



Report and Accounts 2010

ABOUT US

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

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

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

OUR MISSION

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

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Statistical & Financial Highlights 2010

In order to remain successful post the economic crisis, Bermuda has had to evolve to meet acceptable international regulatory and transparency standards.

Thus, since early 2009 the Authority has been on a path to ensure the regulation of Bermuda's financial services sector keeps pace with evolving international standards. In 2009 this meant preparing for, and implementing, the provisions of the Basel II regulatory framework for banking entities. For the period 2010 and beyond, this means continuing enhancements to the Authority's risk-based regime for insurers to be consistent with standards of best practice for insurance supervision.

In common with regulators in other countries, the Authority continues to face increasing financial pressure due to the need to enhance its supervisory regime to meet these rapidly changing global standards. While the Authority is committed to running its affairs efficiently so as to keep the financial burden on regulated firms as low as is possible, further increases in resources have been necessary to ensure the Authority achieves its objectives and continues to play its key role in Bermuda's economy. Cognisant of this responsibility to minimise fee increases on industry during a period of economic downturn, the Authority has decided to use some of its general reserves to finance its operations and growth in resources. Accordingly, the Authority recorded a net deficit of \$2.5 million in the year ended 31st December 2010.

Revenues increased to \$38 million in 2010, an increase of \$4 million from the \$34 million recorded in 2009. Bermuda's largest commercial insurers contributed the majority of this fee increase, recognising and fully supporting the Authority's strategy of enhancing Bermuda's regulatory regime, which will allow the industry to continue to compete successfully on

the international stage. Investment income was marginally less than 2009, reflecting the Authority's conservative approach to investing during uncertain times.

Expenditure for the year totaled \$40.5 million compared to \$32 million in 2009. The majority of the increased expenditure was used for internal and external resources to enhance the Authority's regulatory regime; this was a key factor in Bermuda being placed in the first wave of countries being considered as an equivalent jurisdiction by the European Commission. The Authority continued to build its in-house technical expertise in policy, risk analytics, actuarial and front line supervision, with senior people in all areas joining the organisation in late 2010. The positive contribution from these resources will extend through 2011 and beyond as the Authority becomes more self-sufficient and less reliant on specialist consultancy services. General expenses increased \$1 million over 2009 to \$5.4 million, all directly related to the growth in human resources as well as the advocacy efforts supporting Bermuda's desire to be included in the first wave of regulatory equivalence.

Bermuda Currency Operations

The amount of Bermuda notes and coins in circulation at the end of 2010 was \$126.7 million, as compared to \$139.1 million for 2009. Consistent with previous years, there were peaks in circulation around the two main public holidays: in July (Cup Match) and in December (Christmas). A total of \$141.3 million was in circulation for Cup Match, an increase of 2.9% over the same period in 2009. The figure for the Christmas week was \$129.7 million, a decrease of 6.7% over Christmas 2009.

During 2010 the Authority issued the Bermuda Petrel ("Cahow") coin, the latest addition to its commemorative coin series. The coin commemorates the first Cahow chick born in Bermuda in almost 400 years.

Bermuda Money Supply

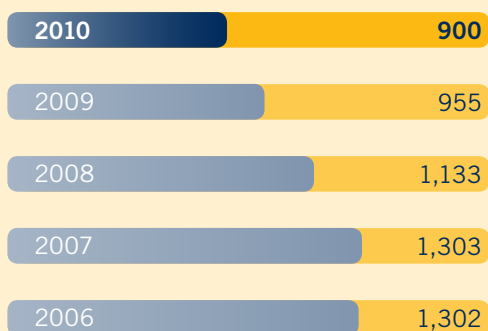
(BD\$ millions)	2010-Q4	2010-Q3	2010-Q2	2010-Q1	2009-Q4	2009-Q3
Notes & Coins in Circulation*	127	122	134	127	137	123
Deposit Liabilities	3,660	3,706	3,719	3,748	3,840	3,858
Total	3,787	3,828	3,853	3,875	3,977	3,981
Less: Cash at Banks**	65	60	73	61	70	60
BD\$ Money Supply	3,722	3,768	3,780	3,814	3,907	3,921
% Growth on Previous Period	-1.22%	-0.32%	-0.89%	-2.37%	-0.36%	0.98%
% Growth Year on Year	-4.73%	-3.90%	-2.64%	-1.44%	0.18%	0.43%

Totals may not add due to rounding.

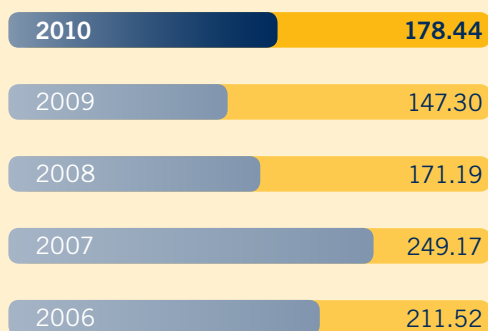
* This table includes the supply of Bermuda dollars only. United States currency is also in circulation in Bermuda but the amount has not been quantified.

** Includes deposit companies as well as banks.

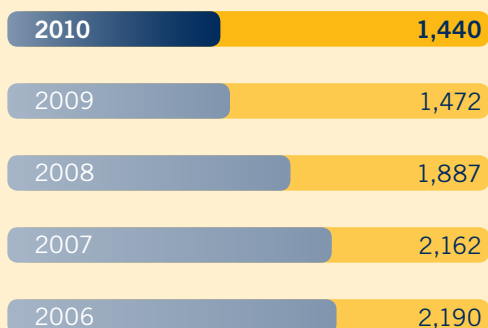
Investment Funds Total Number of Funds



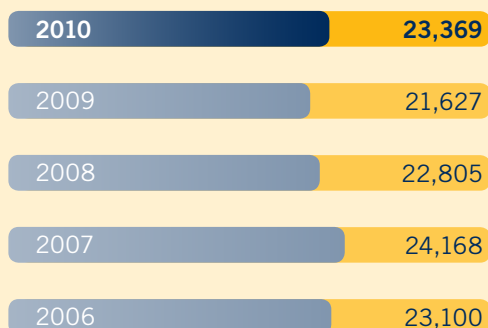
Investment Funds Net Asset Value (BD\$ billions)



Investment Funds Number of Portfolios within Bermuda Classified Funds



Bermuda Banks and Deposit Companies (Consolidated) Total Assets (BD\$ millions)



Currency Notes Issued and Redeemed (Bermuda Dollar)

Month	New	Notes Issued Re-issued	Total	Notes Redeemed	Notes Issued & O/S at End of Month	Net Issues During Month Change	% Change
January	1,424,113	606,000	2,030,113	19,582,220	106,349,639	(17,552,107)	-14.17%
February	109,114	8,330,000	8,439,114	6,691,000	108,097,753	1,748,114	1.64%
March	318,462	10,390,000	10,708,462	7,645,000	111,161,215	3,063,462	2.83%
April	1,551,694	10,900,000	12,451,694	8,724,000	114,888,909	3,727,694	3.35%
May	610,000	9,280,000	9,890,000	3,210,000	121,568,909	6,680,000	5.81%
June	142,454	8,855,000	8,997,454	11,855,090	118,711,273	(2,857,636)	-2.35%
July	2,020,374	16,630,000	18,650,374	11,337,000	126,024,647	7,313,374	6.16%
August	187	3,600,000	3,600,187	19,466,000	110,158,834	(15,865,813)	-12.60%
September	1,110,414	9,130,000	10,240,414	13,413,655	106,985,593	(3,173,241)	-2.88%
October	3,451,338	6,400,000	9,851,338	12,708,700	104,128,231	(2,857,362)	-2.67%
November	66,755	10,500,000	10,566,755	8,907,180	105,787,806	1,659,575	1.59%
December	300,444	15,299,000	15,759,444	10,154,000	111,393,250	5,605,444	5.30%
<i>Year</i>							
2010	11,105,349	110,080,000	121,185,349	133,693,845	111,393,250	(12,508,496)	-10.10%
2009	55,484,926	107,664,000	163,148,926	165,316,020	123,901,746	(2,167,094)	-1.72%

Currency Coins Issued and Redeemed (Bermuda Dollar)

Month	Coins Issued	Coins Issued & O/S at End of Month	Net Issues During Month Amount Change	% Change
January	8	15,163,820	8	0.00%
February	8	15,163,828	8	0.00%
March	4	15,163,832	4	0.00%
April	17	15,163,850	17	0.00%
May	20	15,163,870	20	0.00%
June	46,023	15,209,893	46,023	0.30%
July	67,527	15,277,420	67,527	0.39%
August	13,511	15,290,931	13,511	0.09%
September	11	15,290,942	11	0.00%
October	6	15,290,948	6	0.00%
November	35,614	15,326,563	35,614	0.23%
December	46	15,326,608	46	0.00%
<i>Year</i>				
2010	162,795	15,326,608	162,795	1.07%
2009	167,194	15,163,812	167,194	1.11%

Analysis of all Insurers Registered

Class of Insurer	2010	%	2009	%
Class 1	297	23%	310	23%
Class 2	342	26%	345	26%
Class 3	306	23%	330	24%
Class 3A	112	9%	118	9%
Class 3B	17	1%	15	1%
Class 4	33	2%	31	2%
Long-Term	108	8%	103	8%
Special Purpose Insurers	11	1%	1	0%
Dual Licences	90	7%	95	7%
Totals:	1,316	100%	1,348	100%

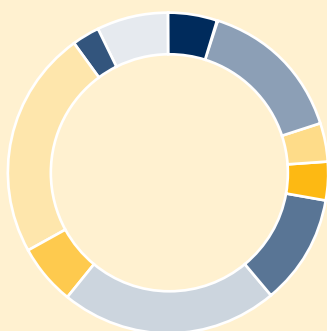
Explanatory Note:

The Authority began accepting applications for the SPI class of insurer as of 2009-Q1.

SPI – A special purpose, single transaction or single customer insurance company which assumes (re)insurance risks, and which typically fully funds its exposure to such risks through the proceeds of a debt issuance or some other financing mechanism, where the repayment rights of the providers of such debt or other financing mechanism are subordinated to the (re)insurance obligations of that vehicle.

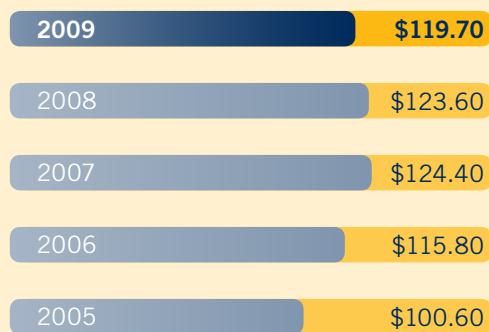
* Class 3 sector reclassification took effect as of 2009-Q1. Therefore, data reported from that date will reflect the reclassified Class 3 company categories.

Actively Writing International Insurers by Company Type (2009)



- Captives of Insurer 5%
- Captives writing 3rd Party 15%
- Captives writing Connected Business 4%
- Health Care Captives 4%
- Group Captives 11%
- Single-Parent Captives 22%
- Segregated Accounts Companies 6%
- Professional/ Ins. Reinsurers 23%
- Class 4 Insurers 3%
- Long-Term Insurers 7%

Bermuda Insurance Market Statistics Gross Premium Written (BD\$ billions)



BOARD OF DIRECTORS

Pictured from left to right:

Ronald Simmons, CA, CPA
Partner,
Moore Stephens & Butterfield

The Hon. Gerald Simons
President,
The Argus Group

Jeremy Cox
Chief Executive Officer

Alan C. Cossar
Chairman

Walter Bell
Chairman,
Swiss Re America Holdings Corporation

Darren Q. Johnston
(Deputy Chairman)
Territory Senior Partner,
PricewaterhouseCoopers

Lynda Milligan-Whyte, Bed, MPA, LLB
Senior Partner,
Lynda Milligan-Whyte & Associates

E. Barclay Simmons, MBA, LLB
Managing Partner,
Attride-Stirling & Woloniecki

Anthony Joaquin, FCA
Managing Partner,
Ernst & Young (retired)

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





Chairman's Letter

2010 proved to be another year of challenges, change and opportunities for the Authority. Throughout the year, the Board executed its strategic responsibilities to ensure that, while addressing a range of challenges and adapting to on-going regulatory change, the Authority also remained focused, sufficiently resourced and operationally effective in order to reach its business objectives.

Part of this effort was the Board's continuing challenge of the Authority's management to ensure that the regulatory strategies being put in place to meet ever-changing international standards remain appropriate for the diversity of Bermuda's financial services market. It is clear that the Authority remains committed to ensuring that it achieves this important balance, even within the context of the regulatory equivalence programme that is currently in progress, primarily focused on the insurance sector. The Board reiterated this priority along with other key strategic matters within its keen engagement in supporting Jeremy Cox as the new CEO of the organisation.

Under Jeremy's leadership, the Authority has effectively focused on its strategic priorities with continued engagement with key stakeholders, both locally and internationally. This is due in no short measure to Jeremy's personal execution during 2010 of a very aggressive advocacy agenda to support the Authority's regulatory equivalence programme. The resulting series of key presentations and meetings with decision-makers within the international regulatory arena, in particular in Europe, has helped to generate a greater awareness and understanding of Bermuda's framework. The Authority also achieved the important objective of being confirmed as one of the jurisdictions to be included in the first wave of Solvency II equivalence assessments. Jeremy and the entire team at the Authority are to be commended for the work they have conducted over the past year, effectively addressing the many challenges they faced across the various sectors within Bermuda's financial services market, while also meeting their significant regulatory objectives.

The substantial regulatory equivalence effort for Bermuda's insurance framework got the lion's share of attention during the year. However, the Board and the Authority also achieved success with a variety of other strategic priorities. The Authority's responsibilities have continued to grow, in particular due to the enhanced supervisory regimes developed

for the insurance sector. Accordingly, during the year the Board placed increased strategic oversight on ensuring that management effectively addressed building the technical resources within the organisation. We approved an aggressive recruitment strategy developed to build on the organisation's depth of technical skills and expertise, targeted towards the Authority's supervisory teams. Our direction in this regard challenged management to ensure such resources can support effective implementation of the expanded supervisory regimes that are now in place. We are confident that the highly-experienced resources added to the supervisory teams by the end of last year, and the further additions planned for 2011, will enable the Authority to meet that objective. The Board also directed management to address the Authority's longer-term succession planning needs as part of the on-going resourcing strategy. The progress the Authority is achieving in this regard will ensure the sustained operational effectiveness and viability of the organisation.

Similarly, the Board emphasised the importance of ensuring that the Authority's support functions were strengthened, both to meet the expanded demands on the organisation and to ensure maximum efficiency in, and control of, its operations. The appointment of Brad Erickson to the new position of Chief Operating Officer (COO) during the year was a key decision in this regard. The COO position brings the appropriate level of strategic focus and leadership to critical areas such as the Authority's enterprise risk management (ERM) programme, information technology (IT) strategy and financial management and control. Follow-up work and enhancements related to the Authority's previously-established IT Risk Management Action Plan will continue, within the wider context of planned ERM advancements, as part of the COO's responsibilities.

In addition, and given the prevailing tough economic conditions that are impacting all organisations in Bermuda, during the year the Board also increased its challenging of management on, and scrutiny of, all areas of the Authority's



Alan C. Cossar
Chairman



budget. Our objective was to ensure that the increased costs being incurred to enhance Bermuda's supervisory regimes and meet international regulatory standards are fully necessary, and are effective in meeting the Authority's goals. This work also included increased oversight of strategies of particular importance, such as the IT initiative Project RAIN that supports the equivalence programme, and close monitoring of capital expenditure across the Authority. The Board conducted a review and analysis of management's cost assessment in relation to the Authority's plans for Solvency II preparedness and supervision. It is important to Bermuda that the Authority be positioned to be acknowledged as meeting international regulatory best practice standards while recognising the diversity of our financial marketplace. This requires a significant investment. Much of this investment has been financed through the Authority's fee structure. However, it is unrealistic and impractical to expect that all such costs should be borne by industry. The Board had recognised that the increases in fees in recent years has enabled the Authority to build its General Reserve and that a portion of this surplus should be utilised to meet the significant one-off costs necessarily being incurred to achieve the Authority's positioning goals. Additionally, after ensuring appropriate consultation with industry, the Board took the decision to approve special assessment fees, specifically for Class 4 insurers to which a significant element of the enhanced supervision would be applied. This approval was provided based on the clear determination that sensitivity to Bermuda's competitive position had been taken into account in setting the special assessment fee. The Authority appreciates the understanding and cooperation of the market in supporting the special assessment.

In addition to the above wide-ranging deliberations, the various Board committees had specific work agendas during the year, as reported below. The committees continue to ensure, via prudent stewardship and strategic focus, that the Authority's internal policies and governing infrastructure remain effective

and appropriate. Changes effected via the committees are designed to support the evolving scope and responsibilities of the Authority. One change in that regard during 2010 was the establishment of the Board's Enforcement Committees.

As part of the Authority's implementation of its expanded powers under Bermuda's enhanced anti-money laundering/anti-terrorist financing (AML/ATF) supervisory regime, the past year saw its first public enforcement action in that regard. The Enforcement Committee was established to ensure that independent oversight and decision-making is brought to the AML/ATF enforcement process. The Enforcement Committee provides an important element of challenge and ultimate decision-making that is vital to the process that should be associated with such enforcement. The Board recognises the significance of this development and the need to ensure that the Authority's approach to AML enforcement action remains balanced as well as effective. We support the Authority's stated position that such enforcement actions are only taken where the breaches are severe or extensive. The goal remains for the Authority to work with industry to ensure that each sector understands and fulfills its obligations in this regard.

Establishing the Enforcement Committee was the only major structural change to the Board during the year. The continuity within the Board contributes to the depth of knowledge that has allowed us to maintain rigour and effectiveness in our challenge and oversight of management. The Board has used a range of tools to monitor the Authority's effectiveness in meeting its responsibilities, such as the Balanced Scorecard that was extended to individual staff objectives during 2010, completing full alignment of the strategic goals and business objectives of the Authority. Comprehensive monitoring of financial controls and management, via the work of the Audit and Risk Management Committee, has also remained a key priority. We continue to ensure the Authority follows best practice in terms of its corporate governance, human resources strategy and policy development. All of this work

involves a significant contribution of expertise, as well as a major commitment of time. As Chairman I have appreciated and benefitted from the collaborative and insightful deliberations with my fellow Board members, which are always focused on achieving the best results for the Authority

and Bermuda. I extend my sincere appreciation to all the Directors of the Authority's Board for their extensive support and continued dedication to ensure that Bermuda's regulator remains prudent, accountable and effective.

BOARD COMMITTEES

Audit and Risk Management Committee

Anthony Joaquin (Chairman)

Alan C. Cossar

Ronald Simmons

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

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

The Committee met as required during the year to:

- Review and monitor the Authority's progress in amending its internal control processes;
- Complete the review and oversight of the external audit process for the Authority's 2009 financials, and recommended the external auditor for 2010;
- Review the internal audit reports for any necessary action in 2010, and confirm the internal audit plan for 2010; and
- Consider with management the project to embed enterprise risk management within the on going operations of the Authority.

Corporate Governance and Ethics Committee

Ronald Simmons (Chairman)

Anthony Joaquin

Barclay Simmons

Gerald Simons

Jeremy Cox

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

manner. During 2010 the Committee successfully completed the following major items on its agenda for the year:

- Reviewed the BMA Act to assess and ensure continued effectiveness against the Authority's growing and evolving responsibilities;
- Produced a formal Board Training Framework proposal in support of Board awareness/education and operation effectiveness;
- Oversaw the execution of initiatives under the Authority's Transparency Initiative, related to governance and policy matters; this included establishing a new section on the BMA website to accommodate current and future relevant corporate policies;
- Coordinated objective-setting for Board committees, and monitored performance against objectives for the year; directed execution of 2010 Board and Board committee assessments.

Human Capital Committee

Alan C. Cossar (Chairman)

Darren Johnston

Anthony Joaquin

Walter Bell

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

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

The Committee oversaw and reviewed on behalf of the Board completion of the Balanced Scorecard (BSC) process at the Authority for its second full year of implementation. This included monitoring and assessing the Authority's performance against BSC objectives throughout the year. The Committee also continued to provide feedback and direction to Executive Management on execution of the Authority's succession plans, to ensure they are effective and appropriately provide for long-term growth and development of the organisation. The Committee also provided on going review of the Authority's performance-based compensation policies, and its retention policies and practices, to ensure they remain relevant and appropriate.

Investment Committee

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

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

During the year, the Committee kept under review the quality of investments within the Authority's investment portfolio in order to avoid exposure to material capital risk and maintain a high degree of liquidity within it to meet unforeseen demands. The investment portfolio has remained in full compliance with the guidelines during 2010.

Legislative and Policy Committee

Lynda Milligan-Whyte (Chairman)
Tracy Tepper
Alan C. Cossar
William Kattan
Craig Swan

The purpose of the Legislative and Policy Committee is to:

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

During the year the Committee reviewed a number of legislative and policy papers related to the Authority's equivalence initiative, specifically as regards Solvency II. This included consultation on proposals and draft legislation for the Commercial Insurers Solvency Self Assessment, enhanced transparency and disclosure, economic balance sheet and group supervision, including insurance group rules and the group code of conduct. In addition, the Committee reviewed a Statement of Principles for anti-money laundering / anti-terrorist financing (AML/ATF) regulated financial institutions and insurers; credit union legislation, which took effect in July 2010; draft legislation for the Deposit Insurance Scheme; and appeals Tribunal regulations, which are in the final stages of review by the Attorney General's Chambers.

Non-Executive Directors Committee

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

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

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

The Committee met as required during the year to review matters under its mandate. This activity ensured the continued accountability of the Authority's senior management as regards the effective execution of the organisation's strategic plan and business priorities. The Committee reviewed matters in relation to the Audit and Risk Management Committee and the Human Capital Committee that covered the Authority's budget and compensation policies, and also monitored the Authority's performance and progress on the execution of its strategic objectives for the year.

Enforcement Committee

An Enforcement Committee is established by the Board as required to review and address the Authority's proposed enforcement actions related to alleged breaches of the Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing) Regulations 2008 (the Regulations).

An Enforcement Committee can, where appropriate, provide approval for the Authority to impose civil penalties, or revoke registration, or publish decisions to impose fines in relation to such breaches. Given the critical importance of addressing such matters effectively, the Authority has taken this approach to ensure there is a clear delineation between decisions to take such enforcement action, and those that involve taking supervisory actions in relation to a firm.

Enforcement Committees are comprised of at least 3 non-executive members of the Board, appointed by the Chairman of the Board to avoid any potential conflicts. The Chairman may appoint outside counsel and other professionals to assist the Committees. Matters considered during the year related to non-compliance with the Regulations, and a civil penalty was imposed in one matter.

EXECUTIVE TEAM

Pictured from left to right:

Bradley Erickson
Chief Operating Officer

Shelby Weldon, CPA
*Director, Insurance,
Licensing & Authorisation*

Shauna MacKenzie
Director, Legal Services & Enforcement

Cynthia Currie
Director, Human Resources

Jeremy Cox
Chief Executive Officer

Craig Swan
Director, Risk Analytics

Marcia Woolridge-Allwood
Director, Banking Trust & Investment

Mary Frances Monroe
*Director, Policy, Research & International
Affairs*

John Dill
Director, Management Services

Shanna D. R. Lespere, BSc.H., CMA
*Director, Insurance Supervision,
Complex Institutions
(Not shown)*

Pat Phillip-Bassett
*Deputy Director, Corporate Governance &
Communications
(Not shown)*





CEO's Report

In yet another year of demanding expectations, a heavy regulatory agenda and constant change the Authority has delivered on its business objectives. This achievement is in no small part due to the commitment of our dedicated team of professionals. Indeed, one of the most satisfying outcomes of 2010 for me as CEO of the Authority has been the significant level of successful execution against plans that our team has achieved.

The result is an effective, quality framework with a range of risk-based regulatory enhancements that are appropriate for supervising Bermuda's banking, investment and insurance sectors. Importantly, the changes we are making will ensure the Authority's framework remains workable for the markets under our responsibility, as well as compliant with relevant international standards. Maintaining this balance is our priority - in making regulatory changes, even as we ensure alignment with international standards, we remain committed to doing what is right for Bermuda.

Regulatory Framework Development – Equivalence and Beyond

Insurance – with Bermuda being confirmed during the year as one of the jurisdictions on the first wave list for Solvency II equivalence assessments, the work we have conducted to date has placed the jurisdiction in a good position for this major test. As we continue to put in place regime enhancements that closely map the Directive's assessment principles, we are maintaining a pragmatic approach to seeking equivalence under Solvency II. Our regime changes are designed to be appropriate for the nature and risk profile of the Bermuda market, and remain focused on the commercial sector. Our plans remain well-advanced as we continue to prepare for the upcoming on-site phase of the equivalence assessment, having completed the self-assessment segment of the process at the beginning of 2011.

Some highlights of work completed during 2010 include:

- embedding further elements of our group supervision regime, including establishing the legislative infrastructure for the Authority to be a Group Wide Supervisor;
- conducting successful pilot reviews for our internal capital models (ICM) applications process, which have been valuable to informing further development of the ICM framework and qualification process;
- completing consultation on the Commercial Insurers' Solvency Self-Assessment requirement, our Bermuda-specific ORSA process; and

- initiating work to establish an enhanced supervisory framework for the Long-Term insurance sector.

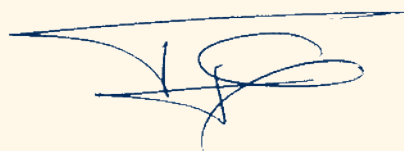
Overall, we have completed the majority of our policy infrastructure development. We are continuing to build up our technical resources and supervisory teams since, moving forward, the focus will be on implementing our enhanced supervisory regimes. Strategic initiatives planned for 2011 include extending risk-based capital adequacy requirements for (re)insurers, including the Long-Term sector; implementing our group supervision regime; further phased development of our transparency and disclosures regime and the internal capital models framework.

Banking and Investment – the Authority progressed with its on going work to build on the continued resilience of Bermuda's banking sector during 2010. We concentrated our efforts on further policy development and implementation of key initiatives that were compliant with Basel II, highlights of which included:

- applying enhanced regulatory capital standards across the sector;
- review and enhancement of the Authority's liquidity policy; and
- establishing new mandatory stress testing requirements for the banks.

This work has further strengthened capital and liquidity within Bermuda's banking system. However, we intend to continue our review of the regulatory framework for the sector to take into account anticipated changes to global capital and liquidity standards under the upcoming Basel III Accord.

During 2010 we were also focused on supplementing the Authority's existing supervisory toolkit for the banking sector by developing initiatives specifically directed towards enhancing depositor protection. Taking the lessons regulators worldwide learned from the financial crisis and adapting them for Bermuda, we developed proposals for introducing enhanced bank intervention powers for



Jeremy Cox
Chief Executive Officer



the Authority. These proposals will enable us to act even more promptly to deal with challenged institutions. Having established the proposals with input from both the Ministry of Finance and the International Monetary Fund by the end of 2010, the next step will be public consultation in mid-2011, with a view to implementation taking place at the end of that year.

Our work towards introducing a deposit insurance scheme (DIS) for Bermuda also progressed significantly during 2010. We completed initial market consultation on our proposals and draft legislation for the DIS by year-end. After further developmental work and consultation during 2011 on the proposed DIS framework, and confirming how the independent body that will run it – the Bermuda Deposit Insurance Corporation – will function operationally, we anticipate the DIS to be in place in 2012, extending depositor protection within the sector.

Developments related to the investment funds sector during 2010 had a similar focus, i.e. the ultimate protection of investors, while maintaining consistency with global standards. In addition to enhancing our legislative framework for funds, in consultation with the market, we completed a collaborative initiative with other fund jurisdictions to produce a Statement of Best Practice for Hedge Fund Regulation. Our participation in this initiative, while resulting in a proactive, tangible contribution to raising global standards for fund regulation, also proved to be a positive example of supervisory cooperation, and demonstrated a collective commitment to quality standards of supervision for the funds sector. The International Organisation of Securities Commissions (IOSCO) has recognised the significance of this work, which is consistent with its own Principles of Hedge Fund Regulation. IOSCO is currently reviewing the Statement within the context of its further development of global standards for fund regulation.

Anti-Money Laundering - our supervision of institutions under Bermuda's anti-money laundering/anti-terrorist

financing (AML/ATF) included an active on-site programme and related follow-up activity. While many institutions have worked to reach compliance with the enhanced AML/ATF regime, we undertook public enforcement action in the form of fining one firm that proved to have deficient systems during the year. This was the first such action using our expanded AML/ATF powers. It was also an important demonstration of the Authority's willingness to act and follow through on its plans and previously stated commitment to ensuring AML/ATF compliance within the market, in the ultimate best interests of Bermuda. The market is clearly aware that Authority is committed to using its powers to ensure that the interests of depositors, investors or policyholders are protected as far as possible. However, while it is important that we do follow through as warranted, we also remain committed to maintaining a measured approach to such enforcement, imposing civil penalties only where regulatory breaches are extensive. We also recognise the efforts firms are making to reach compliance, and continue to ensure that they understand what is required of them via an active programme of outreach activities. We are encouraged and are providing on going support as the market continues to adapt to the new requirements; we also remain prepared to use our enforcement powers judiciously to resolve any issues as they arise.

Growth in Resources and Operational Effectiveness

We achieved a significant measure of success with building on the Authority's resources in 2010. Much of the focus for the year was placed on recruitment to support our equivalence resourcing needs. By the end of the year we had added senior-level, highly experienced new members to our supervisory teams, as well as to the risk analytics and policy development areas. These targeted recruitment efforts, which will continue into 2011, ensure that the Authority has the expertise and level of resources required to support implementation of its expanded supervisory programmes, particularly with respect to the insurance framework.

Continuing to build targeted resources in order to deliver quality regulation for Bermuda is both important and necessary. However, we also recognise the importance of operating efficiently as well as effectively. During 2010 we completed the initial phase of our IT strategy, to build further efficiencies into our processes and interactions with the market, via initiatives such as e-filing. We also progressed further in building the technological platform that will facilitate electronic submissions of information from insurers under our enhanced supervisory regimes for that sector. To complement this on going activity, towards the end of the year we began a comprehensive review of all the Authority's business critical processes. Our goal is to produce further operational efficiencies by streamlining the execution and delivery of our work, in order to continue providing value to Bermuda as we serve the interests of the community.

International and Supervisory Cooperation

In the wake of the global financial crisis, the desire for, and movement towards, greater openness and cooperation between supervisors continues. During 2010, the Authority ensured Bermuda continued to be represented in key regulatory bodies and at relevant international meetings, to maintain our contributions to such cooperation. We maintained our active participation in international standard setting bodies relevant to the Bermuda market, and extended our contributions during the year, for example, by being appointed as the IAIS representative on the Financial Stability Board's Working Group on Data Gaps and Systemic Linkages Committee. We were also able to share our knowledge and experience as regulators by providing technical training for fellow supervisors during the year at various international meetings. Overall, supervisory participation is important in relation to priorities such as achieving regulatory equivalence for the jurisdiction, especially with respect to applying effective group supervision, whether for the banking or insurance sectors. While we continue to support this level of supervisory cooperation with Bermuda's ultimate interests in mind, it is also significant from the standpoint of actively supporting better coordination among supervisors in order to ensure consistent, quality, risk-based regulatory standards globally.

Quality Financial Regulation – Now and for the Future

The framework enhancements we are putting in place across all segments of Bermuda's financial services

sector are aligned with the core priorities of global regulatory reforms currently in progress: capital adequacy, governance, risk management and transparency and disclosure. These enhancements build on the effectiveness of our risk-based approach to regulation and ensure our regulations remain consistent with international standards.

This work will also ensure that Bermuda's regulatory framework can be recognised as equivalent by other jurisdictions that are important to this market.

As the Authority continues to look at making such changes through the prism of pragmatism, and ensuring what we do is right for the nature of the Bermuda market, we will also maintain our active consultation with firms to ensure our framework developments remain practical as well as effective. This dialogue will ensure that, as we cascade regulatory changes through the Bermuda market, we can factor in the differing risk that exists within each sector and ensure that the regulatory approach remains proportional to the risk that is represented.

Looking back on my first year as CEO, I extend our sincere appreciation to the external stakeholders within both the public and private sector with whom the Authority frequently conducts this dialogue, as we conduct our growing responsibilities and framework developments. Our thanks to our colleagues within the Bermuda Government, specifically at the Ministry of Finance and the Ministry of Justice during 2010, for their collaboration and support for the Authority's legislative and policy initiatives throughout the year. Thank you specifically to Premier and Minister of Finance the Honourable Paula Cox, JP, MP, and former Minister of Justice the Honourable Kim Wilson, JP, MP, and their respective teams. Thank you also to numerous representatives and stakeholders within the Bermuda market for their feedback and cooperation in relation to the Authority's regulatory changes during the year.

I will conclude where I began, by recognising the hard work and outstanding efforts of the Authority's team. The Authority could not have achieved the results we recorded in 2010 without the continued commitment and skill of our staff. I am very proud to be part of such an effective team, and look forward to continuing our work moving forward to ensure Bermuda's regulatory framework continues to reflect the high standards befitting a leading financial jurisdiction.

2010 Business Plan Milestones Completed

- ☑ **Solvency II**
 - Publish Economic Balance Sheet Discussion Paper
 - Publish risk disclosure proposals Consultation Paper – Class 4, Class 3B
 - Implement BSCR standard capital model for Class 3B firms
 - Publish Consultation Paper for enhanced Long-Term insurer capital and solvency framework
 - Publish ORSA Consultation Paper and draft legislation
 - Eligible Capital legislation
 - Publish Insurance Code of Conduct

- ☑ **Group Supervision**
 - Publish Consultation Paper and draft legislation setting out proposals for insurance sector – Class 4, Class 3B
 - Host supervisory colleges for banks and insurers

- ☑ **Bank Liquidity Policy**
 - Publish liquidity policy Consultation Paper
 - Publish revised liquidity policy

- ☑ **Internal Models**
 - Launch pilot application and review process

- ☑ **E-Filing – Enhanced Funds Reporting Process**
 - Conduct market consultation
 - Complete e-filing system development and testing
 - Launch e-filing system

- ☑ **Enhanced Risk-based Supervision – Anti-Money Laundering/Anti-Terrorist Financing (AML/ATF)**
 - Begin 2010 AML/ATF on-site visits

- ☑ **Enforcement**
 - Publish enhanced enforcement measures Consultation Paper

- ☑ **Consumer Protection – Deposit Insurance**
 - Publish Consultation Paper setting out proposals for deposit insurance in Bermuda



Regulation and Supervision

Banking, Trust & Investment

The Authority took full responsibility for supervision of credit unions in Bermuda in 2010, in addition to supervising Bermuda's banks, deposit companies, trust and investment businesses, investment funds, fund administrators, money service businesses, and the Bermuda Stock Exchange.

Summary of Legislative Changes and Licensing Activity as of year-end 2010

Sector	Legislative Changes During 2010	Licensing Activity
Banking	None	New: 0 Total: 4 banks and 1 deposit company
Trust	None	New: 1 Total: 32
Private Trust	None	New: 8 (14, 2009)
Money Service Business	None	New: 1 Total: 2
Investment Business	None	New: 4 Total: 61 (58, 2009; 1 licence surrendered in 2010)
Investment Funds:	Investment Funds Amendment Act 2010	New: 86 (68 authorised, 18 exempted) (83, 2009) Investment Portfolios: 1,440 (1,472, 2009) Total Funds: 900 (955, 2009) Fund Administrators: New: 0 (5, 2009) Total: 42 (44, 2009)

BANKING SUPERVISION

Banks and Deposit Companies Act 1999

The following section (pages 20 to 27) comprises the report the Authority is required to make annually to the Minister of Finance on its activities, pursuant to section 8(3) of the Banks & Deposit Companies Act 1999 (the Act).

Policy and Guidance

Capital

The Authority introduced capital conservation buffers for Bermuda's banks in 2010 as a first step towards implementing reforms to its Framework for Regulatory Capital Assessment, in line with the new international capital standards being developed by the Basel Committee on Banking Supervision, commonly referred to as Basel III. The buffers were incorporated in the second round of supervisory reviews of minimum capital requirements the Authority conducted, which determined individual capital requirements that took into account the full range of risks to which each bank is exposed.

In 2011, the Authority will be reviewing other elements of Basel III including the definition of capital, increased minimum capital requirements and the introduction of a counter-cyclical

Bermuda Money Supply

(BD\$ millions)	2010-Q4	2010-Q3	2010-Q2	2010-Q1	2009-Q4	2009-Q3
Notes & Coins in Circulation*	127	122	134	127	137	123
Deposit Liabilities	3,660	3,706	3,719	3,748	3,840	3,858
Total	3,787	3,828	3,853	3,875	3,977	3,981
Less: Cash at Banks**	65	60	73	61	70	60
BD\$ Money Supply	3,722	3,768	3,780	3,814	3,907	3,921
% Growth on Previous Period	-1.22%	-0.32%	-0.89%	-2.37%	-0.36%	0.98%
% Growth Year on Year	-4.73%	-3.90%	-2.64%	-1.44%	0.18%	0.43%

Totals may not add due to rounding.

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

** Includes deposit companies as well as banks.

capital buffer. The intention is to publish a paper setting out proposals for amending the Authority's existing capital framework in line with the new Basel III accord by the end of the year.

Liquidity

The Authority published a Consultation Paper "The Management of Liquidity: A Revised Framework" in June 2010, which set out an enhanced liquidity framework for Bermuda's banks. The proposals addressed high-level principles including the setting of liquidity tolerance at the board level, process for managing liquidity risk, funding diversification, contingency planning, stress testing and the maintenance of liquidity buffers. The revised framework is in line with the core principles on liquidity set by the Basel Committee of Banking Supervision in their paper "Principles for Sound Liquidity Risk Management and Supervision." After completing the consultation process, the Authority issued a revised policy paper in December 2010.

In addition to the qualitative principles for sound liquidity risk management and supervision, Basel III introduces quantitative standards for liquidity. The two proposed measures are a short-

term (30-day) liquidity coverage ratio and a longer-term structural liquidity ratio to address mismatches in liquidity and promote the use of stable funding sources. The Authority will in 2011 review the new quantitative standards and conduct a study of their impact on Bermuda's banks. After the results have been assessed, the Authority will publish proposals for incorporating the new standards into its liquidity policy and the timetable that will apply to implementation.

Stress Testing

In 2010, the Authority published "Guidelines on Stress Testing for the Bermuda Banking Sector". The guidelines, while tailored to the specific nature of the Bermuda banking sector, are aligned with relevant international standards. The Authority was among the first group of regulators to publish stress testing guidance for its market following the release of the Basel Committee's principles.

The guidelines the Authority published followed a period of consultation with market participants on proposals developed in conjunction with the Bermuda Bankers Association's Credit Sub-committee. The guidelines facilitate a more consistent approach to

stress testing within the banking sector and detail the format and content of reporting information that Bermuda's banks will be required to submit to the Authority as part of the Pillar II internal capital assessment process. They also address high-level issues including board and senior management involvement, risk governance, management actions, and capital and liquidity planning.

Supervisory Developments Supervisory Colleges

The Authority held two supervisory colleges for banks and investment companies during 2010. As lead regulator for the Bank of N.T. Butterfield & Son Ltd (BNTB) and Fidelity International Ltd (FIL), the Authority hosted colleges in October and November respectively. Supervisors from the Cayman Islands, the United Kingdom (UK), Guernsey, the Bahamas and Barbados participated in the BNTB college, while the UK's Financial Services Authority and Commission de Surveillance du Secteur Financier of Luxembourg participated in the FIL college.

The Authority's supervisory college programme demonstrates its commitment to meeting its international

Banking Sector Assets & Deposits

	2010-Q4	2010-Q3	2010-Q2	2010-Q1	2009-Q4	2009-Q3
Total Assets (\$ millions)	23,369	22,275	22,779	21,933	21,627	21,284
Quarterly Change (%)	4.9	-2.2	3.9	1.4	1.6	-3.0
Total Deposits (\$ millions)	19,631	18,632	19,124	18,435	18,462	17,823
Quarterly Change (%)	5.4	-2.6	3.7	-0.1	3.6	-2.8

obligations to co-operate fully with other regulators in the supervision of cross-border financial groups. Supervisory colleges are designed to: (i) assist both home and host supervisors develop a better understanding of the risk profile of a financial group; (ii) facilitate information exchange and effective co-operation between supervisors; (iii) strengthen the supervision of individual entities within a financial group; and (iv) co-ordinate supervisory activities related to a cross-border financial group.

Crisis Management Planning

As a result of the global financial crisis, governments and regulatory authorities worldwide have focused on implementing crisis management plans (CMPs) to address future potential financial crises locally, regionally and internationally. During the year, the Authority and the Bermuda Government worked together on a crisis management initiative for Bermuda. The Bermuda CMP seeks to preserve financial stability within the country by developing systems, policies and procedures that assist in (i) detecting and preventing a potential financial crisis; (ii) managing a financial crisis and mitigating its consequences; and (iii) easing contagion risks which

may arise from distressed financial institutions during a crisis.

Legislative Developments

Deposit Insurance

The purpose of deposit insurance is to protect small, financially less-sophisticated depositors in the event of bank failure and to promote stability in the banking sector. With these objectives in mind, the Authority worked in collaboration with the Ministry of Finance, the International Monetary Fund (IMF) and the Bermuda banking sector to develop proposals for introducing a Deposit Insurance Scheme (DIS) in Bermuda. These proposals were outlined in a consultation paper entitled, "Securing Enhanced Protection for Depositors: Proposals for Introducing Deposit Insurance in Bermuda" published in September 2010. The paper presented twelve recommendations for the structure and key features of a DIS in Bermuda. The paper was accompanied by a draft bill entitled "Bermuda Deposit Insurance Act 2010", which set out the necessary enabling legislation to establish the DIS.

When implemented, the DIS will provide protection to retail and small business

depositors of a bank by guaranteeing up to a maximum specified amount of their deposits in the event of an institution's failure. It is anticipated that the necessary legislation will be enacted in 2011 and the scheme will commence in early-2012.

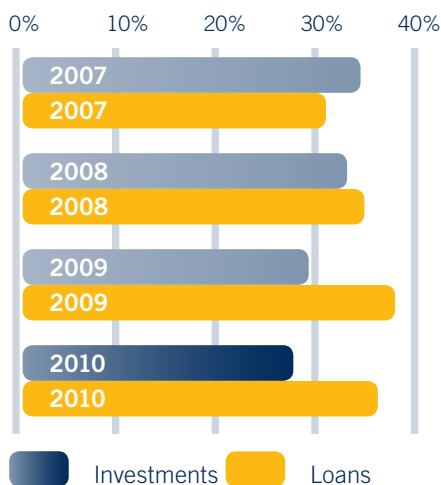
Bank Resolution Regime

The IMF in its 2008 report on Bermuda's regulatory framework had identified the absence of adequate powers to deal with a failed or failing bank as the one significant area requiring attention in Bermuda's banking regulation. The experience of a number of countries during the global financial crisis confirmed the importance of having such powers in place. Accordingly, with technical assistance from the IMF, the Authority began work last year on developing a special resolution regime for banks that would allow prompt and effective intervention in the case of a troubled bank. Details will be set out in a consultation paper to be published by mid-2011.

Overview of the Financial Position

2010 saw a substantial restructuring of the banking sector. BNTB raised \$550 million in new capital early in the

Loans and Investments as a Proportion of Total Assets



year through an equity injection from a group of private investors led by the Canadian Imperial Bank of Commerce and the Carlyle Group. In addition, there were changes in ownership at both Bermuda Commercial Bank (BCB) and First Bermuda Group (FBG). Permanent Investments Limited acquired a majority stake in BCB in April 2010 and Capital G Bank Limited acquired FBG in early January 2011 with the intention of amalgamating the latter's business within the Capital G Group later in the year.

Assets and Liabilities

Consolidated total assets of the banking sector grew by 8.1% in 2010 (compared to a 5.2% decrease in 2009), up from \$21.6 billion at end 2009 to \$23.4 billion at end 2010. Within the total, deposits with other banks grew by 27.4% while loans and advances grew by 3.5%. There were marginal declines in investments and other assets, down by 1.1% and 2.4% respectively.

This balance sheet growth was driven by an increase in customer deposits, up over the year from \$18.5 billion to \$19.6 billion, an increase of 6.3% (as compared to a 4.7% decrease in 2009). There was a particularly sharp

increase in time deposits, up by 13.6%, while savings deposits grew by 7.9%. Demand deposits increased modestly, up 0.2% over the previous year.

Balance Sheet Structure

There was a slight shift in asset allocation over the year to end-December 2010. Deposits with other banks as a proportion of total assets increased from 26.1% to 30.8% while there was a corresponding decrease in the share of investments, down from 29.9% to 27.3%, and loans and advances, down from 38.6% to 36.9%.

Earnings and Profitability

Total income of all the banks combined was little changed in 2010 compared with the previous year. Within the total, net interest income rose by 2.6%, primarily reflecting a 29.2% reduction in interest expense, while fees and commissions from non-banking services rose by 2%. Offsetting the growth in these components of income was an increase in the loss arising from a reduction in the book value of investments.

As a proportion of total income, net interest income rose from 60.8% in 2009 to 61.8% in 2010 (see chart). There was a corresponding increase in

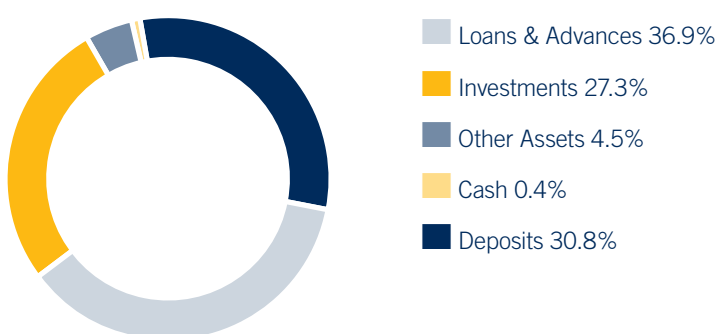
the sector's interest margin, which as a percentage of interest income rose from 76.8% in 2009 to 82.8% in 2010.

Operating costs rose in 2010 by 3.3% but there was a sharp decline in bad debt provisions. This helped the sector return to profitability following the loss recorded in 2009.

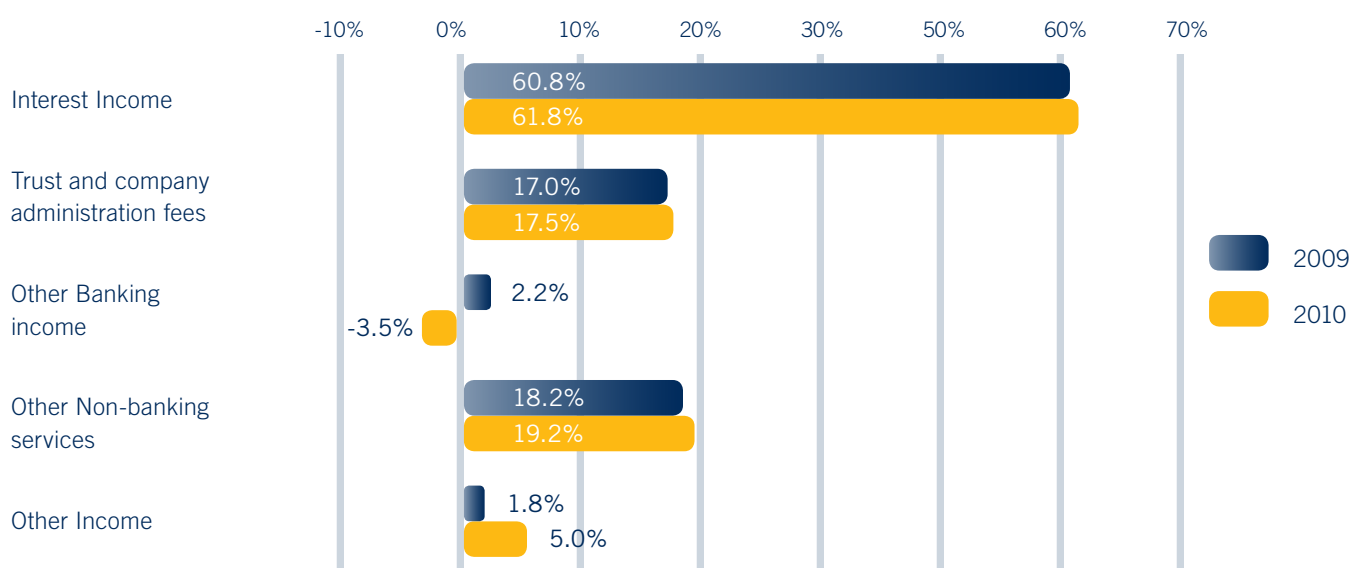
Capital Adequacy

The combined risk asset ratio (RAR) for the sector rose to 25.6% at year end as compared to 15.5% at the end of 2009 (see chart on page 24). The increase in RAR primarily reflected the successful effort by one bank to raise a substantial amount of new equity in the first half of the year. The increase in the combined risk asset ratio during the latter part of 2010 was due to the sale of a subsidiary by one bank.

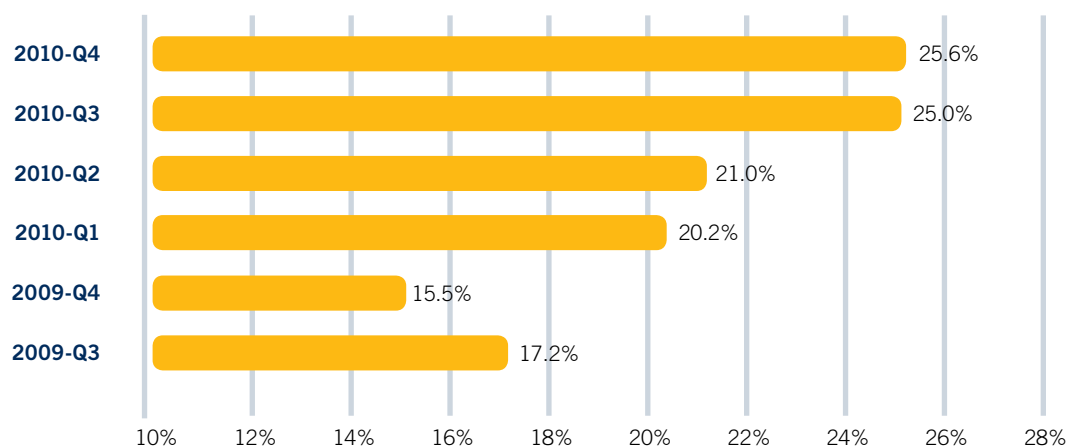
Composition of Banks' Assets as at 31st December 2010



Banks and Deposit Companies Revenues (Consolidated)



Banking Sector Consolidated Risk Asset Ratio



Combined Banks and Deposit Companies Foreign Position (Consolidated)

Total foreign currency assets grew by 10.8% over the past year while total liabilities rose by 8.6%. As a result, there was a sharp contraction in net foreign currency liabilities over the year, down to \$166 million in the final quarter of 2010 from \$807 million a year earlier.

(BD\$ millions)	2010-Q4	2010-Q3	2010-Q2	2010-Q1	2009-Q4	2009-Q3
Total Foreign Currency Assets	17,693	16,616	16,861	16,250	15,960	15,575
Less: Other Assets	428	437	433	386	478	501
Less: Foreign Currency Loans to Residents	1,013	1,052	1,219	1,067	1,172	1,128
Net Foreign Currency Assets	16,251	15,127	15,209	14,797	14,310	13,947
Foreign Currency Liabilities	16,232	15,163	15,749	14,964	14,940	14,262
Add: BD\$ Deposits of Non-Residents	185	192	195	189	176	204
Net Foreign Currency Liabilities	16,418	15,355	15,944	15,153	15,116	14,466
Net Foreign Currency Position (Consolidated)	(166)	(228)	(735)	(356)	(807)	(519)

Totals may not add due to rounding.

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

The ratio of BD\$ lending to BD\$ deposits rose from 134.1% to 141.1% during the year.

BD\$ loans and advances increased by 0.3% year-on-year while BD\$ customer deposits declined by 4.7%. The shortfall in BD\$ deposits over BD\$ loans and advances is financed by foreign currency denominated customer deposits, which are predominantly in US dollars. Taking into account other BD\$ liabilities, in particular the banks' capital, there are still more than sufficient BD\$ liabilities to fund the sector's BD\$ assets.

(BD\$ millions)	2010-Q4	2010-Q3	2010-Q2	2010-Q1	2009-Q4	2009-Q3
Deposit Liabilities	3,660	3,706	3,719	3,748	3,840	3,858
Less:						
Loans, Advances and Mortgages	(5,165)	(5,146)	(5,390)	(5,214)	(5,148)	(5,205)
Deposits Less Loans	(1,505)	(1,440)	(1,671)	(1,466)	(1,308)	(1,347)
Percentage of Deposit Liabilities Loaned	141.1%	138.9%	144.9%	139.1%	134.1%	134.9%

Totals may not add up due to rounding.

Note: Data presented as per revised framework in accordance with the Basel II Accord as of 2009-Q1.

Combined Balance Sheet of Bermuda Banks and Deposit Companies (Consolidated)

(BD\$ millions)	2010-Q4			2010-Q3			2010-Q2		
	Total	BD\$	Other	Total	BD\$	Other	Total	BD\$	Other
Assets									
Cash	88	47	41	80	40	39	91	52	38
Deposits	7,202	57	7,145	6,433	53	6,380	6,633	39	6,594
Investments	6,386	37	6,350	6,256	28	6,228	6,240	44	6,196
Loans & Advances	8,631	5,027	3,604	8,423	5,005	3,418	8,730	5,244	3,486
Premises & Equipment	505	380	125	512	399	113	507	394	114
Other Assets	557	129	428	572	135	437	578	146	433
Total Assets	23,369	5,676	17,693	22,275	5,659	16,616	22,779	5,919	16,861
Liabilities									
Demand Deposits	8,127	821	7,306	7,279	842	6,437	8,036	857	7,178
Savings	4,813	1,442	3,371	4,792	1,434	3,357	4,580	1,433	3,147
Time Deposits	6,690	1,335	5,355	6,561	1,367	5,194	6,509	1,369	5,140
Sub Total - Deposits	19,631	3,599	16,032	18,632	3,644	14,988	19,124	3,660	15,465
Other Liabilities	547	347	200	432	257	175	534	249	285
Sub Total - Liabilities	20,178	3,946	16,232	19,064	3,901	15,163	19,658	3,909	15,749
Equity & Subordinated Debt	3,191	2,109	1,082	3,211	2,065	1,146	3,121	2,105	1,017
Total Liabilities and Capital	23,369	6,055	17,314	22,275	5,966	16,308	22,779	6,013	16,766
(BD\$ millions)									
	2010-Q1			2009-Q4			2009-Q3		
	Total	BD\$	Other	Total	BD\$	Other	Total	BD\$	Other
Assets									
Cash	80	46	34	89	56	33	83	42	41
Deposits	6,289	37	6,252	5,651	60	5,591	5,183	70	5,113
Investments	6,131	24	6,106	6,457	43	6,413	6,597	45	6,552
Loans & Advances	8,422	5,063	3,358	8,341	5,009	3,332	8,307	5,051	3,256
Premises & Equipment	484	371	113	477	364	113	487	375	112
Other Assets	527	142	386	611	133	478	626	125	501
Total Assets	21,933	5,683	16,250	21,627	5,666	15,960	21,284	5,708	15,575
Liabilities									
Demand Deposits	7,761	878	6,883	8,110	866	7,244	7,643	896	6,746
Savings	4,750	1,445	3,304	4,461	1,445	3,017	4,104	1,430	2,674
Time Deposits	5,925	1,399	4,527	5,891	1,472	4,419	6,076	1,479	4,596
Sub Total - Deposits	18,435	3,722	14,714	18,462	3,783	14,679	17,823	3,806	14,017
Other Liabilities	530	279	251	570	309	261	616	371	245
Sub Total - Liabilities	18,965	4,001	14,964	19,032	4,092	14,940	18,439	4,177	14,262
Equity & Subordinated Debt	2,967	1,639	1,328	2,594	1,705	889	2,845	1,886	959
Total Liabilities and Capital	21,933	5,640	16,292	21,627	5,798	15,829	21,284	6,063	15,221

Totals may not add due to rounding.

Formal Use of Powers under the Banks and Deposit Companies Act 1999

Section	Provisions	Use in 2010
17 and 18	To restrict or revoke a licence	Not required
25 and 26	To review the fitness of all proposed new controllers	Three applications received; no objections required
27	To object when Authority concludes that an existing controller is no longer fit and proper	Not required
35	To vet licensed institutions who give written notice to the Authority when a person becomes a director or senior executive	Notifications received; Authority conducted the appropriate vetting
36	To object or not object to notifications of significant shareholder changes	Three applications received; no objections required
39	To commission reports	Not required
40, 41 and 42	To require the production of documents, to obtain entry to premises or to appoint persons to investigate an institution	Not required
43 and 44	To investigate suspicions of illegal deposit-taking activity	Not required

Licensing

The total number of licensed institutions remained unchanged at four banks and one deposit company. However, during the year, First Bermuda Group announced plans to merge its operations with Capital G bank. The merger will take effect in the first half of 2011.

On going Supervision

During the year, the Authority conducted consolidated on-site reviews for three of the four banks as well as the one deposit taking company. The on-site reviews were conducted using the Authority's risk-based approach applied to all operational areas including key risks and control functions. In addition to the on-site reviews, the banking sector was subjected to on going surveillance and monitoring via the Authority's programmed quarterly risk, compliance and internal audit meetings with licencees. Additionally, several prudential and strategy meetings were held with all of the banks and one deposit taking company as well as meetings with boards of directors and external auditors.

CREDIT UNION SUPERVISION

After completing an extensive consultation process with relevant stakeholders on a revised legislative framework and a new reporting regime, the Authority assumed full responsibility for the supervision and regulation of credit unions in Bermuda effective 1st January 2011.

The revised credit union framework incorporates the principles contained within the Model Law produced by the World Council of Credit Unions and the International Credit Union Safety and Soundness Principles. The objective of the new framework is to ensure that credit unions in Bermuda are subject to internationally accepted supervisory standards, for the ultimate protection of credit union members.

Formal Use of Powers under the Trusts (Regulation of Trust Business) Act 2001

Section	Provisions	Use in 2010
15, 16, 17, 20 and 23	To restrict a licence, to revoke a licence, to petition the court to wind up a company, to give directions to protect the interests of clients and to petition the Court to transfer trusts to a new trustee	Not required
24	To object or not object to notifications of new or increased control	Three notifications received; no objection required
25 and 26	To object or not object to a new or existing controller or to increased control by an existing controller	Not required
29	To make appeals to the relevant tribunal	No matters submitted
34	To vet changes in controllers and officers	Four notifications received; the Authority conducted the appropriate vetting
36 and 37	To obtain information and reports and to obtain the production of documents	Not required
38 and 39	To gain right of entry to premises and to carry out investigations, as well as for the appointment of inspectors	Not required

TRUST COMPANY SUPERVISION

Trusts (Regulation of Trust Business) Act 2001

The above table and following information comprises the report the Authority is required to make annually to the Minister of Finance on the execution of its functions under the Trusts (Regulation of Trust Business) Act 2001, pursuant to Section 5 of the Act.

On going Supervision

The Authority completed four on-site reviews of licensed trust companies during 2010. In addition to on-sites the Authority's risk-based supervisory approach for the sector

includes prudential meetings held with management. During the year prudential meetings were held with eighteen trust companies, during which the Authority discussed company strategies, current operations and past performance.

Private Trust Companies

Newly-incorporated private trust companies continued to provide requests for trust exemption certificates during the year. As is customary, the Authority monitored these requests throughout the year.

INVESTMENT BUSINESS SUPERVISION

Investment Business Act 2003

The following section provides the report that the Authority is required to make annually to the Minister of Finance regarding the execution of its functions under the Investment Business Act 2003 (the Act), pursuant to section 8(3) of the Act.

Developments in the Investment Sector

Overall, the aggregate total assets under management of licensed investment providers (excluding banks and overseas entities) amounted to approximately \$175 billion* compared to \$144 billion the previous year. This change reflects the recovery in

* Numbers in this section are best estimates based on data available at the time of the Report.

Formal Use of Powers under the Investment Business Act 2003

Section	Provisions	Use in 2010
17(4)	To vary or remove any limitation imposed on the scope of a licence	Not required
20, 21 and 23	To restrict or revoke a licence	Not required
28	To object or not object to notifications of new shareholder controllers	Seven notifications received; no objections required
43	To vet notifications of changes in controllers and officers	30 notifications received; the Authority conducted the appropriate vetting
45, 46, 47 and 49	To obtain information and reports, to require the production of documents, to gain entry to premises, and to investigate licensed entities	Not required
50 and 51	Items pertaining to perimeter policing, power to obtain a warrant to enter and search premises	Not required
Chapters 6 and 7	To publish a statement of public censure and other protective measures	Not required
61	To petition the Court to wind up an investment provider	Not required
Part IV	Various powers relating to investment exchanges and clearing houses	Not required

securities markets during 2010. The aggregate capital of this sector was \$14 billion as at the end of 2010.

Revised Code of Conduct for Investment Providers

On 30th June 2010, following a period of industry consultation, the Authority released its revised Code of Conduct for Investment Providers replacing the General Business Conduct and Practice Code of Conduct that was issued in March 2004. The revised Code was developed by a working group consisting of members of the Authority's supervisory team and representatives from the investment industry and the Pension Commissioner's office. It provides more explicit guidance to the industry in specific areas, including avoiding misleading or deceptive representations; avoiding or disclosing conflicts of interest; providing periodic information/ performance reports; disclosure of remuneration and commissions; and generally assisting clients with making informed investment decisions.

As a supplement to the Code, the Authority also developed a series of templates for use by investment providers for reporting purposes. These templates are designed to encourage greater consistency in the reporting and information they provide to investors. The enhanced Code also sets out the Authority's expectations in terms of acceptable behaviour from licensed investment providers, while ensuring that firms are transparent about their obligations and conduct in relation to their clients.

On going Supervision

The Authority's on going supervision of the sector included both on-site and off-site reviews. Off-site supervision includes a review of quarterly financial reporting, audited financial reports, additional periodic reports and scheduled prudential meetings. Prudential meetings take place with the investment provider's senior management team. Items discussed

during these meetings include the development of the company's business, past performance and future strategy. On-site review visits assess the effectiveness of policies, procedures, and internal controls, as well as compliance with the requirements of the Act, Regulations and Codes.

The Authority conducted 31 prudential and strategy meetings with institutions or regulated groups and 14 on-site reviews during the year. The scope of standard on-site visits covered matters such as high-level controls, including corporate governance; operational risk; new business take-on procedures and anti-money laundering/anti-terrorist financing controls; compliance with the Code of Conduct for Investment Providers and Advertising Code of Conduct; general compliance with the Act; proceeds of crime legislation and the financial viability of the investment provider. In addition, follow-up to remedial action plans in relation to earlier on-site visits was discussed.

Following each review, the Authority provided a written report on its findings, identifying any specific concerns or weaknesses, and made recommendations as to remedial action or areas in which policies or practices required enhancement. In addition, the Authority held a number of strategy or ad hoc meetings with institutions to discuss specific issues or concerns during the year.

MONEY SERVICE BUSINESS SUPERVISION

Money Service Business Regulations 2007

On going Supervision

Given the nature of money service business and its potential to impact the individual customer, the objectives of the Authority's regime for this sector are to assess the on going financial viability of a firm; the fitness and propriety of its management; the prudent conduct of its business; and its compliance with the Regulations, for the ultimate protection of clients. The supervisory

programme involves regular meetings with the senior management of licensed firms, together with scrutiny of financial and statistical information in connection with the institution's business activities and periodic on-site visits to the institution's premises. During 2010, the Authority continued to hold prudential or strategy meetings with money service business providers.

Formal Use of Powers

During the year, the Authority received notification of four changes in director, senior executive or controller pursuant to Regulation 9 of the Regulations. The Authority conducted the appropriate vetting.

Under Regulation 15, the Authority may give notice of direction or revocation of licence. Use of these powers was not required in 2010.

INVESTMENT FUND SUPERVISION

Investment Funds Act 2006

In line with general trends in the global

Investment Fund Statistics

	2010-Q4	2010-Q3	2010-Q2	2010-Q1	2009-Q4	2009-Q3
Mutual Funds	657	656	661	654	662	697
Umbrella Funds	58	59	64	67	71	72
Sub-Funds	142	157	172	169	175	203
Segregated Account Companies	76	78	79	81	84	86
Segregated Accounts	248	215	229	273	317	343
Total	1,181	1,165	1,205	1,244	1,309	1,401
Unit Trusts	40	43	39	42	44	53
Umbrella Trusts	69	102	101	99	94	108
Sub-Trusts	150	166	175	174	25	201
Total	259	311	315	315	163	362
Total Portfolios	1,440	1,476	1,520	1,559	1,472	1,763
Total Number of Funds	900	938	944	943	955	1,016
Total Net Asset Value (In billions)	\$178.44	\$175.59	\$180.35	\$174.38	\$147.30	\$154.45

The calculation of the Bermuda net asset value data has been revised and restated for 2010.

fund market, the end of 2010 was one of increasing net asset value in Bermuda’s fund sector. The total net asset value at the end of 2010 was \$178 billion, as compared to \$147 billion in 2009, up by \$31.14 billion or 21%.

A full list of regulated investment funds can be found on the Authority’s website: www.bma.bm.

The Investment Funds Amendment Act 2010

Since its enactment in 2007, the Authority has been working with industry to discuss potential enhancements to the Investment Funds Act 2006 based on the collective experience of both industry and the Authority. In May 2010, the Authority published a Consultation Paper entitled, “Securing Enhanced Protection for Investors: Proposed Amendments to the Investment Funds Act 2006” outlining the proposed first set of amendments to the Act. Subsequent to market consultation and feedback the proposed amendments were tabled in Parliament and came into force on 22nd December 2010.

The Investment Funds Amendment Act 2010:

- aligns the regulatory framework for funds and fund administrators more closely with the requirements that exist in other regulatory legislation in Bermuda;
- ensures that the framework overall remains risk-based;
- recognises the unique nature of the Bermuda funds industry; and
- seeks to preserve a balance between an appropriate degree of protection for investors, most of whom are sophisticated and/or institutional with a high degree of financial knowledge, and not imposing an undue regulatory burden on the industry.

The Amendment Act includes provisions ranging from expanding

the definition of service provider to introducing change of control requirements and the “four-eyes” criterion for fund administrators.

Licensing

During 2010, 68 new investment funds were authorised and 18 were exempted, for a total of 86 new funds versus the 83 recorded for 2009. Bermuda funds continue to be targeted primarily towards institutional/sophisticated investors. There were 1,440 different investment portfolios operating within Bermuda’s 900 funds at the end of the year. This compared with 1,472 and 955 respectively at the end of 2009.

There were 42 fund administrator licences in issue at the end of 2010, compared to 44 at the end of 2009. No new licences were issued in 2010 compared to five in 2009. Two fund administrators surrendered their licences during the year, the same number recorded for 2009.

On Going Supervision

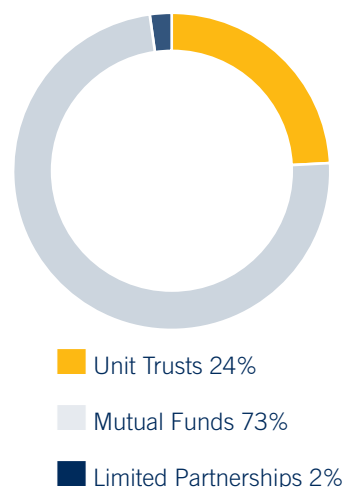
During the year, the Authority reviewed and processed 333 notifications and 532 material changes in relation to investment funds. The supervisory programme for authorised investment funds is driven by the overall objective of investor protection, and continues to include a combination of on-site and off-site reviews, as well as the vetting of fund service providers.

The on-site programme for licensed fund administrators, which began in late 2008, continued to be a key component of the Authority’s supervisory programme for this sector. A total of eight on-site visits were conducted in 2010, bringing to 30 the total of licensed fund administrators visited since the programme began.

On-site visits enable the Authority to review a firm’s compliance with the relevant legislation, as well as the effectiveness of processes that management has put in place to

monitor and control key risks in a business. The scope of the visits included a review of the organisational structure, strategy, and financial position of firms and an assessment of their policies and controls around risk management, fraud, new business acceptance, anti-money laundering/anti-terrorist financing processes, information technology and disaster recovery.

Investment Funds Applications Approved 2010



BERMUDA STOCK EXCHANGE

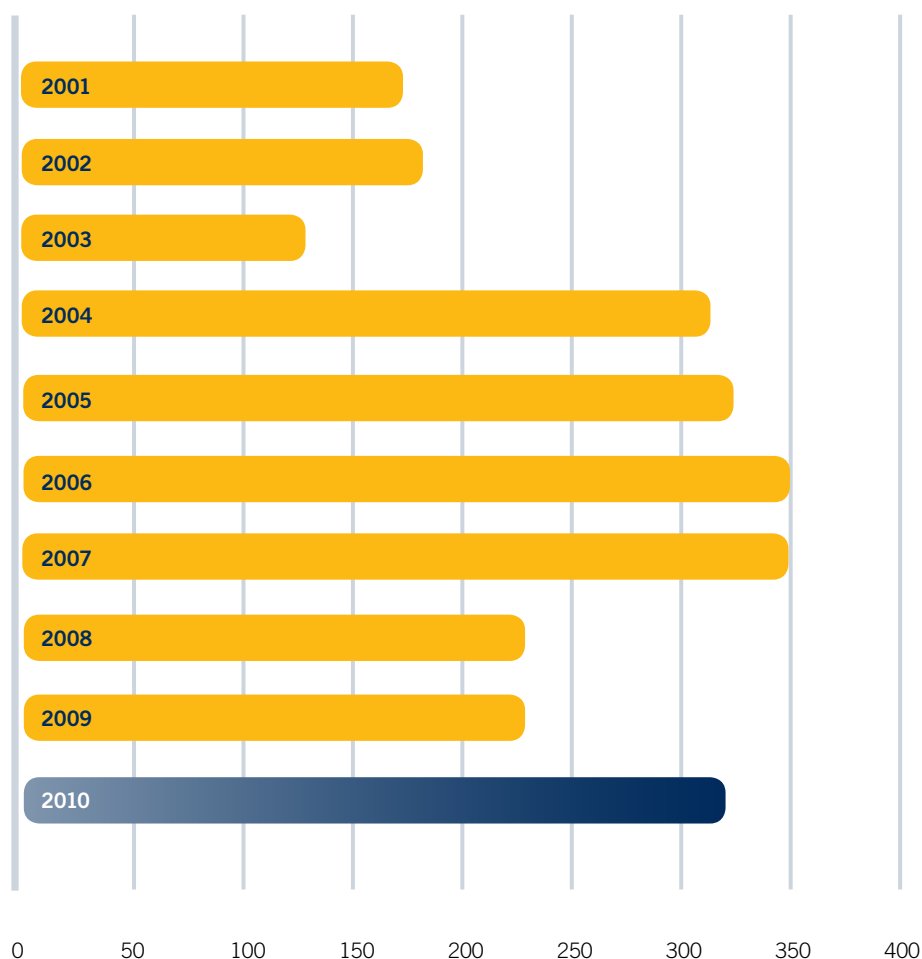
The Bermuda domestic capital market continued to experience pressure in 2010 as a result of the global market dislocation, however the Bermuda Stock Exchange (BSX) international listing business and in particular insurance-linked securities continued to gain momentum and generate positive attention from the global capital markets for Bermuda.

The total market capitalisation of the BSX as at 31st December 2010 (excluding fund listings) stood at over \$319 billion, of which approximately \$1.4 billion represented the domestic market. Total trading volume in 2010 was 64 million shares with a corresponding value of \$122 million, which compares with figures of 5.7 million shares and \$50.9 million in 2009. The Royal Gazette/BSX index closed

the year at 1149.49, 45% lower than a year earlier. The rise in trading volume and decline in the index reflected the issue of a large number of new shares by a local company which accounts for a substantial portion of the BSX market capitalisation.

As at 31st December 2010, 607 issuers were listed on the BSX, including a number of new insurance linked securities. The total market capitalisation for this type of security was \$1.83 billion at year end. The exchange also listed an additional 124 derivative warrants during 2010. Also noteworthy was the \$500 million capital raise undertaken by one of Bermuda's banks during the year along with the listing of \$500 million of the Government of Bermuda's 5.603% Senior Notes.

Bermuda Stock Exchange (BSX) - Market Capitalisation (US\$ billions)



Assessment and Licensing Committee

The Assessment and Licensing Committee (ALC) reviewed a total of 56 applications; 51 were insurance-related and five were banking, trust and investment (BTI)-related.

Insurance Applications

Out of the 51 insurance applications received, 49 were approved and two remain outstanding for further consideration.

Out of the successful applications 21 were for insurers ranging from Class 1 to Class 4. There were seven applications for Long-Term insurers (LT), two for dual licences (one for Class 3 and LT and one for Class 3A and LT) and nine for Special Purpose Insurers (SPIs). The remaining 10 insurance-related approvals were for insurance intermediaries, inclusive of agents, managers and brokers.

Banking, Trust & Investment Applications

All five applications for BTI were approved. Four were investment business applications and one was a trust.

Class 1	8
Class 2	4
Class 3	4
Class 3A	1
Class 3B	2
Class 4	2
Dual	2
SPI	9
Long-Term	7
Insurance Agent	1
Insurance Manager	5
Insurance Broker	4
Investment Business	4
Trusts	1
Total	54

Companies Partnerships and Permits Statistics - Applications Approved

	2010-Q4	2010-Q3	2010-Q2	2010-Q1	2009-Q4	2009-Q3
Companies	256	188	183	227	231	145
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	24	5	18	14	27	7
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	2	1	1	1	3	1
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	15	7	7	10	18	3
Unit Trusts	2	6	8	7	41	13
Total Applications Approved *	299	207	217	259	320	169

* Quarterly numbers are amended to reflect more up-to-date consent information.

The statistics shown above reflect the number of applications that have received vetting clearance from the Bermuda Monetary Authority. These figures do not reflect the actual number of entities incorporated in Bermuda during the period. Such statistics can be obtained from the Registrar of Companies.

Insurance

During the year the Authority made steady progress with its on going enhancements to Bermuda's regulatory framework for the insurance sector. Much of this work was focused on the Authority's preparations for its regulatory equivalence assessment under Europe's Solvency II Directive.

Developments in the Sector

Bermuda's insurers held aggregate total assets of \$496 billion during the reported period. This represents a 5% increase over the \$472.9 billion recorded the previous year. Total gross premiums were \$119.7 billion compared to the previous year total of \$123.5 billion. The commercial sector wrote \$87 billion in premiums and the captive sector wrote \$32.6 billion.

Developments in the Sector

Long-Term Insurance Framework

Within its overall regulatory development programme, the Authority is enhancing its framework for Long-Term insurers, in line with prevailing international standards for the sector. On 31st August, the Authority published, along with accompanying draft legislation, the Consultation Paper "Solvency Framework for Long-Term Insurance", which outlined its planned enhancements to the Long-Term regime. The enhanced framework includes new licence classifications, revised capital requirements and a Commercial Insurer Solvency Self Assessment for Long-Term insurers. Other enhancements to the overall insurance framework, such as group supervision, eligible capital, economic balance sheet and disclosure and

transparency initiatives, will also be developed for Long-Term insurers.

Amendments to the Insurance Act 1978 were enacted at the end of the year implementing the new Long-Term licence classifications. Amendments were also made to the Insurance Returns and Solvency Regulations 1980, establishing Minimum Solvency Margins, and to the Insurance Accounts Regulations, implementing additional financial reporting requirements. The Prudential Standards Order will be finalised early in 2011.

Internal Capital Models (ICM)

To ensure that the review and evaluation of internal capital models is efficient and effective, the Authority is taking a phased approach in the development of its internal capital models (ICM) framework for the commercial insurance sector. During 2010 the Authority conducted pilot reviews of insurers and a related insurance group to further inform its ICM framework. The result of this work enabled the Authority to enhance the ICM qualification process, which will include an expanded pre-application process, detailed information requests and internal scoring mechanisms. The pilot reviews also assisted

with identifying training needs for ICM analysis and assessment for the Authority's staff, for both the quantitative and qualitative aspects of such models.

In addition, during the year the Authority developed specific IT infrastructure to support the ICM review process.

Incorporations & Registrations

Incorporations increased slightly during 2010. A total of 43 new (re) insurers were incorporated during the year compared to 42 in 2009. A large percentage of entrants to the market for 2010 included Special Purpose Insurers and Long-Term Insurers. These new companies cover various lines of business such as property and catastrophe, life, and professional liability. The majority of the business was derived from the US for both the captive and commercial markets. Registrations for 2010 were consistent with the previous year and included a total of 36 new (re)insurers as compared to 38 in 2009.

Approach to Supervision

Group-Wide Supervision

The framework for group-wide supervision for (re)insurers was

established after the passage of enabling legislation in March 2010. During the year, the Authority accelerated its group-wide supervision plans publishing its Consultation Paper ahead of schedule on 5th February 2010. The Paper detailed the scope of the Authority's group-wide regime and the conditions under which the Authority would wish to assert itself as a Group-Wide Supervisor. In addition, the Paper explained the Authority's proposed equivalence framework and the use of supervisory colleges. Other features include details on corporate governance and risk management; eligible capital; and group-wide solvency assessment, including intra-group transactions and risk concentration. The Paper also discussed statutory filing requirements and related disclosures; and the function of unregulated entities that are within a group.

Following the completion of the first phase of consultation, the Authority published drafts of the related Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules 2011 and The Insurance (Group Supervision) Rules 2011 for industry comment on 31st December 2010.

With the policy and legislative framework for group-wide supervision largely in place, the Authority intends to focus on beginning the phased implementation of its regime during 2011.

Insurance Code of Conduct

The Insurance Code of Conduct was issued on 13th February and came into effect on 1st July 2010. The Code is based on international standards, and builds on requirements previously established for the Bermuda insurance market. It establishes enhanced duties, requirements and standards, supported by procedures and sound principles, with which all (re)insurers must comply. These standards cover corporate governance; governance mechanisms; risk management; outsourcing; and market discipline and disclosure. The enforcement date for compliance with the standards was extended to 1st July 2011 to afford companies the opportunity to make operational adjustments as needed. The Authority will monitor adherence to the Code via standard prudential supervision, statutory reporting, and its on-site review programme.

Application of the Act

a) Timeliness of Reporting

The obligation placed on companies to file an annual audited financial return with the Authority remains an important element of their statutory responsibility under the Act. During the year, the Authority continued to ensure that companies conducted the filing of statutory financial returns in a timely manner.

b) Solvency Margin Maintenance

While Bermuda's existing strict minimum solvency margin requirements continued to support the overall stability of the insurance sector, the establishment of the Bermuda Solvency Capital Requirement (BSCR), the Authority's standard risk-based capital model has enhanced the solvency regime for Bermuda (re)insurers. Class 4 companies have filed under the BSCR from their 2008 year-end filings. After a trial run for the 2009 year-end, Class 3B (re)insurers will be required to file the BSCR for 2010 year-end filings.

Trial runs in relation to risk-based final models will be held for the Class 3A and Class E (or those Long-Term licensed (re)insurers that fulfill the characteristics of Class E) for the 2010 year-end.

The solvency requirements, which are determined according to the nature and risk of the business being conducted by an insurer, continue to complement the other factors contributing to the integrity of the Bermuda market, such as rigorous review of new incorporations and early intervention by the Authority in the event of potential solvency issues. Based on this framework, cases of insolvency in the Bermuda market remain very low.

On going Supervision

In addition to the review of annual statutory filings, our risk-based framework for supervision also includes on-site reviews, prudential meetings with insurers, and bilateral meetings with international regulators. The decision of where to focus our supervisory efforts and what supervisory plan to impose on an individual entity is made based on the risk profile of the particular entity. On-site reviews are performed on institutions that are deemed to pose the greatest risk to the jurisdiction. On-site reviews generally consist of a comprehensive review of the company's operations to assess adherence to the relevant legislation. Prudential meetings are held with entities, as deemed necessary, to address specific areas within an organisation. As many of the most complex institutions in the jurisdiction are a part of an insurance group, bilateral meetings with other regulators were deemed necessary to discuss the intra-group risks that may arise from these relationships.

During the year, the Authority conducted on-site examinations of nine Class 4 companies, one Class 3A company and one Class 3 company. Prudential meetings with five Class 4 companies also took place. In addition, follow-up reviews were conducted with thirteen of the entities that were subjected to on-site reviews in 2009.

The purpose of the follow-up visits was to resolve any outstanding issues that arose during the 2009 review. In July 2010, the Authority conducted bilateral meetings with an international regulator discussing seven Class 4 insurers of common interest.

The Authority has an established monitoring programme for companies in run-off. The monitoring programme has resulted in remediation actions for non-compliant companies including licence restrictions, enhanced reporting, work plans and in some cases the cancellation of the insurance licence or liquidation. The Authority has agreed monetary penalties with 10 companies in 2010 for breaches of the Insurance Act 1978.

International Developments International Association of Insurance Supervisors (IAIS) Participation

The Authority continues to participate actively with the IAIS via membership in various IAIS committees, subcommittees and working groups, assuming leadership roles as appropriate. Along with attending the meetings of the various committees throughout the year and the tri-annual meetings, the highlights of the Authority's involvement during the year are summarised in the table shown.

Overview of BMA IAIS Participation in 2010

Committee	Activity
Reinsurance Transparency Group (RTG) (Chairman)	<ul style="list-style-type: none"> • Chaired six meetings • Presented RTG work at the IAIS Internal Review Task Force • Presented Global Reinsurance Market Report 2010 (Mid-year and year-end editions) to the IAIS Technical Committee (TC) and the Financial Stability Committee
Financial Stability Committee (FSC) (Member)	<ul style="list-style-type: none"> • Managed the workload flow between the RTG and FSC • Delivered presentations at three FSC meetings
Insurance Core Principles Coordination Group (Member)	<ul style="list-style-type: none"> • Actively participated in the review of the IAIS's 28 Core Principles (ICP). The target adoption deadline for the revised ICPs is October 2011.
Reinsurance and Other Forms of Risk Transfer Subcommittee (Member)	<ul style="list-style-type: none"> • Took a leading role in the drafting, consultation and negotiation of the new ICP no. 13 – Reinsurance and other forms of risk transfer, and related standards and guidance. • Presented new ICP 13 to the TC
Insurance Groups and Cross-Sectoral Issues Subcommittee (Chairman)	<ul style="list-style-type: none"> • Elected Chairman of the Insurance Groups and Cross-Sectoral Issues Subcommittee.
Financial Stability Board - Data Gaps and Systemic Linkages Working Group (Member)	<ul style="list-style-type: none"> • Participated in the Financial Stability Board's Data Gaps Working Group meetings on systemic issues as appointed IAIS representative.

Market Statistics by Domicile of Beneficial Owner/s For the year ended 31st December 2009

Domicile of Owners	No. of Co's	Gross Premiums	Net Premiums	Total Assets	Capital and Surplus
Captives					
Africa/Middle East	7	92,301,882	18,149,116	128,935,803	54,280,954
Asia	24	607,094,902	512,901,978	1,973,641,638	793,845,711
Australia/New Zealand	8	2,296,536,722	2,251,550,605	4,997,950,971	1,621,840,839
Bermuda	49	867,335,863	687,239,777	3,410,859,780	1,347,468,181
Caribbean/Latin America	34	766,199,831	570,716,438	2,529,708,346	1,360,149,965
Europe	88	3,941,792,899	3,116,512,055	13,900,312,843	7,759,675,182
North America	507	24,110,059,298	19,553,631,808	93,315,766,040	37,331,087,467
Worldwide	1	732,466	732,466	3,736,430	3,539,815
Sub-Totals:	718	32,682,053,863	26,711,434,243	120,260,911,851	50,271,888,114
Professional Ins./Reinsurers					
Africa/Middle East	5	486,441,814	305,821,564	7,859,831,131	788,361,837
Asia	6	1,088,102,223	1,028,131,904	1,927,051,989	1,469,375,213
Australia/New Zealand	1	29,108,171	2,392,444	9,758,792	3,095,726
Bermuda	75	23,656,576,766	20,727,261,186	146,271,387,234	54,168,262,136
Caribbean/Latin America	14	1,231,724,769	919,522,149	5,171,424,828	2,508,298,476
Europe	54	8,078,031,711	6,861,617,853	60,167,317,155	15,535,490,129
North America	187	51,554,164,651	48,762,695,601	152,212,703,125	56,761,668,833
Worldwide	1	951,112,648	951,112,648	2,170,964,473	569,115,404
Sub-Totals:	343	87,075,262,753	79,558,555,349	375,790,438,727	131,803,667,754
Totals:	1,061	119,757,316,616	106,269,989,592	496,051,350,578	182,075,555,868

Market Statistics by Class of Insurer For the year ended 31st December 2009

Class of Insurer	No. of Co's	Gross Premiums	Net Premiums	Total Assets	Capital and Surplus
Class 1	251	3,573,067,089	2,737,413,699	15,339,834,792	9,564,034,433
Class 2	278	8,425,967,532	6,677,300,577	41,191,867,998	17,971,398,098
Class 3	277	21,884,997,258	19,637,894,541	91,805,013,053	28,852,298,522
Class 3A	132	14,816,428,129	13,369,922,092	56,398,671,855	21,393,119,850
Class 3B	16	14,983,008,919	11,528,027,699	36,449,598,068	15,922,038,035
Class 4	33	31,668,826,899	27,914,410,194	146,306,470,515	71,669,576,230
Long-Term	73	24,405,020,790	24,405,020,790	108,550,454,226	16,702,724,273
Special Purpose Insurer	1	0	0	9,440,071	366,427
Totals:	1,061	119,757,316,616	106,269,989,592	496,051,350,578	182,075,555,868

Explanatory Notes:

- a) Class 1 Single-parent captive insuring the risks of its owners or affiliates of the owners.
- b) Class 2 (a) A multi-owner captive insuring the risks of its owners or affiliates of the owners; or
(b) A single parent or multi-owner captive: (i) insuring the risks arising out of the business or operations of the owners or affiliates, and/or (ii) deriving up to 20% of its net premiums from unrelated risks.
- c) Class 3 Captive insurers underwriting more than 20% and less than 50% unrelated business.
- d) Class 3A Small commercial insurers whose percentage of unrelated business represents 50% or more of net premiums written or loss and loss expense provisions and where the unrelated business net premiums are less than \$50 million.
- e) Class 3B Large commercial insurers whose percentage of unrelated business represents 50% or more of net premiums written or loss and loss expense provisions and where the unrelated business net premiums are more than \$50 million.
- f) Class 4 Insurers and reinsurers capitalised at a minimum of \$100 million underwriting direct excess liability and/or property catastrophe reinsurance risk.
- g) Long-Term Insurers writing long-term (or life) business.
- h) Special Purpose Insurers Insurers that conduct special purpose business.

Class of Insurer Registered*

Class of Insurer	2010	%	Restated* 2009	Restated* %
Class 1	6	16.7	9	23.7
Class 2	4	11.1	5	13.2
Class 3	4	11.1	9	23.7
Class 3A	2	5.6	10	26.3
Class 3B	1	2.8	0	0.0
Class 4	2	5.6	1	2.6
Long-Term	7	19.4	0	0.0
Special Purpose Insurers	8	22.1	1	2.6
Dual Licences	2	5.6	3	7.9
Totals:	36	100	38	100

**Previously 'Class of Insurer Incorporated' - Effective Q1 2010, the presentation of this statistical data has been revised to provide details of those companies added to the Insurance Register during each quarter, i.e. those that have been granted an insurance licence by the Bermuda Monetary Authority. Previously, statistics for company incorporations were provided in this publication. Company incorporations are completed by the Bermuda Registrar of Companies (ROC) office; statistics on insurance company incorporations will now be available from the ROC.*

Analysis of all Insurers Registered

Class of Insurer	2010	%	2009	%
Class 1	297	23	310	23
Class 2	342	26	345	26
Class 3	306	23	330	24
Class 3A	112	9	118	9
Class 3B	17	1	15	1
Class 4	33	2	31	2
Long-Term	108	8	103	8
Special Purpose Insurers	11	1	1	0
Dual Licences	90	7	95	7
Totals:	1,316	100	1,348	100

Policy Research & Risk Assessment

During the year the Authority made significant progress on policy framework enhancements designed to ensure that it continues to apply appropriate and proportionate regulation across all sectors of Bermuda's financial market.

Policy development also focused further on enhancing the insurance framework appropriately for Bermuda, while maintaining consistency with emerging international standards. This work particularly related to enhancing the framework in line with the technical requirements of Solvency II, in preparation for Bermuda's equivalence assessment under this regime.

On the international front, the Authority continued to participate actively in major initiatives within the International Association of Insurance Supervisors, including taking on leadership roles for key initiatives. In addition, the Authority contributed to a number of international training initiatives involving solvency and risk analysis, as well several academic publications and conferences.

Policy Development

Highlights for the year included enhancements to the Authority's risk-based capital framework, which was also extended to Class 3A firms and Long-Term insurers; further development of the group supervision regime and finalising the Insurance Code of Conduct. Details of the group supervision regime and the Insurance Code of Conduct are discussed earlier

Insurance Capital Adequacy Framework Enhancements 2010

Component	Developments in 2010
Disclosure and Transparency	<ul style="list-style-type: none"> Established additional qualitative and quantitative public and regulatory disclosure requirements
Eligible Capital	<ul style="list-style-type: none"> Consulted on new rules in support of the quality of commercial insurers' available statutory capital and surplus Applied new rules and limits on a trial basis to the Class E, 3A, 3B and 4 licence holders and insurance groups for the 2010 financial year-end
Commercial Insurance Solvency Self-Assessment (CISSA)	<ul style="list-style-type: none"> Published Consultation Paper Implemented Catastrophe Return (Cat Return) supplement - designed to provide details the Authority needs to assess the probable maximum loss data that is submitted by a firm Introduced Cat Return for terrorism exposure disclosures
Bermuda Solvency Capital Requirements for Class 3A Small and Medium-Sized Entities (BSCR-SME)	<ul style="list-style-type: none"> Conducted consultation and data call Scheduled trial run for 3A firms for 2010 financial year-end
Economic Balance Sheet (EBS)	<ul style="list-style-type: none"> Published Discussion Paper Established EBS Taskforce

in this Report. A significant portion of the policy development during the year also involved completing the next phase of risk-based capital adequacy regime enhancements, as highlighted within this section of the report.

Supporting legislative changes aligned with these developments also took place during the year. Amendments to the Insurance Act 1978 and the Insurance Accounts Regulations 1980 were completed to strengthen Bermuda's insurance supervisory framework further, in line with emerging international standards. Highlights of these changes can be found in the Legal Services and Enforcement section of this Report on page 51.

Research

Annual Market Survey on Captives

The fourth annual market survey on the captive insurance sector was completed during the year in conjunction with the Bermuda Insurance Managers Association. The survey collects detailed financial data on the sector, including premium configuration by geographical location of risk, lines of business and balance sheet, as well as invested asset mixes. The results of the survey provide a thorough and detailed analysis of the captive sector

Summary of BMA Contributions to International Publications / Events for 2010

Publication/Event	Contribution
'Global Perspectives on Insurance Today: A Look at National Interest versus Globalization' published by Palgrave Macmillan	Authored the chapter, 'Securitization and Insurance'
The Future of Insurance Regulation and Supervision: A Global Perspective.	Authored the chapter 'Regulatory Future of International Insurance Centers'
Geneva Association PROGRES Newsletter	Co-authored with IAIS the paper 'Insurance, reinsurance and macroprudential surveillance: exploring conceptual issues and current practices'
Insurance Regulatory and Development Authority - IAIS Information Seminar, India	Co-presented, with Germany's regulator BaFIN, the paper 'Insurance-Linked Securities'
6th Annual Advanced Forum on Reinsurance Agreements	Presented a paper on 'Bermuda and IAIS developments in relation to reinsurance supervision'
First Financial Stability Institute Regional Seminar on Reinsurance and Other Risk Transfers, Mexico City	Presented a paper on International Standards, Financial Stability and Macro-prudential Surveillance

at the jurisdictional level, and were presented during the Bermuda Captives Conference in June 2010. A report on the survey, entitled “Bermuda’s Captives at the Close of the Decade: A Global Reflection” was published in August 2010 and is available on the Authority’s website: www.bma.bm

International Association of Insurance Supervisors (IAIS) Global Reinsurance Market Reports (GRMR) 2010

The Reinsurance Transparency Sub-group of the IAIS, chaired by the Authority’s CEO, produced its second mid-year edition of the Global Reinsurance Market Report (GRMR) entitled “Macroprudential Surveillance and (Re)insurance”. The Report, which was released in August 2010, focuses on the issue of macroprudential surveillance practices in the insurance industry. It highlights the current issues and debates surrounding the meaning, scope and value of macroprudential surveillance. It also discusses the current macroprudential practices among insurance supervisors globally.

The year-end edition of the GRMR, released in December 2010, provides a global perspective of the reinsurance market based on data provided by 45 reinsurers from Bermuda, France, Germany, Japan, Switzerland, UK, USA, Spain and Luxembourg. The Authority facilitated the provision of the Bermuda data and contributed to the drafting and production of both Reports. Copies of the Reports are available on the IAIS website: www.iaisweb.org.

IMF Coordinated Portfolio Investments Survey

The annual Coordinated Portfolio Investment Survey (CPIS), led by the International Monetary Fund (IMF), aims to measure cross-border investment in equities and debt securities by participating jurisdictions.

Data for 2009, the latest available, shows that total cross-border investments held by Bermuda entities totalled \$471.5 billion, an increase of 19% from the figure of \$396.1 billion recorded for 2008.

Investments include equities and long-term and short-term debt. Full results of the survey are posted on the IMF website: www.imf.org.

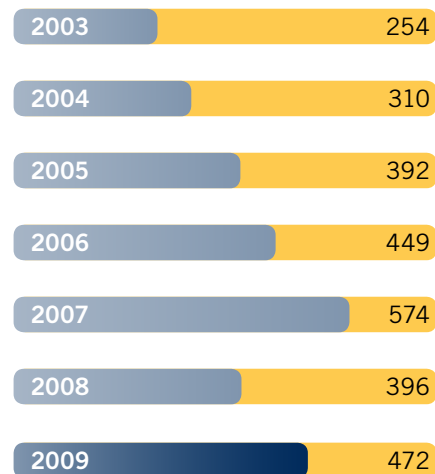
The International Locational Banking Statistics

Originally introduced by the Bank for International Settlements (BIS) in 1964, the locational statistics gather quarterly data on the gross international financial claims and liabilities of banks. Bermuda is one of 43 reporting jurisdictions providing data to this study. Data for 2010 shows that at the end of the year Bermuda’s banks had aggregate cross-border claims of US \$12.6 billion (2009: US \$ 10.6 billion) and total cross-border liabilities of US \$12.0 billion (2009: US \$10.4 billion). Comprehensive coverage of locational statistics dating back to 1977 is available from the BIS website: www.bis.org.

Risk Assessment - BMA Quarterly Banking Digest

Four editions of the Quarterly Banking Digest were published during the year. The publication, which provides analysis and reporting of key trends in Bermuda’s banking sector, supports the Authority’s strategic goal of enhancing transparency across its operations. The publication’s intent is to present information generated from the Authority’s analysis of prudential returns received from Bermuda’s banks that is useful to readers from the perspective of market analysis, research and news. Copies of the Digest are available on the Authority’s website: www.bma.bm.

CPIS: Bermuda Cross-Border Portfolio Investments, 2003-2009 (US\$ billion)



International Participation Supervisory Cooperation

Effective international supervisory cooperation among regulators continued to play a key role in the efforts of the international regulatory community to re-engineer global financial standards, with a view to strengthening regulation across all sectors.

International standard setters continued to respond to the concerns raised by groups such as the G20 and the Financial Stability Board, and to address the call to strengthen standards within their sectors. This led to considerable debate on establishing new regimes and increased pressure on regulators to maintain pace with the rate of change in this area.

As has been the case in recent years, the Authority maintained its active participation in the work of international standard setting bodies and, where appropriate, contributed significantly to various initiatives under development. Overall, the Authority remained proactive in the international arena, while also supporting the interests of Bermuda as a jurisdiction.

Highlights of International Participation for 2010

Insurance	Active Participation
IAIS Participation	<ul style="list-style-type: none"> • IAIS Financial Stability Committee (FSC) • Reinsurance Transparency Group • Reinsurance and Other Forms of Risk Transfer Subcommittee • Insurance Core Principles Coordination Group • Insurance Groups and Cross-Sectoral Issues Subcommittee (IGSC) • Triannual Meetings
Financial Stability Board	<ul style="list-style-type: none"> • Data Gaps and Systemic Linkages Working Group
Banking, Investment/Securities	
Banking	<ul style="list-style-type: none"> • Offshore Group of Banking Supervisors • Caribbean Group of Banking Supervisors
Investment	<ul style="list-style-type: none"> • International Organisation of Securities Commissions (IOSCO) • Council of Securities Regulators of the Americas • Contributed to international effort to strengthen fund standards by collaborating with other fund jurisdictions to develop a Statement of Best Practices for Hedge Fund Regulation, in line with IOSCO Principles of Hedge Fund Regulation

List of MOUs in effect as of 31st December 2010

Swiss Financial Market Supervisory Authority	signed 11th March 2010
Pennsylvania Insurance Department	signed 10th December 2009
Nebraska Department of Insurance	signed 28th October 2009
Florida Office of Insurance Regulation	signed 24th September 2009
Luxembourg (Commissariat Aux Assurances)	signed 2nd February 2009
New York State Insurance Department	signed 25th September 2008
The Office of the Superintendent of Financial Institutions of Canada	signed 19th August 2008
Malta Financial Services Authority	signed 3rd June 2008
International Organization of Securities Commissions	signed 6th June 2007
Financial Services Board of the Republic of South Africa	signed 15th August 2005
Cayman Islands Monetary Authority	signed 30th June 2005
Luxembourg (Commission de Surveillance du Secteur Financier)	signed 31st May 2005
UK Financial Services Authority	signed 21st April 2004
Isle of Man Financial Supervision Commission	signed 28th October 2002
States of Jersey Financial Services Department	signed 10th April 1997
US Commodity Futures Trading Commission	signed 3rd March 1997

Memoranda of Understanding

The Authority also remained committed to fostering effective supervisory cooperation via on going relationships with its overseas counterparts and signing Memoranda of Understanding (MOU) with other regulatory bodies. During 2010, the Authority added to its list of MOUs by formalising an information exchange agreement with the Swiss Financial Market Supervisory Authority (FINMA). The Letters of Exchange established a formal basis for consultation, cooperation and coordination between the Authority and FINMA; and related specifically to the exchange of information relevant to each authority's supervisory, regulatory and examination responsibilities of insurance companies of mutual interest. Both authorities agreed to structure their cooperation in line with the Articles of the International Association of Insurance Supervisors' Multilateral Memorandum of Association (IAIS MMOU) which, among other matters, requires signatories to the IAIS MMOU to adhere to principles relating to the exchange of confidential information. The formal letter of information exchange signed with Switzerland in 2010 brings the total number of such MOUs signed to 16.

Supporting Effective Regulation

Corporate Communications

Chief among the Authority's objectives for 2010 was its on going regulatory framework development; the Authority conducted an active corporate communications programme to support this effort.

Within the regulatory programme, much focus was placed on equivalence work streams, in particular those related to Solvency II. Therefore, during 2010, communications to support this work included expanded advocacy activities and proactive industry and media relations programmes. The Authority's advocacy programme was established as a strategic measure to drive increased awareness and understanding of the Bermuda framework among relevant international stakeholders. During 2010, the Authority stepped up its efforts in this regard, particularly as it related to European stakeholders. This activity supported the Authority's preparations for the Solvency II equivalence assessment due in 2011, ensuring that those relevant to that process were aware of the significant progress the Authority had made in enhancing its insurance framework. The Authority produced a number of market communications that were distributed at stakeholder meetings, and conducted presentations and speaking engagements with key regulators, representatives from international standard-setting bodies and international contacts. A highlight of this work was the inaugural Bermuda Monetary Authority International

Regulatory Forum, which the Authority hosted on 6th December 2010, at which participants from Europe and Bermuda discussed pertinent regulatory issues.

The challenging economic conditions that prevailed in 2010 saw the Authority take a number of enforcement actions to maintain the stability of Bermuda's financial sectors. In support of this work, the Authority undertook strategic crisis communications initiatives to disseminate information to the general public about such actions effectively.

In terms of international events, senior members of the Authority's staff continued to represent Bermuda at a number of significant conferences and seminars, including:

- IAIS Annual Conference, Dubai
- NAIC International Insurance Issues Forum, Washington, DC
- Caribbean Group of Banking Supervisors Annual Conference, Curacao
- IOSCO Annual Conference, Montreal
- Risk and Insurance Management Society Conference 2010, Boston

- European Union Captives Forum, Basel
- Bermuda Captives Conference 2010

The Authority continued to build on its media outreach programme during the year, with a view to providing information and that would result in accurate and comprehensive media coverage of its operations. Dissemination of press releases on significant achievements and developments in the Authority's framework resulted in favourable media coverage in both in the international and local media, including the Financial Times, Business Insurance, Insurance Journal, BestWeek, Global Reinsurance, Hedgeweek, and Insurance Day. In addition, the Authority continued to contribute articles to various industry publications, primarily focused on the progress achieved in its equivalence work plan.

Information Technology

Recognising the role of technological innovation in supporting organisational growth while minimising expenditures, the Authority continued to implement its strategic information technology (IT) roadmap during the year.

Project RAIN (Reporting, Analysis and Information Retrieval Network), the multi-year initiative designed to automate the Authority's core business processes, remains the cornerstone of its IT strategy. This initiative supports the on going transformation and increased process and cost efficiencies of the Authority's regulatory framework. Project RAIN places a heavy reliance of the use of the eXtensible Business Reporting Language (XBRL), an international standard for the reporting and analysis of complex information structures that simplifies and standardises the use of data. During the year, the Authority introduced XBRL-enabled Bermuda Capital and Solvency Return (BSCR) forms for Class 4 and 3B insurance companies.

The Authority also made further progress on developing innovative software applications and solutions to enhance productivity; improve communication and collaboration in work groups; aid business intelligence and regulatory analytics; and streamline processes. In 2010 process improvements aided by IT systems delivery included enhancements to the Authority's electronic Corporate Authorisations System.

Legal Services & Enforcement

In addition to on going legislative and policy development initiatives, the Authority reviewed and dealt with regulator-to-regulator requests from overseas authorities as provided for under the Bermuda Monetary Authority Act 1969. The Authority also continued to cooperate with the Bermuda Police Service and other regulatory agencies with respect to financial crime issues.

Legislation

The Authority's legislative agenda for the year continued to facilitate on going regulatory framework enhancements. Particular focus was placed on legislative changes to support equivalence programmes. As regards enforcement, the Authority applied its expanded powers and Bermuda's enhanced anti-money laundering and anti-terrorist financing (AML/ATF) regime in a variety of ways, both public and private, during 2010.

Amendments to various pieces of legislation were completed during the year, as summarised in the table shown overleaf.

Enhancements to Regulatory Powers

In October 2010 the Authority published a consultation paper outlining proposals for additional regulatory powers. Comments from stakeholders were received and are now being reviewed and considered. It is anticipated that draft legislation will be prepared for review and consultation in 2011.

Anti-Money Laundering/Anti-Terrorism Financing (AML/ ATF) Regime AML/ATF Self-Assessment Questionnaire (SAQ)

The Authority issued the SAQ at the end of 2009 to relevant institutions to determine the level of licensed entities' compliance with the Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing) Regulations 2008. The Authority received a 96% return rate in response to the questionnaire. The Authority collated and analysed responses and the results were used as one of the criteria to determine AML-focused on-site activities during 2010. The SAQ was initially distributed to 135 institutions licensed under the Investment Business Act 2003, in addition to operators of licensed trust companies, and fund administrators. In the second quarter of 2010, the Authority distributed the SAQ to the remaining sectors in Bermuda's financial services market. The Authority is currently finalising and analysing the responses to the SAQ which will assist it in moving forward with its AML regime in 2011.

Enforcement Action in 2010

Subsequent to supervisory reviews of First Bermuda Group (FBG) a deposit taking company, as part of our regular programme of supervision, the Authority determined that FBG's internal controls in relation to anti-money laundering

fell below the standards set by the Regulations. The Authority exercised its new powers subsequent to conducting appropriate due process, to impose financial penalties on non-compliant firms provided for under the Proceeds of Crime Regulations (Supervision and Enforcement) Act 2008, by fining FBG \$100,000. The decision to take enforcement action was the first taken by the Authority under its wider AML/ATF powers.

AML Workshops

During the year, the Authority held three awareness and information seminars on the AML/ATF Regulations targeted to the island's various financial industry sectors, which resulted in attendance of over 150 persons. The seminars were designed to provide industry stakeholders with a comprehensive overview regarding their legal obligations under Bermuda's enhanced AML/ATF regime. The seminars covered matters relating to AML legislative changes; an overview of the Authority's supervisory programme; customer due diligence issues; and reliance on third parties.

The Authority conducted 26 on-site reviews examining the practices of various regulated entities for

Highlights of Legislative Initiatives during 2010

Legislation	Provision
Insurance	
Insurance Amendment Act 2010	<ul style="list-style-type: none"> To facilitate additional filing of information as part of annual statutory returns
Insurance Amendment (No. 2) Act 2010	<ul style="list-style-type: none"> For the Authority to be appointed as Group-wide Supervisor; and the matters to be taken into account prior to making such a determination To establish the functions and duties of the Authority as a Group-wide Supervisor To establish Group Rules
Insurance Amendment (No. 3) Bill 2010	<ul style="list-style-type: none"> To make consequential amendments to the Insurance Returns and Solvency Regulations 1980 and Insurance Accounts Regulations 1980 To prescribe eligible capital requirements in relation to Class 3B and Class 4 insurers For the application of restrictions on total statutory capital reductions to Class 3B insurers To introduce a new classification system for Long-Term insurers To impose requirements on Class 3B insurers that currently apply to Class 4 insurers; and to incorporate solvency and reporting provisions relating to the new Class E Long-Term insurers
Insurance Companies (Special Fees) Act 2010	<ul style="list-style-type: none"> To introduce a special fee for Class 4 insurers to support the Authority's additional resources for implementing its enhanced supervisory regime
Insurance (Prudential Standards) (Class 4 Solvency Requirement) Amendment Rules 2010	<ul style="list-style-type: none"> To establish a Bermuda-specific own risk and solvency assessment regime, and to enhance disclosure requirements for Bermuda's largest (re)insurers
Insurance (Group Supervision) Rules 2011, introduced with the Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules 2011	<ul style="list-style-type: none"> To provide for implementation of the supervisory regime for insurance groups
Eligible Capital Rules (effect as of 31st December 2011)	<ul style="list-style-type: none"> To require, amongst other matters, all Class 3A, Class 3B, Class 4 and Class E (Long-Term) insurers to maintain available statutory capital and surplus of an amount that is equal to or exceeds the value of their minimum margin of solvency
Investment	
Amendments to Investment Funds Act 2006	<ul style="list-style-type: none"> For a fund administrator to be directed by at least two individuals To require shareholder controllers to notify the Authority of new or increased shareholding in fund administrators For the Authority to object to certain shareholder controllers; and to place restrictions on the sale of shares For persons to appeal an objection made by the Authority, and to make application to an appeals tribunal
Banking	
Bermuda Deposit Insurance Corporation Bill	<ul style="list-style-type: none"> For the protection of small depositors and for the prompt payment of compensation in the event of a bank failure To establish the Bermuda Deposit Insurance Corporation (BDIC) and for the Insured Depositor's Fund to be administered by the BDIC

compliance with their AML/ATF obligations. Among the institutions visited, three were in the banking sector, three were in the insurance sector, with the balance representing firms across the financial sector.

Committees

In 2010 the Authority continued to participate in various committees, workshops and seminars. This included the National Anti-Money Laundering Committee, which co-ordinates Bermuda's AML/ATF activities to ensure the jurisdiction meets international standards in this critical area. The Authority was also represented at the Caribbean Financial Action Task Force (CFATF) Plenary meeting held during the year, which endorsed the Financial Action Task Force (FATF) working paper on trusts and service providers prepared by a working group led by Bermuda. The Plenary, amongst other matters, appointed members to the CFATF Steering Group. The steering group will make recommendations for improvements for the operation and administration of the regional programme to meet the needs of a wide range of member countries. It will also set up working groups to address issues identified throughout the region. Bermuda is a member of the Steering Group, co-chairman of the working group on FATF initiatives and chairman of the working group addressing finance and governance initiatives.

The Authority also attended and presented at the Symposium on Economic Crime in the UK. The sessions of the event covered a diverse range of issues such as terrorist financing and activity, and provided an in-depth analysis of the issues and perspectives from many jurisdictions. Anti-money laundering workshops were also held, including a workshop addressing the development of a national risk assessment.

AML/ATF On-site Examinations	
Banks and Deposit Taking Companies	4
Investment Business	8
Fund Administrators	2
Trust Business	4
Insurance Company (Long-Term)	4
Insurance Company (Long-Term) Follow-up	1
Money Service Business	2
Non-Licensed Person	1
Total	26

A Professional Team

Human Resources

In 2010, the Authority carried out a comprehensive workforce planning exercise to determine the organisation's human resource needs over the next several years.

This exercise particularly took into account the resources required for the Authority to conduct its enhanced supervisory duties relating to key regime changes, such as group-wide supervision. This initiative specifically targeted the areas of work processes, role expectations, technical competencies and organisation structure. The Authority also took into consideration the views of external key stakeholders. A gap analysis was completed and critical programmes were put in place to achieve the highest operational standards. The Authority also successfully recruited several highly-experienced staff members to complete its required staffing complement for the year, and implemented a technical competency development programme for its supervisory teams.

Recruitment

2010 proved to be a demanding year for the Authority in the area of resourcing. Recognising that finding the right talent to support its supervisory areas would be a challenge, the organisation employed a comprehensive recruitment strategy designed to attract the best talent available. The Authority's resourcing

needs were driven primarily by on going enhancements to its supervisory regime, which required that it secure additional expertise in the areas of actuarial, risk analytics, insurance, policy and international regulation. The Authority was successful in filling its key senior-level posts, despite the challenge of competition faced internationally for skilled regulators.

Building Professional Regulators

There was continuous expansion of the learning and development framework during the year. This included extended use of in-house subject matter experts to deliver core training on topics related to the Authority's supervisory framework and operational functions. Staff received exposure to technical skills training on a variety of topics including solvency, GAAP, IFRS, capital modelling and risk analytics, with particular emphasis on key areas related to Bermuda's regulated entities. A third-party assessment of the organisation's technical competencies, and a subsequent gap analysis, was completed for the supervisory units. Additionally, e-learning opportunities were expanded during the year via the introduction of external and internal online training modules. An induction

programme has been designed to allow the learning curve for new hires to be significantly shortened.

Succession Planning

In order to ensure that the organisation retains the necessary talent to meet its goals and sustain its operations going forward, a key area of focus of the Authority's human resource strategy is succession planning. The Authority continued with leadership assessments and discussions as part of its on going review of existing leadership capabilities within its team during the year. This included the introduction of a customised leadership programme for the Authority. Another key component of the organisation's succession planning framework is the on going success of the Authority's Graduate Training Programme. The Authority established the programme three years ago as a way to cultivate Bermudian talent in the areas of financial services regulation, and to help create a future pool of employees for succession planning purposes.

BMA MANAGEMENT TEAM as at 31st December 2010

Jeremy Cox	Chief Executive Officer
Brad Erickson	Chief Operating Officer

Actuarial Services

Brant Kizer	Assistant Director, Property and Casualty
Richard May	Assistant Director, Long-Term
Gina Smith	Assistant Director, Property and Casualty
Navid Zarinejad	Assistant Director, Property and Casualty

Banking Trust and Investment

Marcia Woolridge-Allwood	Director
Tamara Anfossi	Assistant Director, BTI Financial Institutions and Investment Funds
Courtney Christie-Veitch	Assistant Director, BTI Financial Groups

Corporate Governance and Communications

Pat Phillip-Bassett	Deputy Director, Corporate Governance and Communications
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Corporate Finance

Terry Pitcher	Head of Finance
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Human Resources

Cynthia Currie	Director
Elizabeth Amyoony	Assistant Director, Learning and Development
Mesheiah Crockwell	Assistant Director, Resourcing and Technical Development
Verna Hollis Smith	Assistant Director, Organisation Management

Management Services

John Dill	Director
Howard Ho	Assistant Director, IT

Insurance, Licensing and Authorisation

Shelby Weldon	Director
Leslie Robinson	Assistant Director, Licensing and Authorisation

Insurance Supervision, Complex Institutions

Shanna Lespere	Director
Gerald Gakundi	Assistant Director, Insurance Supervision, Complex Institutions
Susan Molineux	Assistant Director, Insurance Supervision, Complex Institutions
Suzanne Williams	Assistant Director, Insurance Supervision, Complex Institutions

Legal Services and Enforcement

Shauna MacKenzie	Director
Thomas Galloway	Senior Legal Counsel

Policy, Research and International Affairs

Mary Frances Monroe	Director
Marcelo Ramella	Assistant Director, Policy, Research and International Affairs

Risk Analytics

Craig Swan	Director
Graham Strong	Deputy Director, Risk Analytics

Senior Advisors

Mark Bridges	Senior Advisor
Michael Cascio	Senior Advisor
Peter Christie	Senior Advisor
Graeme Dargie	Senior Advisor
William Kattan	Senior Advisor
Roger Scotton	Senior Advisor

Financials



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email: enquiries@bma.bm website: www.bma.bm

29th April 2011

The Hon. Paula A. Cox, JP MP
Minister of Finance
Ministry of Finance
Hamilton

Dear Minister:

In accordance with section 28(1) of the Bermuda Monetary Authority Act 1969, I have the honour to submit to you a report of the operations of the Authority for the year 2010 together with the annual statement of accounts and the opinion of the Auditor General.

This document also contains the reports for the year 2010 which the Authority is required to make to you pursuant to:

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

Yours sincerely,

Jeremy Cox
Chief Executive Officer



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email: enquiries@bma.bm website: www.bma.bm

29th April 2011

The accompanying financial statements of the Bermuda Monetary Authority have been prepared by management in accordance with accounting principles generally accepted in Bermuda and Canada. Management is responsible for ensuring the integrity and objectivity of the data contained in these financial statements and that all information in the annual report is consistent with the financial statements.

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

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

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

Alan C. Cossar
Chairman

Jeremy Cox
Chief Executive Officer



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Website: www.oagbermuda.gov.bm

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

Report on the Financial Statements

I have audited the accompanying financial statements of the Bermuda Monetary Authority, which comprise the balance sheet as at December 31, 2010, and the statement of earnings, statement of changes in capital and reserve and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Bermuda and Canada and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Bermuda Monetary Authority as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with accounting standards generally accepted in Bermuda and Canada.

A handwritten signature in blue ink, appearing to read 'HJM', with a long horizontal line extending to the right.

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

Hamilton, Bermuda
March 28, 2011

BERMUDA MONETARY AUTHORITY

Balance Sheet as at 31st December 2010

(In thousands of Bermuda dollars)	2010	2009
ASSETS		
Investment Income Earning Assets		
Cash and cash equivalents	44,201	52,945
Term deposits (Note 4)	5,000	15,975
Investments (Note 5)	91,523	79,279
	140,724	148,199
Capital Assets (Note 7)	29,858	29,859
Other Assets		
Accounts receivable and accrued interest	2,378	4,816
Stock of notes and coins for circulation	3,188	3,556
Stock of numismatic items	551	674
Prepaid expenses and other	239	361
	6,356	9,407
Total Assets	176,938	187,465
LIABILITIES, CAPITAL AND RESERVE		
Liabilities		
Notes and coins in circulation (Note 8)	126,721	139,066
Accounts payable, accrued liabilities and deferred income	8,045	3,684
	134,766	142,750
Capital and Reserve (Note 10)		
Capital subscribed and fully paid	20,000	20,000
General reserve	22,172	24,715
	42,172	44,715
Total Liabilities, Capital and Reserve	176,938	187,465

Contractual Obligations (Note 17)



Alan C. Cossar
Chairman



Jeremy Cox
Chief Executive Officer

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

BERMUDA MONETARY AUTHORITY

Statement of Earnings for the year ended 31st December 2010

(In thousands of Bermuda dollars)	2010	2009
REVENUES		
Supervisory & licensing fees (Note 11)	33,497	29,054
Investment income (Note 12)	3,827	4,078
Incorporation fees, vault commission and other income	738	680
Net sales of special coins	(21)	362
Rental income (Note 14)	—	13
	38,041	34,187
EXPENSES		
Salaries and employee benefits (Note 3)	24,015	23,018
Professional fees	8,728	1,593
General expenses (Note 13)	5,375	4,404
Amortisation of capital assets	2,093	1,961
Circulation note and coin expenses	373	932
Loss on disposal of capital assets	—	27
	40,584	31,935
NET (DEFICIT) / EARNINGS FOR THE YEAR	(2,543)	2,252
TRANSFERRED FROM / (TO) GENERAL RESERVE	2,543	(2,252)

BERMUDA MONETARY AUTHORITY

Statement of Changes in Capital and Reserve for the year ended 31st December 2010

(In thousands of Bermuda dollars)	2010	2009
CAPITAL		
	20,000	20,000
GENERAL RESERVE		
Balance, beginning of year		22,463
Transfer (to)/from net (deficit)/earnings for the year	24,715	22,463
	(2,543)	2,252
Balance, end of year	22,172	24,715
CAPITAL AND RESERVE	42,172	44,715

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

BERMUDA MONETARY AUTHORITY

Statement of Cash Flows for the year ended 31st December 2010

(In thousands of Bermuda dollars)	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (deficit) / earnings for the year	(2,543)	2,252
Adjustments to convert (deficit) / earnings to a cash basis:		
Amortisation of capital assets	2,093	1,961
Net amortisation of discounts on investments	325	151
Loss on disposal of capital assets	—	27
	(125)	4,391
Changes in non-cash working capital:		
Accounts receivable and accrued interest	2,438	(2,355)
Stock of notes and coins for circulation	368	228
Stock of numismatic items	123	(62)
Prepaid expenses and other	122	(9)
Accounts payable, accrued liabilities and deferred income	4,361	(78)
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,287	2,115
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments and term deposits	(13,339)	(36,947)
Proceeds from sale and maturity of investments and term deposits	11,745	36,267
Purchase of capital assets	(2,093)	(1,283)
Proceeds from disposal of capital assets	—	2
NET CASH USED IN INVESTING ACTIVITIES	(3,687)	(1,961)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in notes and coins in circulation	(12,344)	(2,000)
Distribution to the Consolidated Fund of the Government of Bermuda	—	(815)
NET CASH USED IN FINANCING ACTIVITIES	(12,344)	(2,815)
DECREASE IN CASH AND CASH EQUIVALENTS	(8,744)	(2,661)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	52,945	55,606
CASH AND CASH EQUIVALENTS, END OF YEAR	44,201	52,945

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

Notes to Financial Statements

Bermuda Monetary Authority

Notes to the Financial Statements for the year ended 31st December 2010

(Expressed in thousands of Bermuda dollars)

1. THE BERMUDA MONETARY AUTHORITY ACT 1969

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

The primary responsibilities of the Authority are:

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

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with generally accepted accounting principles in Bermuda and Canada. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues earned and expenses incurred during the year. Actual results could differ from these estimates.

(a) Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Bermuda dollars at the rates prevailing at the balance sheet date. Revenues and expenses are translated at the exchange rates in effect at the transaction dates. Realised and unrealised exchange gains and losses are included in investment income.

(b) Cash and Cash Equivalents

Cash and cash equivalents including cash and deposits, repurchase agreements and demand deposits with maturity of ninety days or less, are considered equivalent to cash. Cash at banks earns interest at floating rates based on daily bank deposits. Short-term deposits earn interest at short-term deposit rates.

(c) Investments

Investments comprise long-term investments in fixed income securities. The Authority’s intention is to hold the securities until maturity. The securities are carried at cost or amortised cost using the effective interest method of amortisation. Amortisation, as well as gains and losses on disposition, are included in investment income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Accounts Receivable

Accounts receivable are non-interest-bearing and are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Authority will not be able to collect the debts. Bad debts are written off when identified.

Effective 2010, a 100% provision is booked for all receivables which are still outstanding three months after the statutory due date.

The Authority makes every effort to collect and debts are only considered bad and written off in exceptional circumstances after evidence is received that the amount is uncollectible due to documented instances of liquidation, deregistration, amalgamation etc.

(e) Stock of Notes and Coins for Circulation

The stock of notes and coins for circulation is stated at the lower of cost on a “first in, first out” basis and net realisable value.

(f) Stock of Numismatic Items

Numismatic items consist of commemorative coins and circulation notes and coins for resale. The stock of numismatic items is stated at the lower of cost on a “first in, first out” basis and net realisable value.

(g) Capital Assets and Amortisation

Capital assets are stated at cost less accumulated amortisation. Effective 2010, amortisation is charged using the straight-line method at an annual rate of 2.5% for building and 25% for all other assets excluding land. In 2009 and previous years, in the year of acquisition, a half-year of amortisation was taken.

Intangible Assets - Computer Software

Intangible assets consist of computer software and the costs associated with the development of software for internal use. Costs that are directly associated with production of identifiable and unique software products, which are controlled by the Authority, and which are expected to generate economic benefits exceeding costs are recognised as intangible assets. These costs are amortised on the basis of the expected useful lives of the software, which is four years. Costs associated with maintaining software programmes are recognised as an expense when incurred. The amortisation period and the amortisation method for intangible assets are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognised only when the Authority can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Capital Assets and Amortisation (continued)

Museum Items

Museum items have been capitalised at an additional amount of \$1. Museum items are not amortised. All new additions to museum items are held at historical cost until revalued.

(h) Notes and Coins in Circulation

The balance of notes and coins in circulation does not include the face value of commemorative coins sold, as the Authority does not expect any significant redemption of these coins.

(i) Revenue Recognition

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

Investment income is recognised using the effective interest method.

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

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

Vault commission is recorded as revenue when earned.

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

(j) Financial Instruments

The fair values of investments as disclosed in Note 5 are based on year-end quoted market prices.

All financial instruments are classified by management as either held for trading, held to maturity, loans and receivables and other financial liabilities. The Authority has classified cash and cash equivalents and term deposits as held for trading and accounts receivable and accrued interest as loans and receivables. All financial liabilities are classified as other financial liabilities. Loans and receivables and other financial liabilities are recorded at amortised cost using effective interest method and adjusted for any impairment, with the exception of notes and coins in circulation, which are measured at face value. The fair values of these financial instruments approximate their carrying values due to their relative short-term nature.

(k) Going Concern

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

3. EMPLOYEE BENEFITS

(a) Pension Plan

The Authority has a defined contribution plan administered by BF&M Life for the majority of its employees. The contributions to this Plan are recognised on a current basis and have been included in salaries and employee benefits. Employee contributions to the plan are 5% of gross salary matched by the Authority. These contributions represent the total liability of the Authority and are recognised on a current basis. The Authority's contributions to the Plan during the year were \$1,008 (2009 - \$779).

The Public Service Superannuation Fund administered by the Government of Bermuda covers the remainder of the Authority's employees. Contributions of 8% (2009 - 8%) of gross salary are required from both the employee and the Authority. These contributions represent the total liability of the Authority and have been included in salaries and employee benefits. The Authority's contributions to the Plan during the year were \$133 (2009 - \$107).

(b) Other Benefits

Other employee benefits include maternity leave, sick leave, vacation days and preretirement leave.

Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation liability as of 31st December 2010 is \$422 (2009 - \$306) and is included in accounts payable and accrued liabilities.

3. EMPLOYEE BENEFITS (continued)

(b) Other Benefits (continued)

Employees under the Public Service Superannuation Fund are entitled to pre-retirement leave based upon their years of service at the time of retirement. The pre-retirement leave accumulates and vests and a liability is accrued each year. During the year, no preretirement leave benefits were paid. The liability as at 31st December, 2010 is \$241 (2009 - \$223) and is included within accounts payable and accrued liabilities.

4. TERM DEPOSITS

Maturities and effective yields of term deposits are as follows:

			2010	2009
	Less Than 1 Year	1 to 5 Years	Total	Total
Bermuda Dollar Term Deposits	5,000	—	5,000	15,975
Weighted average effective yield	5.25%	—	5.25%	5.27%

Weighted average effective yield is based on book values and contractual interest rates.

5. INVESTMENTS

The investment portfolio includes fixed income securities denominated in U.S. dollars. The market value of the portfolio of fixed income securities is \$96,633 (2009 - \$81,655).

An analysis of the investment portfolio by maturity and average effective yields is as follows:

			2010	2009
	1 to 5 Years	> 5 Years	Total	Total
US Government and US Government Agencies	—	45,043	45,043	32,573
Supranational Bank	41,570	4,910	46,480	46,706
Total Investments	41,570	49,953	91,523	79,279
Weighted average effective yield	3.49%	4.60%	4.10%	4.17%

Weighted average effective yields are based on book values adjusted for amortisation of premiums and discounts.

Certain US Government Agencies have the right to call their debt issues without penalty. As a result, the actual maturity dates for these issues may differ from the contractual maturity dates.

6. FINANCIAL RISK

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

(a) Credit Risk

Credit risk is the risk of loss of principal or interest due to uncertainty in a counterparty's ability to meet its obligations. The Authority is exposed to credit risk arising from investments in US government and US government agency debt securities. The Authority manages credit risk by adhering to the fund management policy guidelines set forth by the Board's Investment Committee. The Authority is exposed to a concentration of credit risk as 62.5% (2009 - 57.2%) of its income earning assets are in US Government and US Government Agency securities.

6. FINANCIAL RISK (continued)

(b) Market Risk

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

Interest Rate Risk

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

Currency Risk

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

At 31st December 2010, the Authority did not hold a significant amount of foreign currency other than U.S. dollars. Given the small size of the net foreign currency exposure relative to the total assets of the Authority, currency risk is not considered material.

Other Price Risk

Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from changes in interest and exchange rates), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar instruments traded in the market. The Authority is not exposed to significant other price risk.

(c) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. As shown in the following table, the Authority's largest liability is notes and coins in circulation. As a counterpart to this non-interest-bearing liability with no fixed maturity, the Authority holds a portfolio of highly liquid, cash and cash equivalents and term deposits. In the event of an unexpected redemption of banknotes, the Authority has the ability to settle the obligations by selling its assets.

As at 31st December 2010

	Total	No fixed maturity	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
FINANCIAL ASSETS						
Cash and cash equivalents	44,201	44,201	—	—	—	—
Term deposits	5,000	—	—	5,000	—	—
Investments (market value)	96,633	—	—	—	43,425	53,208
Accounts receivable and accrued interest	2,378	2,378	—	—	—	—
	148,212	46,579	—	5,000	43,425	53,208
FINANCIAL LAIBILITIES						
Notes and coins in circulation	126,721	126,721	—	—	—	—
Accounts payable, accrued liabilities and deferred income	8,045	—	8,045	—	—	—
	134,766	126,721	8,045	—	—	—
Net maturity difference	13,446	(80,142)	(8,045)	5,000	43,425	53,208

6. FINANCIAL RISK (continued)

As at 31st December 2009

	Total	No fixed maturity	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
FINANCIAL ASSETS						
Cash and cash equivalents	52,945	52,945	—	—	—	—
Term deposits	15,975	—	—	10,975	5,000	—
Investments (market value)	81,655	—	—	—	37,324	44,331
Accounts receivable and accrued interest	4,816	4,816	—	—	—	—
	155,391	57,761	—	10,975	42,324	44,331
FINANCIAL LIABILITIES						
Notes and coins in circulation	139,066	139,066	—	—	—	—
Accounts payable, accrued liabilities and deferred income	3,684	—	3,684	—	—	—
	142,750	139,066	3,684	—	—	—
Net maturity difference	12,641	(81,305)	(3,684)	10,975	42,324	44,331

7. CAPITAL ASSETS

	2010		2009	
	Cost	Accumulated Amortisation	Net Book Value	Net Book Value
Land	4,000	—	4,000	4,000
Building	26,092	4,125	21,967	22,600
Intangible assets - computer software	2,956	891	2,065	1,280
Computer equipment	2,738	1,642	1,096	913
Furniture and fixtures	2,720	2,055	665	1,001
Museum items	65	—	65	65
	38,571	8,713	29,858	29,859

The following deposits are included in capital assets and are not amortised as they have not been put in use yet:

	2010	2009
Intangible assets - computer software	123	10
Computer equipment	80	—
Furniture and fixtures	52	99

7. CAPITAL ASSETS (continued)

The carrying values of capital assets are reviewed for impairment when events or changes in circumstances indicate that future benefits may no longer be reasonably assured. The following capital assets were written off:

	Year ended 31st December 2010		Year ended 31st December 2009	
	Cost	Accumulated Amortisation	Cost	Accumulated Amortisation
Computer equipment	498	465	246	217
Intangible assets - computer software	296	296	—	—
Furniture & fixtures	—	—	314	314
	794	761	560	531

8. NOTES AND COINS IN CIRCULATION

In accordance with Part IV, Section 11 of the BMA Act of 1969, the Authority has the sole authority to issue notes and coins for circulation in Bermuda. Notes and coins issued is a claim on the Authority in favour of the holder. Notes and coins in circulation are recorded at face value as a liability in the balance sheet.

9. DUE TO THE CONSOLIDATED FUND OF THE GOVERNMENT OF BERMUDA

In accordance with Section 8 (3) of the Act, no earnings are payable to the Consolidated Fund of the Government of Bermuda.

10. CAPITAL AND RESERVE

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

The Authority manages its capital in compliance with the requirements of the Act. The Authority is not in violation of any externally imposed capital requirements at the balance sheet date.

General Reserve

A general reserve of \$22,172 (2009 - \$24,715) has been established in accordance with Section 8 of the Act. In 2009, the Minister of Finance granted approval for \$2,252 of net earnings to be transferred to the general reserve account.

11. SUPERVISORY & LICENSING FEES

	2010	2009
Insurance fees	26,280	22,536
Bank and deposit company fees	5,530	5,439
Trust company fees	632	591
Investment business licence fees	618	443
Anti-Money Laundering fees	337	45
Anti-Money Laundering enforcement fees	100	—
	33,497	29,054

In accordance with Section 24 (5) of the Proceeds of Crime Regulations (Supervision and Enforcement) Act 2008, application fees in the amount of \$337 (2009 - \$45) were recognised as revenue and expenses in the amount of \$509 (2009 - \$396) were incurred. AML fees are included in supervisory & licensing fees and AML expenses are included in salaries and employee benefits.

12. INVESTMENT INCOME

	2010	2009
Interest on investments	3,465	2,876
Interest on term deposits	610	1,282
Interest on cash and cash equivalents	82	65
Net foreign exchange gain (loss)	(5)	6
Net amortisation of premium/discount on investments	(325)	(151)
	3,827	4,078

13. GENERAL EXPENSES

	2010	2009
Premises and general office expenses	3,397	2,663
Conferences, seminars, education and training	1,133	796
Communication and computer expenses	845	945
	5,375	4,404

14. RENTAL INCOME

In 2004, the Authority purchased a building that was occupied by third party tenants from the time of the acquisition of the building. The Authority's last tenant left on January 9, 2009 and the Authority now occupies all floors of the facility.

15. IFRS CONVERSION

The Authority will be adopting International Financial Reporting Standards (IFRS) effective for its fiscal year ended 31st December 2011. The Authority has reviewed the possible effects of this change in accounting principles and has concluded there will be no significant material impact other than expanded disclosure requirements.

16. RELATED-PARTY TRANSACTIONS

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

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

All related-party transactions have been incurred in the normal course of operations and are measured at the exchange amount. All related-party transactions with the Government are disclosed as part of the financial statements or the relevant notes.

17. CONTRACTUAL OBLIGATIONS

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

17. CONTRACTUAL OBLIGATIONS (continued)

The following is an analysis of estimated future expenditures related to these contractual obligations:

	Outsourced Services
2011	935
2012	118
2013	118
2014	118
Thereafter	118
	1,407

18. COMPARATIVE FIGURES

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

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