Deficit.....	\$(225.9)	\$(299.4)	\$(265.4)	\$(212.2)	\$(199.4)

Source: 2016/2017 fiscal year National Budget.

Total expenditure for the 2014/2015 fiscal year was \$1.146 billion with total anticipated 2015/2016 fiscal year expenditure of \$1.151 billion. Projected expenditures for the 2016/2017 fiscal year are \$1.196 billion.

The Government remains steadfast in prudently managing expenditures and since March 31, 2013 current account spending levels excluding debt service have been reduced by \$77 million, or 7.7%. It has become increasingly difficult to implement further reductions under the current Government structure and the formulaic approach to expenditure cuts in previous budgets. In the future, the Government intends to revise its approach in order to implement further savings, either by way of increased efficiencies or through reforms in the way services are delivered and departments are structured.

The 2016/2017 budget puts in place a three-year plan to reduce or eliminate the deficit, which has been driving growth in public debt. The objective is to increase annual revenues by \$150 million over three years. To achieve that target, reforms will be introduced in fiscal year 2017/18 and onward to broaden the tax base (as described above), with progressive measures to ease pressure on lower income earners and to prudently manage expenditures.

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

Estimated expenditure for the 2015/2016 fiscal year (revised) (dollars in millions)

Non-ministry.....	\$15.9
Cabinet office departments	\$23.3
Legal affairs.....	\$27.4
Finance (excluding interest on debt and Sinking Fund)	\$91.6
Education.....	\$124.8
Health, seniors and environment	\$193.6
Tourism development and transport	\$98.7
Public works	\$76.6
Community, culture and sports	\$88.0
National security.....	\$145.2
Home affairs	\$18.8
Economic development	\$18.0
Interest on debt	\$116.3
Sinking Fund contribution	\$52.3

Source: 2016/2017 fiscal year National Budget.

Public Debt

On February 22, 2013, the Government amended the Government Loans Act 1978 to increase the legal limit on government debt (net of the Sinking Fund balance) from \$1.45 billion to \$2.5 billion. Any legislative amendment to increase the debt 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 debt ceiling was taken in view of the forecast operating deficit, not only for the year under consideration, but for those forecast in the medium term plan.

In conjunction with the amendment to the debt ceiling, in 2013 the Government set up debt-related targets, or rules, that were appropriate for an economy the size of Bermuda's. These rules committed the Government to keep public debt at such levels that the net debt/GDP ratio would not exceed 38%. Additionally, Government recognized the desirability of achieving a net debt/revenue ratio that would not exceed 80% and a debt service cost/revenue ratio that would be below 10%. It was stated these were targets the Government would work toward over the medium term. The debt and debt service to revenue targets are the important ones for Bermuda. The Government reaffirms these limits, except for the net debt/GDP ratio which is less relevant for an economy of the size of Bermuda. The Government plans to work towards reducing these ratios to such levels over the medium term.

Guarantees are contingent liabilities to the Government and are not included on the Government's balance sheet, or counted against the debt ceiling, unless the guarantee becomes due and payable by the Government. All guarantees are disclosed in notes to the financial statements of the Consolidated Fund, and are as follows:

- a guarantee by the Government of the Bermuda Hospital Board's annual service payment obligations related to the financing for the new acute care wing at the King Edward Memorial Hospital, over a term of 30 years consisting of principal, interest, construction, lifecycle and hard facilities maintenance. The design and construction related costs of the new facility are approximately \$247 million;
- a guarantee by the Government in respect of approximately \$183 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 obligations related to the repayment of construction financing for the construction of affordable housing, estimated at \$25 million;
- a guarantee by the Government of the West End Development Corporation payment obligations related to the repayment of financing to facilitate the completion of the Land Reclamation Project in Dockyard for the America's Cup, estimated at \$39 million;
- a guarantee on a loan of \$2.9 million to the West End Development Corporation related to the completion of the new sewage treatment plant at the Royal Navy Dockyard; a guarantee by the Government of the Bermuda Housing Corporation ("BHC") payment obligations related to the repayment of construction financing for the construction of affordable housing, estimated at \$36.7 million;
- a \$165 million guarantee by the Government of various loans to Morgan's Point Limited, the Morgan's Point hotel developer for the construction of a Ritz Carlton hotel and residence; and
- various other small business loans and education guarantees totaling approximately \$1.5 million as of March 31, 2016.

Bermuda has never defaulted on any of its debt or guarantee obligations.

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

Bermuda compared to G7 member nations^(*)

	2014 GDP growth	2015 GDP growth	2015 inflation	December 2015 unemployment rate	Central – bank rate⁽¹⁾	2015 government net debt⁽²⁾/GDP
Bermuda ⁽³⁾	0.5%	4.0%	1.5%	7.0%	N/A	34.6%
United States..	2.4	2.4	0.8	5.0	0.25%	80.6
Japan.....	(0.03)	0.5	0.3	3.3	(0.1)	128.1
United Kingdom.....	2.6	2.2	0.1	5.1	0.25	80.7
Germany	1.6	1.5	0.3	6.3	0.0	48.8
Canada	2.5	1.2	1.3	7.1	0.5	26.7
France	0.3	1.1	0.3	10.2	0.0	89.1
Italy.....	(0.3)	0.8	0.1	11.6	0.0	111.4

Sources: IMF, EIU, Bloomberg (bank rates) and Countries' Central Bank websites (bank rates). Certain figures are estimates. Ministry of Finance, Bermuda, for debt and debt related numbers, and Department of Statistics, Bermuda, for all other information.

(1) As of September 15, 2016.

(2) Net debt is total debt excluding guarantees. For Bermuda, net debt is total debt (excluding guarantees) 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

	2014 GDP growth	2015 GDP growth	2015 inflation	2015 unemployment rate	Central – bank rate ⁽¹⁾	2015 government net debt ⁽²⁾ / nominal GDP
Bermuda ⁽³⁾	0.5%	4.0%	1.5%	7.0%	N/A	34.6%
Aruba	0.8	0.1	0.5	N/A	1.0	N/A
The Bahamas ..	1.0	0.5	2.0	13.4	4.5	62.1
Barbados	0.2	0.9	(1.1)	11.3	3.0	68.3
Trinidad and Tobago	(1.0)	(1.8)	1.5	3.6	4.8	22.5
Cayman Islands	2.4	2.0	(2.3)	4.2	3.5	N/A

Sources: IMF, EIU (Aruba and Cayman Island Macroeconomic information), Bloomberg (bank rates) and Countries' Central Bank websites (bank rates). Certain figures are estimates.

(1) As of September 15, 2016.

(2) Net debt is total debt excluding guarantees. For Bermuda, net debt is total debt (excluding guarantees) 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.

At March 31, 2016, the Government's total debt, excluding guarantees, was \$2,335.0 million (and net of the Sinking Fund (as discussed below), was \$2,217.7 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.
- \$130 million aggregate principal amount of senior notes, with interest payable semiannually on May 21 and November 21 of each year, in two series:
 - ▶ 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.
- \$475 million aggregate principal amount of Senior Notes due 2023 with a 4.138% interest rate payable semiannually on January 3 and July 3 of each year.
- \$750 million aggregate principal amount of Senior Notes due 2024 with a 4.854% interest rate payable semiannually on February 6 and August 6 of each year.
- BDA \$50 million aggregate principal amount of Senior Notes due 2023 with a 4.75% interest rate payable semiannually on December 16 and June 16 of each year.
- \$150 million Term Loan Agreement with local bank due June 31, 2017 with a 5.0% interest rate payable monthly in arrears.

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 on an actual basis as of March 31, 2016. The "Pro Forma" column reflects the Government's debt after repayment of the 5.698% Senior Notes due 2016, which matured in May 2016, and assuming completion of the notes offering and the application of the proceeds therefrom as described under "Use of Proceeds."

	As of March 31, 2016	Pro Forma
	(dollars in millions)	
Existing borrowings		
5.698% Senior Notes due 2016 ⁽¹⁾	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	223.9
5.73% Senior Notes due 2022.....	140.0	140.0
4.138% Senior Notes due 2023.....	475.0	475.0
4.75% Senior Notes due 2023.....	50.0	50.0
4.854% Senior Notes due 2024	750.0	750.0
5.0% Term Loan Agreement	150.0 ⁽²⁾	0
3.717% Senior Notes due 2027 offered hereby	—	665.0
Total debt ⁽³⁾	<u>2,335.0</u>	<u>2,543.9</u>
Less: Sinking Fund ⁽³⁾	<u>118.2</u>	<u>88.2</u>
Net debt ⁽³⁾	<u>2,216.7</u>	<u>2,455.6</u>
National education guarantees	0.0	0.0
Butterfield Bank preference share guarantee	183.0	183.0
Hospital Board guarantee.....	247.0	247.0
WEDCO sewage plant guarantee.....	2.9	2.9
WEDCO housing development guarantee	25.0	25.0
WEDCO land reclamation project guarantee.....	39.0	39.0
Bermuda Housing Corporation housing development guarantee.....	36.7	36.7
Morgan's Point guarantee	165.0	165.0
Balance to Debt Ceiling.....	<u>232.0</u>	<u>44.3</u>

(1) These notes matured in May 2016.

(2) The amount outstanding under the 5.0% Term Loan Agreement was U.S.\$200.0 million as of October 11, 2016.

(3) Based on estimates. Source: 2016/2017 fiscal year National Budget.

The following table shows the public sector external debt of Bermuda 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, WEDCO, Morgan's Point and BHC guarantees set forth in the table above.

Government's Public Debt

	<u>Issue Date (mm/dd/yy)</u>	<u>Interest Rate (%)</u>	<u>Maturity Date (mm/dd/yy)</u>
Senior Notes due 2022.....	12/04/07	5.73%	12/04/22
Senior Notes due 2019.....	05/21/09	7.38%	05/21/19
Senior Notes due 2019.....	06/10/09	7.38%	05/21/19
Senior Notes due 2016.....	11/10/09	5.27%	11/10/16
Senior Notes due 2019.....	11/10/09	5.93%	11/10/19
Senior Notes due 2020.....	07/13/10	5.603%	07/20/20
Senior Notes due 2023.....	07/03/12	4.138%	01/03/23
Senior Notes due 2023.....	12/16/2013	4.75%	12/16/23
Senior Notes due 2024.....	08/06/13	4.854%	02/06/24
Senior Notes due 2027 offered hereby	10/19/16	3.717%	01/25/27

Source: Ministry of Finance, Bermuda.

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 BHC dated July 12, 2011 which states that “to the extent that BHC operates programs which do not break-even, the Government will appropriate annual grants to enable BHC 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 BHC 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 \$2.9 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 (approximately \$183 million as of March 31, 2016) 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. As of March 31, 2015, the guarantee was for approximately \$247 million to be repaid over 30 years from the time of the initial granting of the guarantee.
- 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. This guarantee has subsequently been reduced to \$25 million.
- On October 30, 2012, the Minister of Finance granted approval to the borrowing of \$36.7 million by BHC from Butterfield Bank to finance the purchase of the units of phase three of the Grand Atlantic

Housing Development (“Grand Atlantic”) and to repay the loans advanced by the bank for Grand Atlantic phases one and two. This loan facility was originally for a two year duration but has been extended for another five years. The Ministry of Finance has provided a guarantee in respect thereof to Butterfield Bank.

- In June 2015, the Minister of Finance consented to the borrowing of \$39 million by WEDCO from BNTB to facilitate the completion of the Land Reclamation Project in Dockyard. This loan facility is for a term of six years. The Ministry of Finance further guarantees and will make good any default on the part of WEDCO in the payment of the loan to BNTB and all related interest fees and charges due as a result of default by WEDCO until all indebtedness to BNTB has been fully discharged.
- On March 14, 2016, the Minister of Finance provided an irrevocable Guarantee Agreement to lenders providing credit facilities on behalf of Morgan’s Point Limited, the developer of a Ritz Carlton hotel and residences in Morgan’s Point, Bermuda. The Guarantee Agreement guarantees up to \$165 million of the borrower’s payment obligations to the lenders. The financing guaranteed is provided under separate groups of loans, each maturing within five years of the initial loan, with two 1-year options to extend the maturity.

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 (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 fiscal year. As of March 31, 2016, the fund balance was approximately \$117.3 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 and high quality money market funds 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, in 2009 the Government amended the Government Loans Act 1978 to provide the Minister of Finance with additional capacity to respond to economic conditions that impair the Government’s tax receipts. 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 was used to pay a portion of the interest due on the Government’s long-term debt. Since that period, the Government has steadily increased its contributions to the Sinking Fund. The Sinking Fund balance is expected to be approximately \$87.4 million at the end of the 2016/2017 fiscal year.

The Government Loans Act 1978, as currently drafted, did not anticipate multi-year budgeting and financing. In order to address this restriction the Government has amended such Act to allow excess funds borrowed to be paid into the Sinking Fund and applied to future year deficits.

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

Bermuda's debt

As of March 31,	Total debt	Sinking Fund balance	Net debt⁽¹⁾	Guarantees	Debt Ceiling	Debt service ratio⁽²⁾	Net debt/ Nominal GDP
			(dollars in millions, except ratios)				
2011	1,087.5	(85.5)	1,002.0	209.0	1,250	7.5%	17.8%
2012	1,350.7	(114.7)	1,236.0	207.3	1,250	10.2%	22.1%
2013	1,574.0	(97.1)	1,476.9	278.6	2,500 ⁽³⁾	13.0%	26.2%
2014	2,305.0	(536.6)	1,768.4	515.4	2,500 ⁽³⁾	16.6%	31.3%
2015	2,185.0	(135.8)	2,049.2	519.1	2,500 ⁽³⁾	18.3%	34.6%
2016	2,335.0 ⁽⁴⁾	(117.3) ⁽⁴⁾	2,217.7 ⁽⁴⁾	519.1 ⁽⁴⁾	2,500 ⁽³⁾	18.0% ⁽⁴⁾	N/A

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 \$2.5 billion in February 2013.

(4) Based on preliminary estimates. Official data not yet available as of the date of this offering memorandum.

Credit Ratings

The Government currently holds long-term foreign currency credit ratings of "A+" (stable outlook) from Standard and Poor's ("S&P") and "A2" from Moody's Investor Services ("Moody's") (stable outlook).

DESCRIPTION OF THE NOTES

The notes will be issued by the Government under an indenture to be dated as of October 19, 2016 (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 paying agent (the “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 \$665,000,000;
- mature on January 25, 2027;
- 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, Delivery and Form.”

Interest on the notes will:

- accrue at the rate of 3.717% per annum;
- accrue from October 19, 2016 (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 25 and July 25 of each year, commencing on July 25, 2017;
- be payable to the holders of record on January 10 and July 10 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. 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. It is understood that this provision will not be construed to as to require the Government to make payments under the notes ratably with payments being made under any other external indebtedness. 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 or 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 30 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 affiliates, which is a primary U.S. government dealer, plus two 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.

In addition, we may redeem the notes, in whole or in part, at any time on or after October 25, 2026 (three months prior to the maturity date of the notes) at a redemption price equal to 100% of the principal amount of notes to be redeemed plus accrued and unpaid interest.

Notice of any redemption will be mailed by first-class mail, postage prepaid, or delivered in accordance with the procedures of the applicable depository, 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 occur and be 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 such error 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 in an aggregate amount of at least \$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 representing 25% or more 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 representing more 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.

Meetings, Amendments and Waivers

The Government may call a meeting of the holders of the notes at any time regarding the notes or the indenture. The Government will determine the time and place of the meeting and will notify the holders of the time, place and purpose of the meeting not less than 30 and not more than 60 days before the meeting.

In addition, the Government or the Trustee will call a meeting of the holders of the notes if holders of at least 10% in principal amount of all the notes then outstanding have delivered a written request to the Government or the Trustee (with a copy to the Government) setting out the purpose of the meeting. Within 10 days of receipt of such written request or copy thereof, the Government will notify the Trustee and the Trustee will notify the holders of the time, place and purpose of the meeting called by the holders, to take place not less than 30 and not more than 60 days after the date on which such notification is given.

Only holders of debt securities and their proxies are entitled to vote at a meeting of holders. The Government will set the procedures governing the conduct of the meeting and if additional procedures are required, the Government will consult with the Trustee to establish such procedures as are customary in the market.

If a modification only affects a series of debt securities issued under the indenture, it may also be approved by the holders of such series of debt securities pursuant to written action with the consent of the requisite percentage of such series. The Government will solicit the consent of the relevant holders to the modification not less than 10 and not more than 30 days before the expiration date for the receipt of such consents as specified by the Government.

The holders of any series of debt securities may generally approve any proposal by the Government to modify the indenture or the terms of such series with the affirmative vote (if approved at a meeting of the holders) or consent (if approved by written action) of holders of more than 50% of the outstanding principal amount of such series.

However, holders of any series of debt securities (including the notes) may approve, by vote or consent through one of three modification methods, any modification, amendment, supplement or waiver proposed by the Government that would do any of the following (such subjects referred to as “reserve matters”):

- change the date on which any amount is payable on the debt securities;
- reduce the principal amount (other than in accordance with the express terms of a series of debt securities and the indenture) of the debt securities;
- reduce the interest rate on the debt securities;
- change the method used to calculate any amount payable on the debt securities (other than in accordance with the express terms of a series of debt securities and the indenture);
- change the currency or place of payment of any amount payable on the debt securities;
- modify the Government’s obligation to make any payments on the debt securities (including any redemption price therefor);
- change the identity of the obligor under the notes;

- change the definition of “outstanding debt securities” or the percentage of affirmative votes or written consents, as the case may be, required to make a “reserve matter modification”;
- change the definition of “uniformly applicable” or “reserve matter modification”;
- authorize the Trustee, on behalf of all holders of the debt securities, to exchange or substitute all the debt securities for, or convert all the debt securities into, other obligations or securities of the Government or any other person; or
- change the legal ranking, governing law, submission to jurisdiction or waiver of immunities provisions of the terms of the debt securities.

A change to a reserve matter, including the payment terms of any series of debt securities (including the notes), can be made without your consent, as long as the change is approved, pursuant to one of the three following modification methods, by vote or consent by:

- the holders of more than 75% of the aggregate principal amount of the outstanding notes insofar as the change affects the notes (but does not modify the terms of any other debt securities issued under the indenture);
- where such proposed modification would affect the outstanding notes and at least one other series of debt securities issued under the indenture, the holders of more than 75% of the aggregate principal amount of the then outstanding debt securities of all of the series affected by the proposed modification, taken in the aggregate, if certain “uniformly applicable” requirements are met (defined in the indenture as “cross-series modification with single aggregated voting”); or
- where such proposed modification would affect the outstanding notes and at least one other series of debt securities issued under the indenture, the holders of more than 66 2/3% of the aggregate principal amount of the then outstanding debt securities of all of the series affected by the proposed modification, taken in the aggregate, *and* the holders of more than 50% of the aggregate principal amount of the then outstanding debt securities of each series affected by the modification, taken individually.

“Uniformly applicable,” as referred to above, means a modification by which holders of debt securities of any series affected by that modification (including the notes, if so affected) are invited to exchange, convert or substitute their debt securities for (x) the same new instruments or other consideration or (y) new instruments or other consideration from an identical menu of instruments or other consideration.

The Government may select, in its discretion, any modification method for a reserve matter modification in accordance with the indenture and to designate which series of debt securities will be included for approval in the aggregate of modifications affecting two or more series of debt securities. Any selection of a modification method or designation of series to be included will be final for the purpose of that vote or consent solicitation.

Before soliciting any consent or vote of any holder of the debt securities (including the notes) for any change to a reserve matter, the Government will provide the following information to the trustee for distribution to the holders of debt securities of any series that would be affected by the proposed modification:

- a description of the Government’s economic and financial circumstances that are in the Government’s opinion relevant to the request for the proposed modification, a description of the Government’s existing debts and description of its broad policy reform program and provisional macroeconomic outlook;
- if the Government shall at the time have entered into an arrangement for financial assistance with

multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, (x) a description of any such arrangement or agreement and (y) where permitted under the information disclosure policies of the multilateral or other creditors, as applicable, a copy of the arrangement or agreement;

- a description of the Government's proposed treatment of external debt instruments that are not affected by the proposed modification and its intentions with respect to any other major creditor groups; and
- if the Government is then seeking any reserved matter modification affecting any other series of debt securities, a description of that proposed modification.

For purposes of determining whether the required percentage of holders of the notes or any series of debt securities has approved any amendment, modification or change to, or waiver of, the notes, such other series of debt securities or the indenture, or whether the required percentage of holders has delivered a notice of acceleration of the debt securities of that series, debt securities will be disregarded and deemed not to be outstanding and may not be counted in a vote or consent solicitation for or against a proposed modification if on the record date for the proposed modification or other action or instruction hereunder, the debt security is held by the Government or by a public sector instrumentality, or by a corporation, trust or other legal entity that is controlled by the Government or a public sector instrumentality, except that (x) debt securities held by the Government or any public sector instrumentality of the Government or by a corporation, trust or other legal entity that is controlled by the Government or a public sector instrumentality which have been pledged in good faith may be regarded as outstanding if the pledgee establishes, to the satisfaction of the Trustee, the pledgee's right so to act with respect to such debt securities and that the pledgee is not the Government or a public sector instrumentality, and in case of a dispute concerning such right, the advice of counsel shall be full protection in respect of any decision made by the Trustee in accordance with such advice and any certificate, statement or opinion of counsel may be based, insofar as it relates to factual matters or information which is in the possession of the Trustee, upon the certificate, statement or opinion of or representations by the Trustee; and (y) in determining whether the Trustee will be protected in relying upon any such action or instructions hereunder, or any notice from holders, only debt securities that a responsible officer of the Trustee knows to be so owned or controlled will be so disregarded.

As used in the preceding paragraph, "public sector instrumentality" means any department, secretary, ministry or agency of the Government, and "control" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests, by contract or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of that legal entity.

Other Amendments

The Government and the Trustee may, without the vote or consent of any holder of debt securities of a series, amend the indenture or the debt securities of that series for the purpose of:

- adding to the Government's covenants for the benefit of the holders;
- surrendering any of the Government's rights or powers with respect to the debt securities of that series;
- securing the debt securities of that series;
- curing any ambiguity or curing, correcting or supplementing any defective provision in the debt securities of that series or the indenture;

- amending the debt securities of that series or the indenture in any manner that the Government and the Trustee may determine and that does not materially adversely affect the interests of any holders of the debt securities of that series; or
- correcting a manifest error of a formal, minor or technical nature.

Further Issues

The Government may from time to time, without the consent of the holders, create and issue additional notes having the same terms and conditions as the notes in all respects, except for the issue date, issue price and first payment of interest on the notes; *provided, however*, that any additional notes subsequently issued that are not fungible with the previously outstanding notes for U.S. federal income tax purposes shall have a separate CUSIP, ISIN or other identifying number from the previously outstanding notes. Additional notes issued in this manner will be consolidated with and will form a single series with the previously outstanding 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.

Notwithstanding anything herein to the contrary, any notice to a holder of an interest in a global note will be deemed sufficiently given if given to the depositary for such Note (or its designee), pursuant to the applicable procedures of such depositary.

Effective 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 or in his or her absence the Acting Accountant General (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 any note is outstanding the Government will maintain (1) a 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 or 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 representing 25% or more 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 has been 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

Bermuda is an overseas territory of the United Kingdom. Consequently, it may be difficult for investors in the notes to obtain or realize in the United States or elsewhere judgments obtained against Bermuda. See “Enforceability of Civil Liabilities under U.S. Federal Securities Laws and Other Matters” for further information.

Proceedings against the Government in respect of the notes are governed by the Crown Proceedings Act 1966, as amended (the “Crown Proceedings Act”). The Crown Proceedings Act permits proceedings against the Government and such proceedings shall be enforced in the same manner in all respects as in like proceedings between individuals. Proceedings against the Government shall be instituted against the appropriate minister, in this case, the Minister of Finance.

The Government will irrevocably submit to the non-exclusive 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.

The Crown Proceedings Act provides that documents required to be served on the Government shall be served on the Attorney General. We have been advised by Melvin Douglas, Solicitor General of Bermuda, that the Attorney General is permitted to appoint a New York agent to accept service of process on behalf of the Minister of Finance as further described below.

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 (the “Immunities Act”) 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, the Immunities Act, with respect to actions brought against it under the U.S. federal securities laws or any state or local securities laws. In the absence of a waiver of sovereign immunity by the Government 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 Immunities Act 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 in force 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 or recognized in Bermuda courts. Therefore, any judgments obtained against the Government under U.S. law may not be honored or 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, 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 securities law because these laws have no extraterritorial jurisdiction under Bermuda law and do not have force 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 U.S. 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 U.S. 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.

Exchanges of Global Notes for Certificated Notes will trigger stamp duty under the Stamp Duties Act 1976 of Bermuda 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.

Bermuda Securities Depository

Once the Notes are listed on the BSX, and for as long as they remain listed on the BSX, they will be eligible for deposit into the Bermuda Securities Depository ("BSD"). There is currently no plan to deposit any of the notes into the BSD, however the following description of the operations and procedures of BSD are provided as a matter of convenience.

Any notes are deposited into the BSD, may be traded through the settlement and trading facilities of the BSD pursuant to the BSX's Trading Regulations.

The operations and procedures of the BSD are solely within the control of the BSX (with the relevant oversight by the BMA) and are subject to changes. The Government takes no responsibility for these operations and procedures and urges Investors to contact their BSD participants directly to discuss these matters.

According to the BSD's participants' users guide, the BSD is the clearing, settlement and depository service operated by the BSX. The BSD is powered by NASDAQ OMX's X-stream trading platform providing world class trading technology and enabling the seamless trading and settlement of dematerialized securities. The BSX trading members, custodians, institutions and foreign depositories may become BSD participants. These participants act on their own behalf and on behalf of investors. Investors hold their securities in the BSD through a participant. Participants may open as many accounts as they wish. This enables participants to operate an exclusive account for an Individual person or institution.

Alternatively, participants may operate omnibus accounts on behalf of a wide range of investors. However, participants must segregate securities held on their own behalf from securities held for their customers and must also separate securities held for Bermudian investors from those held for non-Bermudians.

To move securities into dematerialized form in the BSD system, the legal owner (the investor or his agent) needs to sign a transfer form and transfer the legal ownership to the BSD nominee. Although legal ownership changes when the Issuer updates the register, there is no change of beneficial ownership, as the BSD will create a book entry holding in the name of the investor (or his agent). The BSD will provide each participant with on line access to details of the accounts under Its control.

Holdings within the BSD nominee are "dematerialized" as issuing entities generally do not issue certificates in respect of this holding. However, the BSD will reconcile on a regular basis with the applicable registrar and will take steps to ensure that account holders enjoy the rights (e.g., receipt of interest, attendance at meetings, etc.) of ownership even though their securities are dematerialized. In addition the BSD will provide registrars with on-line access to the system. This will enable them to view accounts and transactions on a real-time basis. All trades executed on the BSX in BSD eligible securities are settled by transfers from and to BSD accounts. The value of trades due for settlement on a specified day is netted to give a single pay or receive figure for each participant. Participants, who are due to pay, settle the net figure by wire (or intra bank) transfer on the settlement day. Conversely, BSD will make payment to receiving participants in the same way.

Where an investor holds the securities, through a participant, in the BSD, then no further documentation is required from the seller and securities will be taken from the seller's account and added to the buyer's account immediately when the trade is executed. Investors may therefore buy and sell on the same day.

In addition, the broker must arrange for the dematerialization of the securities before the trade can take place. Securities in the BSD system can be transferred from account to account by book-entry movement. Such transfers may arise from trades on the BSX, voluntary conveyances or changes in the relationship between an investor and the participant. In addition, securities can be "frozen" as a result of a pledge instruction. In this case the securities will not be released until the BSD receives a release request from the pledgee. Securities within the system can also be borrowed and returned by an automated book-entry transfer procedure.

On the securities side, the BSX, through its link with the BSD, checks that securities are available to satisfy all sold orders before they are accepted into the system.

Immediately when a trade is settled, securities are transferred to the buyer's account and may then be used for sale within the system. As all securities within the system are good stock, no trade can be the subject of a bad delivery. In terms of funds, BSD participants are required to support their net trading levels with either cash deposits or acceptable financial guarantees. This ensures that funds are available for participants to settle their net liabilities with the BSD on settlement due date.

The BSD service operates within the existing Bermuda legal structure. The BSD is operated as a facility of the BSX. The operation and rules of the BSD are therefore regulated by the BMA in the same way as all other BSX activities. The BSD service has its own rules and regulations governing the actions and responsibilities of the BSD and its participants. The BMA has approved the BSD rules and associated changes to the BSX rules.

The BSX listing rules require listed issuers to comply with the section of the BSD rules that relates to issuers of eligible securities.

The BSD nominee's shareholdings will be held in "book form" as the rules require that issuers do not issue certificates in respect of the holding of the BSD nominee. Eligible securities held through the BSD will thus have been "dematerialized."

BSD participants are responsible for opening accounts. These accounts may relate to a single investor or may be an omnibus nominee. However, the BSD rules require the BSD to provide the issuer, on a regular basis, with details of the account holders and their balances in the security concerned. This service ensures that investors and the issuer can enjoy an acceptable level of contact.

Transfers within the BSD as a result of market trades are free of stamp duty under the auspices of the BSX Private Act that exempts transfers of listed securities from stamp duty. Transfers of legal ownership of Notes to and from the BSD nominee will not be subject to stamp duty.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchaser 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 represent that you are purchasing the notes offered hereby for your own account, or for the account of one or more investors for which you are acting as fiduciary or agent with a view to not offer or distribute the notes other than in compliance with the Securities Act and 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, (B) in accordance with all applicable securities laws of the states of the United States, or (C) to Bermuda.

(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 Issuances 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 acknowledgements, 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

Bermuda is a sovereign state. We have been advised by Melvin Douglas, 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, 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 Immunities Act); 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 Bermuda 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.

Stamp Duty

Under Bermuda law, there are no stamp or documentary taxes, duties or similar taxes on charges in connection with the delivery of the notes other than those payable under the Stamp Duties Act 1976 of Bermuda (“Stamp Duties Act”).

Under various circumstances, the provisions of the Stamp Duties Act may subject transfers of marketable securities to stamp duty at ad valorem stamp duty rates on a progressive scale. At present, the Stamp Duties Act provides that no stamp duty shall be payable by the Crown or any agency thereof or chargeable in respect of any instrument for the transfer on sale of any stock or marketable security issued by or on behalf of the Government. Further, the provisions of the Bermuda Stock Exchange Act 1992 of Bermuda, as amended, provide that the provisions of the Stamp Duties Act shall not apply to any instrument which relates to a conveyance or transfer on sale or conveyance or transfer to effect or having the effect of a voluntary disposition *inter vivos* of securities which are listed on the BSX. Accordingly, if the notes are listed on the BSX and for so long as they remain listed on the BSX, the provisions of the Stamp Duties Act shall not apply to the notes.

Foreign exchange transactions

Pursuant to the Exchange Control Act 1972 of Bermuda and the Exchange Control Regulations 1973 adopted thereunder (“Exchange Control Regulations”), persons “resident” in Bermuda for exchange control purposes are subject to certain limitations on their ability to convert Bermuda Dollars into a foreign currency, including into U.S. Dollars, in order to purchase notes and/or to make payments to shareholders who are considered “non-resident” in Bermuda for exchange control purposes.

Pursuant to the Foreign Currency Purchase Tax Act 1975 of Bermuda, and save for certain exempted transactions, foreign currency purchase tax (“FCPT”) is charged at the applicable rate whenever foreign currency is purchased by a person who is deemed to be resident in Bermuda under the Exchange Control Regulations from any institution licenced as a bank under the Banks and Deposit Companies Act 1999 (the “1999 Act”). The FCPT is charged at the relevant rate (currently 1%) on every dollar of currency of Bermuda paid for the purchase of foreign currency and is payable by or on behalf of the person purchasing the foreign currency and collected and remitted to the Tax Commissioner in the currency of Bermuda by the bank from which the foreign currency is purchased. Purchasers who are resident under the Exchange Control Regulations and acquire foreign currency to purchase the notes from a bank licenced under the 1999 Act will be liable for the FCPT and foreign exchange at the applicable rate.

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 (or other entity treated as a partnership for U.S. federal income tax purposes) 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 all aspects of U.S. federal income taxes and does not address other U.S. federal 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, 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.

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 (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States or of any state thereof 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 generally 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.

Certain U.S. Holders are required 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 requirement 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 have 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, they will offer or sell notes:
- inside the United States only to persons whom they 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 has also been 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 they may make a market in the notes. However, the initial purchaser are 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, they may discontinue them at any time in their sole discretion.

The initial purchaser and certain of their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financial and brokerage activities. The initial purchaser, either directly or through affiliates, have 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 may receive customary fees.

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 sixth Business Day following the date of pricing of the notes (this settlement cycle being referred to as “T+6”). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market in the United States generally settle in three business days, purchaser 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+6, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement and should consult their own advisor.

Selling Restrictions

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.

Bermuda

The notes may be offered or sold in Bermuda only in compliance with the provisions of the Companies Act 1981 of Bermuda, the Investment Business Act 2003 of Bermuda and any other relevant legislation of Bermuda with respect to the notes. Additionally, non-Bermudian persons may not carry on or engage in any trade or business in Bermuda unless such persons are authorized to do so under applicable Bermuda legislation. Engaging in the activity of offering or marketing the notes in Bermuda to persons in Bermuda may be deemed to be carrying on business in Bermuda.

European Economic Area

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.

United Kingdom

This offering memorandum is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive (“Qualified Investors”) that are also (1) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (2) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). This offering memorandum and its contents should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

Canada

The notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.4 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the initial purchaser is not required to comply with the disclosure requirements of NI 33-105 regarding initial purchaser conflicts of interest in connection with this offering.

Chile

The notes will not be registered under Law 18,045, as amended, of Chile with the SVS and, accordingly, the notes cannot and will not be offered or sold to persons in Chile except in circumstances which have not resulted and will not result in a public offering under Chilean law, and in compliance with *Norma de Carácter General* (Rule) No. 336, dated June 27, 2012, issued by the SVS.

Hong Kong

The notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the notes under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

Japan

The notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and, accordingly, will not be offered or sold, directly or indirectly, in Japan, or for the benefit of any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person, except in compliance with all applicable laws, regulations and ministerial guidelines promulgated by relevant Japanese governmental or regulatory authorities in effect at the relevant time. For the purposes of this paragraph, “Japanese Person” means any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

Switzerland

The notes may not be and will not be publicly offered, distributed or redistributed on a professional basis in or from Switzerland, and neither this offering memorandum nor any other solicitation for investments in the notes may be communicated or distributed in Switzerland in any way that could constitute a public offering within the meaning of Articles 1156 or 652a of the Swiss Code of Obligations or of Article 2 of the Federal Act on Investment Funds of March 18, 1994. This offering memorandum may not be copied, reproduced, distributed or passed on to others without the initial purchaser’s prior written consent. This offering memorandum is not a prospectus within the meaning of Articles 1156 and 652a of the Swiss Code of Obligations or a listing prospectus according to article 32 of the Listing Rules of the Swiss exchange and may not comply with the information standards required thereunder. We will not apply for a listing of our notes on any Swiss stock exchange or other Swiss regulated market, and this offering circular may not comply with the information required under the relevant listing rules. The notes have not been and will not be registered with the Swiss Federal Banking Commission and have not been and will not be authorized under the Federal Act on Investment Funds of March 18, 1994. The investor protection afforded to acquirers of investment fund certificates by the Federal Act on Investment Funds of March 18, 1994 does not extend to acquirers of the notes.

Panama

The notes and the information contained in this offering memorandum have not been and will not be registered with or approved by the *Comisión Nacional de Valores de Panamá* (Panamanian National Securities Commission) or the *Bolsa de Valores de Panamá, S.A.* (Panamanian Stock Exchange). Accordingly, the notes cannot be offered or sold in Panama, except in transactions exempted from the registration requirements of the securities laws and regulations of Panama.

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 2015, all published by the Statistical Department of the Cabinet Office, the Bermuda 2015 Economic Review, published by the Ministry of Finance, the Bermuda Approved Estimates of Revenue and Expenditure, published by the Ministry of Finance, the Bermuda Government Financial Statements of the Consolidated Fund, 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, 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, Bermuda counsel to the initial purchaser. All statements in this offering memorandum with respect to matters of Bermuda 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 085209AD6, the ISIN number is US085209AD62 and the common code is 150605849. For the Regulation S Notes, the CUSIP number is G10367AD5, the ISIN number is USG10367AD52 and the common code is 150605814.

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 July 12, 2016. 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 historical financial statements of the Consolidated Fund 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 have also applied 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 historical financial statements of the Consolidated Fund 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 PAYING AGENT**

The Bank of New York Mellon
Attention: Corporate Trust – Global Americas
101 Barclay Street, 7th 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**

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