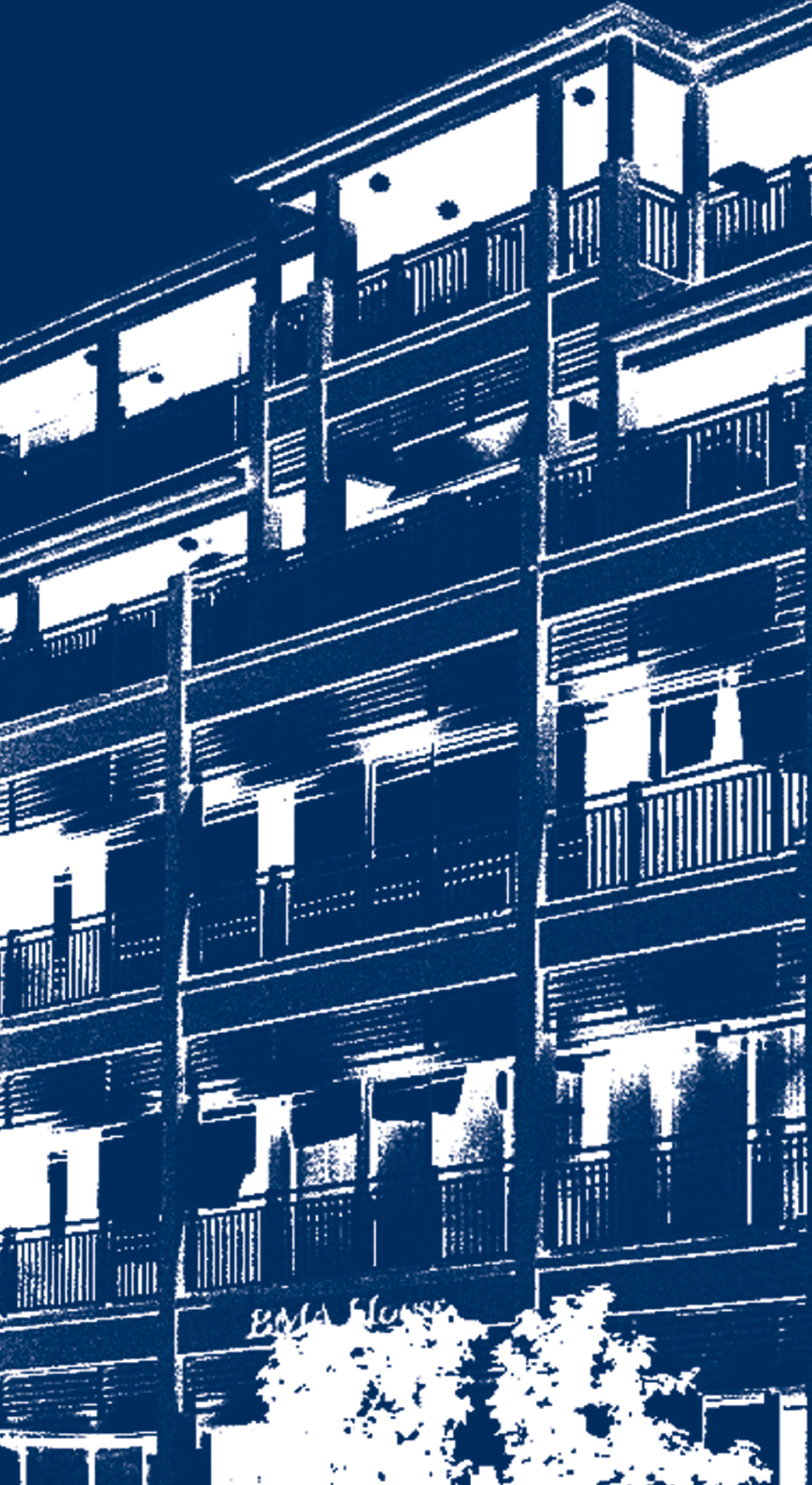




Report and Accounts **2009**



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The Annual Report is published in print and electronic formats. The electronic version is available on the Authority's website www.bma.bm and can be downloaded as a PDF file. If you wish to receive an email notice when the electronic version is available, you may sign-up to our e-subscription service by emailing your request to enquiries@bma.bm. If you currently receive the print version and would like to receive the electronic version instead, please indicate this in your request.

Statistical & Financial Highlights 2009

Total net income for 2009 was \$2.3million, an increase over the previous year's figure of \$1.6million. Higher licensing and supervisory fees contributed to this increased income. The Authority's total revenue for the year amounted to \$34.19 million, an increase of \$4.94 million on the \$29.25 million recorded in 2008. This increase reflected a combined \$6.12 million increase in licensing and supervisory fees to support the Authority's increased supervisory responsibilities, and net sales of special coins, offset by a \$1.18 million decrease in investment income, incorporation fees and rental income. The decrease in investment income and incorporation fees reflected for the second consecutive year the impact of the global economic downturn.

Expenses for the year totaled \$31.94 million, which compared to \$27.62 million in 2008, an increase of \$4.32 million. \$3.34 million of the increase represented growth in overall salaries

and benefits as the Authority continued to build its professional team, particularly within the supervisory departments; a \$355,000 increase in circulation note and coin expenses; a \$553,000 increase in general expenses and amortization of capital assets; and a \$38,000 increase in professional fees. In accordance with Section 8 (3) of the Bermuda Monetary Authority Act 1969, the Authority typically contributes 50% of its net income to the Bermuda Government's Consolidated Fund. However, for 2009, the Minister of Finance approved the Authority's request that it not be required to make this contribution and instead retain those funds within its general reserve. The funds will be used during 2010 specifically to support further incremental increases in technical resources as required during the year, in terms of both specialist consultancy services and additional supervisory staff, in relation to the Authority's regulatory equivalence programme.

Bermuda Currency Operations

The amount of Bermuda notes and coin in circulation at the end of 2009 was \$139 million, as compared to \$141 million for 2008. 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 \$137.2 million was in circulation for Cup Match, an increase of 4% over the same period in 2008. The figure for Christmas week was \$139 million, a decrease of 2.8% over Christmas 2008.

Bermuda Money Supply

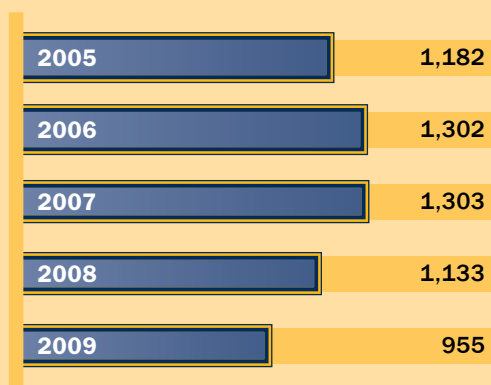
(BD\$ millions)	2009-Q4	2009-Q3	2009-Q2	2009-Q1	2008-Q4	2008-Q3
Notes & Coins in Circulation*	139	123	127	126	141	119
Deposit Liabilities	3,840	3,858	3,816	3,802	3,815	3,821
Total	3,977	3,981	3,943	3,929	3,956	3,940
Less: Cash at Banks**	70	60	60	59	57	36
BD\$ Money Supply	3,907	3,921	3,883	3,870	3,900	3,904
% Growth on Previous Period	-0.36%	0.98%	0.33%	-0.76%	-0.10%	0.97%
% Growth Year on Year	0.18%	0.43%	0.44%	2.12%	5.01%	4.19%

Totals may not add due to rounding.

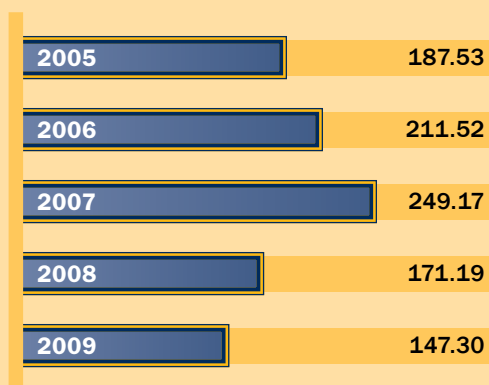
* This table includes the supply of Bermuda dollars only. United States currency is also in circulation in Bermuda but the amount has not been quantified.

** Includes deposit companies as well as banks.

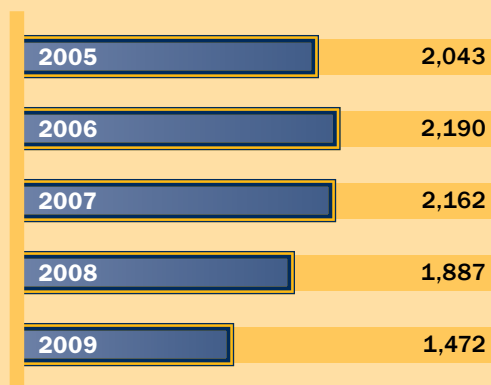
Investment Funds Total Number of Funds



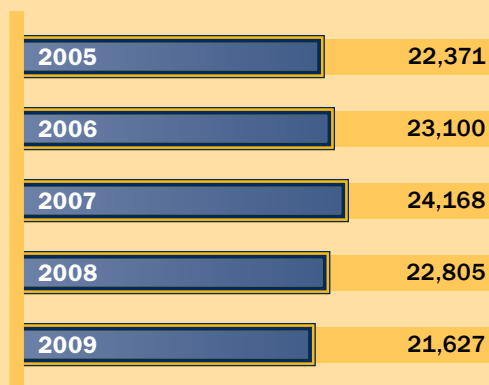
Investment Funds Net Asset Value (BD\$ billions)



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-issue	Total	Notes Redeemed	Notes Issued & O/S at End of Month	Net Issues During Month Change	% Change
January	5,901,006	1,300,000	7,201,006	29,368,220	103,901,626	(22,167,214)	-17.58%
February	2,869,243	15,400,000	18,269,243	19,426,600	102,744,269	(1,157,357)	-1.11%
March	16,077,754	10,765,000	26,842,754	18,204,300	111,382,723	8,638,454	8.41%
April	203,123	11,936,000	12,139,123	9,947,000	113,574,846	2,192,123	1.97%
May	3,426,456	8,790,000	12,216,456	15,675,000	110,116,302	(3,458,544)	-3.05%
June	2,434,758	7,620,000	10,054,758	8,335,000	111,836,060	1,719,758	1.56%
July	10,617,283	12,253,000	22,870,283	13,642,000	121,064,343	9,228,283	8.25%
August	1,726,237	1,510,000	3,236,237	14,710,000	109,590,580	(11,473,763)	-9.487%
September	2,135,096	8,800,000	10,935,096	12,552,900	107,972,776	(1,617,804)	-1.48%
October	3,490,043	8,560,000	12,050,043	10,487,000	109,535,819	1,563,043	1.45%
November	2,244	6,100,000	6,102,244	8,668,000	106,970,063	(2,565,756)	-2.34%
December	6,601,683	14,630,000	21,231,683	4,300,000	123,901,746	16,931,683	15.83%
Year							
2009	55,484,926	107,664,000	163,148,926	165,316,020	123,901,746	(2,167,094)	-1.72%
2008	24,130,482	95,870,000	120,000,482	104,007,372	126,068,840	15,993,110	14.53%

Currency Coins Issued and Redeemed (Bermuda Dollar)

Month	Coins Issued	Coins Redeemed	Coins Issued & O/S at End of Month	Net Issues During Month Amount Change	% Change
January	1	-	14,996,618	1	0.00%
February	0	-	14,996,618	0	0.00%
March	11	-	14,996,629	11	0.00%
April	417	-	14,997,046	417	0.00%
May	31	-	14,997,077	31	0.00%
June	49,223	-	15,046,300	49,223	0.33%
July	62,224	-	15,108,524	62,224	0.39%
August	10	-	15,108,534	10	0.00%
September	24,510	-	15,133,044	24,510	0.16%
October	37	-	15,133,081	37	0.00%
November	30	-	15,133,111	31	0.00%
December	30,701	-	15,163,812	30,700	0.20%
Year					
2009	167,194	0	15,163,812	167,194	1.11%
2008	471,225	0	14,996,617	471,225	3.14%

Analysis of All International Insurers Registered

Class of Insurer	2009	%	2008	%
Class 1	310	23	333	24
Class 2	345	26	356	26
Class 3*	330	24	459	34
Class 3A	118	9	—	—
Class 3B	15	1	—	—
Class 4	31	2	32	2
Long-Term	103	8	92	7
SPI	1	—	—	—
Dual Licences	95	7	100	7
Totals:	1,348	100	1372	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.

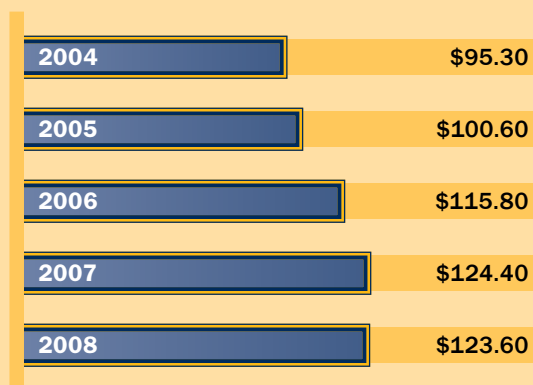
* Class 3 sector reclassification took effect as of 2009-Q1. Therefore, data reported from that date will reflect the reclassified Class 3 company categories.

Actively Writing International Insurers by Company Type (2008)



- Professional Ins/Reinsurance 33%
- Affiliated Reinsurer 5%
- Single-Parent Captive 24%
- Rent-A-Captive 6%
- Health Care Captive 4%
- Group Captive 7%
- Captive Writing 3rd Party 13%
- Association Captive 8%

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



Board of Directors



Pictured from left to right:

The Hon. Gerald Simons

President & Chief Executive Officer, The Argus Group

Ronald Simmons, CA, CPA

Partner, Moore Stephens & Butterfield

Tracy Tepper

*President & Chief Executive Officer,
Lombard Odier Darier Hentsch Trust (Bermuda) Limited*

Jeremy Cox

Chief Executive Officer

Alan C. Cossar

Chairman

E. Barclay Simmons, MBA, LLB

Managing Partner, Attridge-Stirling & Woloniecki

Lynda Milligan-Whyte, BA, Bed, MPA, LLB

Senior Partner, Lynda Milligan-Whyte & Associates

Anthony Joaquin, FCA

Managing Partner, Ernst & Young (retired)

Darren Q. Johnston

*Deputy Chairman,
Territory Senior Partner, PricewaterhouseCoopers
(Not shown)*

Walter Bell

*Chairman, Swiss Re America Holdings Corporation
(Not shown)*



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.

Vision

Committed to integrity and excellence.

Chairman's Letter

The major areas of strategic focus for the Authority during 2009 required a high degree of engagement internationally, combined with operational effectiveness locally. The Authority successfully addressed the challenges related to those strategic issues during the year via focused forward planning and proactive supervisory initiatives.

In common with financial regulators worldwide, managing the on going fallout from the effects of the global financial crisis remained a priority during the year. However, the Authority also focused considerable attention and policy development on making further progress towards the strategic goal of achieving regulatory equivalence for Bermuda.

The Board continued to provide active direction and on going oversight in relation to the Authority's progression on these key strategic issues. Once again we were required to provide input and feedback on addressing matters in relation to the crisis that were of relevance to the Bermuda market, and the implications for regulation of financial institutions across all its various sectors. Our priority in these deliberations was to ensure that any proposed actions to mitigate the lingering effects of the crisis supported the Authority's core responsibility to maintain overall stability of the Bermuda market. The high-level, continuous interactions the Authority maintained with international regulators and standard setting bodies during the year helped management keep the necessary international perspective to ensure Bermuda was aware of regulatory developments emerging from the crisis, and how they might impact financial regulation in this jurisdiction. Simultaneously, the extensive consultation and information sharing initiatives the Authority conducted with market

participants within Bermuda also prepared industry for the changes required to enhance Bermuda's regulatory framework. The Board remained highly satisfied that the proactive, enhanced supervisory measures the Authority continued to put in place during the year to mitigate the effect of the crisis, complemented by a high level of cooperation from regulated firms, contributed to the market successfully withstanding the challenging global economic conditions.

The Board also remained fully engaged in the progress the Authority achieved in its regulatory equivalence programme, specifically in relation to Europe's Solvency II Directive, recognising the strategic significance of this initiative to Bermuda as a jurisdiction. We supported the policy proposals and resource requirements put in place to ensure the Authority can both develop and deliver the quality of regulation demanded by the equivalence process. The advanced state of preparation the Authority achieved in relation to this initiative by the end of the year — as well as the planned schedule of further policy and resource developments in progress to implement the associated supervisory regimes — will ensure that the Authority is in a good position for the upcoming equivalence assessments planned to take place in 2010.

In addition to devoting a considerable amount of time to these strategic priorities, the Board maintained an on going programme of corporate policy initiatives via the active work schedules of its various committees. The Board committees achieved further advancements on overall systems and corporate policy developments, based on objectives set for the year in relation to corporate governance matters, human capital management, the legislative and policy framework and overall risk management at the Authority. The overall results of this work has ensured that the organisation's continued evolution as a financial regulator is supported, in parallel, by constant enhancement of its internal policies and governing infrastructure. With this in mind, and in addition to embedding further elements



Alan C. Cossar
Chairman

and standards to its Ethics Framework, the Authority completed a comparative corporate governance review during the year. The results of the review showed that the work conducted in recent years with respect to building on the Authority's corporate governance systems has been effective. While there are a few areas that will receive additional attention for further enhancements, overall the review indicated that the Authority's corporate governance framework reflects best practice internationally.

The phased transition towards enhancing transparency around the Authority's governance and operations, as well as demonstrating its accountability in executing its responsibilities, continued successfully throughout the

year. Details of the Authority's Business Plan, published for the second consecutive year, were showcased at its inaugural Annual Meeting. This new event provided stakeholders from the public and private sector with the opportunity to view and discuss the Authority's entire work plan for the year with executive management in a public setting, and was very well-received. The value of the Business Plan as a useful means of supporting public accountability for the Authority was reiterated during these discussions, enabling it to demonstrate how it performed against the initiatives and service standards listed in the 2008 Plan. Internally, the Balanced Scorecard (BSC) methodology, which was launched the previous year, continued to assist the Board in holding management accountable for progress achieved against the goals set for 2009. The Board supported the extension of the BSC to application across all departments within the Authority during the year. The resulting creation of departmental BSCs served to refine alignment of the Authority's strategic goals and business objectives further.

Building on the successful implementation and follow up initiatives from the previous year of the Authority's Risk Management Plan for enterprise risk management (ERM) purposes, review and approval of an IT Risk Management Action Plan took place early in 2009. This development was deemed necessary from a risk management perspective given the comprehensive IT strategy established by the Authority at the beginning of the year, and the significant operational projects related to it. An external follow-up review of the IT Risk Management Action Plan is scheduled for 2010.

As a Board we recognise that as the Authority's responsibilities, strategic objectives and operations become more complex, addressing risk management issues in both the short- and long-term will become even more critical. This of course applies across all areas of the Authority, including from a human capital management perspective. During the year

the Board approved a significant workforce planning initiative, which will align human capital resources with the Authority's planned regulatory and strategic development for the next three years. The overall goal of this initiative is to ensure that the Authority has the right skills and resources to support and implement its strategic priorities effectively. The Authority's previously launched succession planning initiative also supports this goal. Work in this regard during the year continued to leverage the experience and address the development of the Authority's senior management team, in line with the longer-term goals of the organisation. Successful execution of the initiative took place at the highest level of management during the year of course, with the smooth handover between Matthew Elderfield, former CEO, and Jeremy Cox, who assumed this role in January 2010. On behalf of my fellow Board members, I would like to thank Matthew for his service to the Authority and Bermuda as a whole. Under his focused leadership the Authority's team met the challenges of a demanding agenda, producing enhanced regulations and supervisory regimes that build on the excellent standards which have supported Bermuda's success as a financial jurisdiction. The Board is delighted to be working with Jeremy in his new capacity, looking forward to him applying the dedication and effectiveness that he has demonstrated throughout his career as a regulator.

The Board has itself experienced some changes over the past year, including at the leadership level. It is a distinct honour to have been appointed as Chairman of the Authority's Board to succeed immediate past Chairman Alan Richardson. As Chairman of the Board, Alan provided both strategic direction and leadership for the continuous enhancement of the high-level policy work that supports the Authority's major initiatives, and

its growing profile internationally as a leading financial regulator. We thank him for the hands-on, detailed approach with which he took on his role, which clearly demonstrated his deep commitment to the Authority and Bermuda. Robert (Bob) Steinhoff, former Deputy Chairman, also stepped down during 2009, after a total of eight years of service to the Authority. We extend our sincere appreciation to Bob for investing this significant period of time, and sharing his comprehensive market knowledge, to benefit the development of financial regulation in Bermuda. Darren Johnston has succeeded Bob as Deputy Chairman, applying his own long-standing tenure with the Board in this new capacity. Finally, we welcome our most recently appointed Director, Hon Gerald Simons, who brings significant experience and management skill to the Board as one of Bermuda's most senior and long-serving insurance executives.

I would also like to thank all the members of the Board, who dedicate so much of their time, and provide so much of their considerable expertise and industry experience, in support of the strategic development of the Authority. The Board recognises the pivotal role the Authority plays in sustaining the good standing of Bermuda as a financial jurisdiction. Ensuring that Bermuda's financial regulation maintains consistency with increasingly demanding standards in the dynamic international regulatory environment — while being practical and risk-based for the market — remains the ultimate priority for the Authority, particularly as it moves towards regulatory equivalence. The Board in turn understands its own role in supporting that objective. By providing the appropriate level of strategic guidance and oversight, we will both challenge and assist the Authority to remain an effective, efficient regulator locally, while being fully engaged and making an active contribution to high regulatory standards internationally.

BOARD COMMITTEES:

Audit & 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:

- Complete the review and oversight of the external audit process for the Authority's 2008 financials, and recommended the external auditor for 2009;
- Conduct the review, approval and ongoing monitoring and reporting on progress by management on the Authority's IT Risk Management Action Plan, and consider possible refinements to the Authority's overall ERM assessment process;
- Review the internal audit reports for any necessary action in 2009, and confirm the internal audit plan for 2010; and
- Work with management to develop a plan for conversion to the IFRS accounting standards by the Authority, including staff training and consideration of potential use of external consultants, to support effective transition before 2011.

Corporate Governance & 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 2009 the Committee successfully completed the following major items on its agenda for the year:

- Monitored successful implementation of the Authority's Ethics Framework; this included embedding new policies and consolidation of existing policies related to ethical conduct and managing conflicts of interest, as well as full implementation of an enhanced personal declarations policy, for Board members and staff;
- Completed comparative review of the Authority's corporate governance framework against relevant international standards (as applicable) and best practice; set priorities for any action required in on going framework enhancements during 2010 based on results of the review;
- Oversaw second phase of execution of initiatives under the Authority's Transparency Initiative, related to governance and policy matters; this included establishing BMA Annual Meeting, publishing the Authority's feedback statements as part of market consultation process; and
- Coordinated objective-setting for Board committees, and monitored performance against objectives for the year; directed execution of 2009 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 first full year of implementation. This included monitoring and assessing the Authority's performance against BSC objectives throughout the year. Based on successful implementation of the BSC at the organisation-wide level, the Committee subsequently monitored the extension of the BSC to

application across all departments within the Authority. This extension served to build on alignment of the Authority's strategic goals and business objectives established by the BSC process the previous 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.

The Committee successfully maintained its focus throughout 2009 on ensuring the Authority's investment portfolio remained minimally impacted by exposure to material capital risk within the continued challenging conditions in global markets. The Authority also remained in a good position in the event that any unexpected demands are placed on its reserves, as the organisation's liquidity position remained stable during the year.

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

Much of the Committee's work during the year in its review of legislative and policy implications of the Authority's

major regulatory initiatives related to the regulatory equivalence initiative, specifically as regards Solvency II. Therefore, the Committee provided feedback on the various legislative and policy developments that took place during 2009 covering proposed enhancements to the Authority's insurance framework. This included consultation on proposals and draft legislation for group supervision; the insurance Code of Conduct; enhanced disclosure and transparency; eligible capital requirements; the application and review process for permitting use of internal models to determine capital requirements; and an Own Risk and Solvency Assessment framework for Bermuda (re)insurers. The Committee also reviewed matters in relation to banking supervision, specifically implementation of Basel II; establishing anti-money laundering/anti-terrorism financing guidance and statement of principles for the market; drafting of new Credit Union legislation, which was completed at the end of the year; and development and publication of guidance for Special Purpose Insurers.

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 continued to meet as required to keep under review the matters under its mandate, in support of the work of the Board. Liaison with, and review of matters related to, the Audit and Risk Management Committee and the Human Capital Committee on issues covering the Authority's budget and compensation policies took place throughout the year. Monitoring of the Authority's performance and progress on its strategic objectives also continued. This ensured the on going accountability of senior management in relation to successful delivery against the Authority's strategic plan and business commitments.

Executive Team



Pictured from left to right:

Craig Swan

Director, Policy, Research & Risk Assessment

Marcia Woolridge-Allwood, BBA, JP

Director, Corporate & Financial Services

William Kattan, LLB (Hons), LLM

Director, Legal Services & Enforcement

Shanna D.R. Lespere, BSc.H., CMA

Director, Insurance Supervision, Complex Institutions & Restoration, Run-off & Monitoring

Jeremy Cox

Chief Executive Officer

Cynthia Currie

Director, Human Resources

Shelby R. Weldon, CPA

Director, Insurance, Licensing & Authorisations

Graeme Dargie, MA, Dip

Director, Banking, Trust & Investment

John Dill

Director, Information Technology

Pat Phillip-Bassett

Deputy Director, Corporate Governance & Communications

CEO's Report

The Authority has recorded another year of significant changes and a high degree of productivity. We have remained focused on our key strategic and operational objectives, and have been successful in achieving the goals and major milestones we set for the year, within a constantly evolving and highly demanding international regulatory environment.

The changes we implemented during 2009 spanned both our regulatory framework and the Authority's operations. From enhancing solvency and reporting standards across industry sectors; to increasing headcount and technical resources to support our expanding supervisory programmes; to new leadership at both Board and management level at the top of the organisation – the past year has been a period of significant development and achievement.

The Authority continues to mature and evolve, embracing new responsibilities and applying enhanced, internationally compliant regulations using its risk-based approach, to ensure Bermuda maintains the high standards that are core to the success of markets here.

Further Progress towards Regulatory Equivalence

The Authority maintained high momentum in completing initiatives related to achieving regulatory equivalence for Bermuda's insurance regulations, specifically under Europe's Solvency II Directive. Overall, the Authority has made significant progress in enhancing Bermuda's regulatory regime for (re)insurers, consistent with the requirements set under Pillars 1, 2, and 3 of the Directive. This strategic priority was the basis for many of the insurance framework developments the Authority implemented or issued for market consultation during the year.

To support this work, and to provide clarity to the market about the range of regulatory developments we intend to implement in relation to the Authority's equivalence programme, we published in March of 2009 "Bermuda's Insurance Solvency Framework – The Roadmap to Mutual Recognition", commonly referred to as the Solvency II Roadmap. This publication serves as both a guide to our work towards achieving equivalence, as well as a means of highlighting the Authority's progress to date regarding framework changes and our plans for further changes.

Major milestones within the Roadmap were achieved during the year; among the most notable was the Authority's proposed framework for group supervision of Bermuda's largest (re)insurers. We completed development of our proposed approach to group supervision towards the end of 2009, based on feedback from preliminary discussions on this issue with the market earlier in the year. This was followed, ahead of schedule, with a subsequent round of formal market consultation on our proposals early in 2010. Preliminary work was also completed on supporting legislation to facilitate introduction of the group supervision framework, which was passed for enactment in the first quarter of 2010. We are very pleased to have achieved this level of progress on the complex issue of group supervision. Our proposals will move the Authority further in its transition towards full implementation of a group supervision framework, building on existing related activities we already conduct, such as supervisory colleges and group risk exposure assessments of insurers that are part of international groups.

We also made considerable progress in other areas related to the Authority's equivalence goals, including establishing the applications and review process, and related guidance, towards permitting use of insurers' internal capital models (ICM) to determine regulatory capital; introducing an Insurance Code of Conduct; and



Jeremy Cox
Chief Executive Officer

conducting preliminary consultation on proposals for both ORSA, or Own Risk Solvency Assessments, and eligible capital requirements.

The work we have completed to date to enhance our framework for regulatory equivalence, and which we are continuing to conduct, is in line with the technical requirements of Solvency II. Our extensive preparations will result in there being no foreseeable technical impediments to Bermuda achieving equivalence, and will also build on the high regulatory standards to which the Authority remains committed.

Implementing Other Key Framework Enhancements

The Authority also achieved significant progress over the past year in terms of wider framework enhancements. Once again the Authority met all the major milestones, as well as the service standard targets, listed in our annual Business Plan, as shown in the summary on page 18. Several highlights of this work include:

Implementation of Basel II - We met a key objective with respect to banking regulation with the successful implementation of Basel II standards from 1st January 2009. This development ensured that Bermuda's banking regulations maintained consistency with the most current international standards, and took place after completion of an extensive policy revision project and market consultation process spanning a three-year period. The Basel II Accord introduced an enhanced supervisory framework and capital standard for Bermuda's banks, and some investment firms. Banks transitioned successfully throughout the year to the Authority's enhanced standards and reporting requirements applied under the Accord. These included new rules for calculating the base capital required for banks; a wider range of minimum capital requirements designed to better reflect the individual business and control risks of each institution; and establishing a common and consistent framework for public reporting by banks of their capital and risk profiles designed to strengthen market discipline. The overall result of implementing Basel II, along with the Authority's proactive enhanced supervision of the sector to manage the impact of the financial crisis – which included requirements for additional capital buffers and mandated rigorous stress testing – has been the presence of much higher levels of capital within the sector which supported market stability through a period of continued turmoil.

Implementation of Enhanced Anti-Money Laundering Supervision

– The Authority moved from policy development to implementation of enhanced anti-money laundering/anti-terrorist financing (AML/ATF) supervision during the year. Following through on the expanded supervisory and enforcement powers conferred on the Authority under the suite of AML/ATF legislation and standards that became effective in 2009, we established a dedicated AML/ATF Compliance Unit. The Unit has effectively monitored companies' compliance with the new standards, in particular through establishing the AML/ATF on-site programme which has become a key part of the Authority's supervisory process, as well as completing registration of unlicensed financial institutions for the purposes of AML supervision. Additional work was also completed to assess both compliance levels and risk profiles of firms in this regard, via a pilot self-assessment survey of several AML/ATF regulated institutions. These reviews support on going implementation of the AML/ATF regime, in terms of applying risk-based supervision of firms in this context effectively and efficiently, as well as determining the need to take enforcement action, as required, in the event of non-compliance with the standards.

Implementation of New Special Purpose Insurers

Framework - We supported new potential opportunities for business related to securitisations by introducing the new class of Special Purpose Insurer (SPI) within the insurance sector. The Authority is committed to innovation in the Bermuda market, while at the same time ensuring that businesses operate prudently within high standards. The introduction of our SPI framework is a demonstration of this commitment, as well as the jurisdiction's ability to respond effectively to new developments in the marketplace. SPIs were introduced as a class of insurer within the Bermuda insurance class system with the Insurance Amendment Act 2008, which became effective during the year. They are

special purpose, single transaction, or single customer insurance companies which assume (re)insurance risks and which typically fully fund their exposure to such risk. Popular examples of such entities include side cars and catastrophe bonds. SPIs enable investors from the capital markets to enjoy, among other benefits, the ability to invest in (re)insurance markets quickly, with readily available access to underwriting expertise. The guidance and supporting information the Authority published during the year finalised the SPI regime, outlined our approach to the supervision of SPIs - which involves setting out the fundamental requirements and vetting that SPIs must meet in order to be licensed under Bermuda law - and assists in the prudent development of insurance-linked special purpose transactions in Bermuda.

The work completed during the period is testament to the skill and impressive efforts of our professional team, and the Authority's commitment to applying the highest standards of regulation for Bermuda, in its continued evolution to being recognised as a leading risk-based financial regulator.

Maintaining Stability through the Financial Crisis

The challenging economic conditions of the past two years have been a good test of the effectiveness of the Authority's risk-based approach, and the stability of the Bermuda market. Generally the Bermuda market continued to demonstrate its resilience through the crisis in 2009. This was despite impairments in investment portfolios across all sectors, which impacted profitability for firms in banking, funds and insurance. Overall, the Authority's proactive approach to mitigating the impact of the financial crisis with close monitoring across all sectors of the market, and enhanced supervision as required, has also continued to support on going market stability. We maintained this high degree of enhanced monitoring throughout the year, in particular with regard to further follow up activity

related to the capital assessment exercise – in the form of a stress test – which we applied to Bermuda's banks. The precautionary additional capital buffer requirements that resulted from this exercise proved to be effective in supporting the sector's generally substantial capital position through the prolonged effects of the crisis. The stress testing work conducted led to the Authority working further with industry to develop a refined stress test methodology that would be appropriate for the Bermuda market. By the end of the year this methodology had been finalised and new stress testing guidance was issued to the market early in 2010; stress tests continue to be an integral element of the Authority's enhanced supervisory programme for Bermuda's banks. The guidance is consistent with the principles for sound stress testing guidance and supervision issued by the Basel Committee in 2009. Bermuda remains among the first group of jurisdictions that has issued stress testing requirements to the banking sector that facilitate consistency in approach across the market for the use of this critical risk management tool.

The Authority has maintained its heightened monitoring of Bermuda's insurance sector, which once again demonstrated a high degree of resilience in tough market conditions over the past year. Some firms continued to experience losses primarily related to their investment portfolios, consistent with trends in international markets. However, the Bermuda market recorded strong results from an underwriting standpoint, and remained highly capitalised. Whilst the slower rate of new company incorporations also reflected global trends, by the end of the year a total of 42 new (re)insurers were established, a slight increase on the 40 set up in 2008. In addition, despite the prolonged challenging economic environment, reports by firms towards the end of 2009 showed an overall trend of positive results and recovering profitability.

Our monitoring of investment businesses also showed that firms within this sector maintained overall stability in their provision of retail financial services, successfully mitigating the impacts and challenges of the crisis. In terms of the funds sector, the impact of the prevailing economic conditions was much more evident. In line with global trends the sector continued to experience increased redemption rates and investment losses, resulting in a decrease in aggregate Net Asset Value for the period. The Authority had already recognised the need to enhance supervision of this sector, given its potentially higher exposure to the risks associated with the crisis. In addition, monitoring international developments and debate in relation to regulatory reforms for the hedge fund sector driven by the crisis, and the possible impact on Bermuda's funds industry, was a priority during the year. We began a fundamental analysis of the Authority's funds regime against the backdrop of such developments, with particular regard to new standards being developed by the EU and the International Organisation of Securities Commissions (IOSCO). Towards the end of the year we collaborated with other jurisdictions likely to be impacted by these changes to develop reform proposals that could contribute to that debate, and we will continue to support this effort via our membership of IOSCO and regional regulatory bodies.

Indeed, overall we have continued making contributions to developments in global regulation of relevance to Bermuda, via our active participation and further increased representation in international standard setting bodies. This has meant that Bermuda has provided meaningful and practical input to the on going developments on reforms in financial regulation, particularly those emerging on a range of issues in the aftermath of the financial crisis. The Authority is making such issues, for example improving macro-prudential supervision by financial regulators which gained attention internationally during the year, a priority in our

on going programme of framework enhancements. We intend to continue making contributions at the global level moving forward, while enhancing our regulatory framework appropriately within the international context.

Actively Contributing to International Developments & Cooperation

The Authority regards such international engagement and cooperation with our regulatory counterparts overseas as critical to our role as Bermuda's financial services regulator. Our increased participation in the International Association of Insurance Supervisors (IAIS) during the year is one example in this regard. The Authority was appointed to represent Bermuda on the IAIS Executive Committee, the decision-making level within the organisation, in October 2009. We also hold leadership positions on the IAIS Reinsurance Transparency Sub-group and the IAIS Reinsurance Sub-Committee. In total, senior members of the Authority's team participate in the work of 13 IAIS committees, sub-committees, and working groups covering key areas ranging from solvency to setting new standards for supervising global insurance groups.

We also extended our commitment to supervisory cooperation further in 2009 by entering into additional formal information exchange agreements with regulatory counterparts overseas. In addition, we successfully hosted another round of supervisory colleges during the year, covering entities within both the banking and insurance sectors. Such activity and agreements establish a formal basis for cooperation and information exchange between the Authority and fellow regulators who supervise entities with international, or cross-border, operations. They also supplement the existing legislative 'gateways' we have in place that facilitate the exchange of information between the Authority and other supervisors. The importance of such cooperation between regulatory authorities is even more crucial at this time, given the drive towards improving macro-

prudential surveillance across financial markets within the international regulatory arena. It also supports our plans to establish group-wide supervision for Bermuda's (re)insurance market, in addition to the Authority's existing framework for supervising groups in the banking sector. Also, it allows all supervisors involved to be better informed, providing vital access to information that may be useful in understanding the nature of a group's operations. During 2009, as well as being approved as a signatory to the new Multi-lateral Memorandum of Understanding (MMoU) established by the IAIS, the Authority signed a series of individual memoranda of understanding (MoUs) with the financial regulator in Luxembourg (Commissariat Aux Assurances); the Florida Office of Insurance Regulation; the Nebraska Department of Insurance, and the Pennsylvania Insurance Department. With these additional agreements we now have a total of 15 MoUs in place with financial authorities and international standard setting bodies, including the UK Financial Services Authority, the Office of the Superintendent of Financial Institutions of Canada (OSFI) and IOSCO.

Successfully Building on Technical Resources

We maintained our strategic focus on operational effectiveness during the year, specifically, to enhance the technical resources required to support our growing regulatory programmes. We recognise that ensuring we have the right people with the right skills will be key to maintaining our effectiveness as Bermuda's financial services regulator, particularly as we seek to address critical framework enhancements such as implementing group-wide supervision for (re)insurers.

Accordingly, we have successfully built up our supervisory resources over the past year, adding to the expertise and technical skills within our supervisory teams as well as our policy, risk and actuarial areas. These areas will remain the focus of our on going programme of targeted, managed growth in the

Authority's resources. Our recruitment strategy during the year continued to be driven to a large degree by the current and projected needs of the Authority's work towards achieving regulatory equivalence. The emphasis in that regard at the end of the year and into 2010 began to shift from solely policy development towards preparing for implementation of our enhanced supervisory regimes for the insurance sector. We supported this next phase of development with a further expansion of our technical learning and development framework during the year, ensuring the continued provision of high-quality supervisory training within the organisation.

Moving Forward on Delivering First Class Supervision

The Authority has managed to implement significant policy and resource developments over the past year, remaining focused on meeting its commitments to deliver high standards and excellence in supervision. We have done so while also managing the continued effects of an unprecedented level of turmoil in global markets. In common with regulators and financial markets worldwide, businesses and the authorities in Bermuda remain vigilant to the lingering impacts of the global financial crisis. Our goal as Bermuda's financial regulator in the coming year will be to continue monitoring such potential impacts, and to maintain our proactive approach in implementing enhanced supervisory solutions to address them, as necessary. We will also maintain our strategic focus on progressing our programme of regulatory policy developments further, in preparation for upcoming equivalence assessments under Solvency II. In particular, we will implement some key aspects of our framework initiatives such as, group supervision; a new solvency regime for Class 3A (re) insurers; enhanced solvency and capital standards for firms in the Long-Term sector, and enhancements to public disclosure standards for the insurance sector. We will also build on our successful implementation of Basel II with further framework enhancements for the banking

sector, including revisions to our liquidity policy for banks based on revised guidelines issued by the Basel Committee. With respect to the funds sector, we intend to complete our review of Bermuda's fund regulation with a view to publishing final recommendations at the end of the year. Since investor, policyholder and depositor protection is a core underlying principle of the Authority's operations, we will also be placing further emphasis on the issue of consumer protection during the year. Planned initiatives in this regard include specific supervisory regime and related enhancements, such as establishing a depositor protection scheme for the banking sector and issuing a revised code of conduct for investment businesses to enhance disclosure and information practices in the market, in order to help ensure consumers are supported in making informed investment decisions.

Our achievements with respect to AML/ATF supervision over the past year will provide the platform during 2010 for implementing an enhanced, risk-based AML/ATF on-site programme; themed surveys of AML/ATF regulated institutions to support on going monitoring of compliance with the regime; and conducting enforcement action, as required.

Our active participation internationally in the work of standard setting bodies will continue. The Authority remains committed to supporting and contributing to on going efforts to raise global standards for financial regulation. In addition, enhancing our technical resources and supervisory teams will be a priority, aligned with our regulatory policy developments, to support effective implementation of our expanding risk-based supervisory programmes and further planned changes for the organisation.

In Conclusion

For much of last year, the changes and results achieved at the Authority took place under the leadership of

Matthew Elderfield as the immediate past CEO. We would like to thank Matthew for his focus, effectiveness, and vision during his tenure. We also wish to thank Alan Richardson for his commitment and leadership at the corporate policy development level as the immediate past Chairman of the Authority's Board. Both Matthew and Alan have, in their own way, made an outstanding contribution to the Authority's productivity, achievements and continued evolution as a leading regulator.

In my new role as CEO, I also extend our appreciation to the external stakeholders within both the public and private sector with whom the Authority frequently interacts as we conduct our growing responsibilities and framework developments. Once again our colleagues within the Bermuda Government, specifically at the Ministry of Finance and the Ministry of Justice, continued to provide a high degree of input and valuable teamwork to facilitate the Authority's legislative and policy initiatives during 2009. Our thanks go to the

Honourable Paula Cox, JP, MP, Minister of Finance, and the Honourable Kim Wilson, JP, MP, Minister of Justice and their respective teams for their continued professional collaboration and support. We also appreciate the cooperation of stakeholders within the Bermuda market as the Authority moved forward with the comprehensive regulatory changes implemented during the year. We conducted extensive consultation in relation to those changes, and we appreciate the receptivity and practical perspective of firms and industry representative bodies involved in the process. To conclude, and most importantly, I would like to acknowledge and express our sincere thanks to the Authority's staff. We set some very challenging targets for the Authority's work programme, which we have met due to the diligence, skill and dedication of our hardworking team. The results produced by our people continue to ensure that the Authority supports Bermuda's good standing as a quality jurisdiction with highest standards now, and for the future.

2009 Business Plan Milestones

-  Solvency II, Internal Models and Group Supervision
 - Solvency II Roadmap published
 - ORSA Discussion Paper, Transparency and Disclosure Consultation Paper, and Eligible Capital Consultation Paper published
 - Code of Conduct Consultation Paper, Long-Term Discussion Paper published
 - Internal Models Guidance published
 - Supervisory Colleges conducted
-  Basel II
 - Successful Basel II implementation
 - Transitioned to Pillar 1, 2 rules; First Pillar 3 disclosures
-  Special Purpose Insurer Guidance
 - Published with Information Bulletin
-  Class 3 Reclassification
 - New Certificates of Registration issued
-  Anti-Money Laundering/Anti-Terrorist Financing (AML/ATF)
 - Legislation in place
 - Guidance issued; Statement of Principles published
 - Supervisory programme implemented by new dedicated AML/ATF Compliance Unit
-  Enhancements to the Corporate Registration System
 - E-filing system introduced
-  Currency Activities
 - New banknote series issued
-  Credit Union Legislation
 - Updated Credit Union framework (legislation to be enacted in 2010)

Regulation and Supervision



Banking, Trust & Investment

The Banking, Trust & Investment Department supervises Bermuda's banks, deposit companies, trust and investment businesses, investment funds, fund administrators, money service businesses, the Bermuda Stock Exchange and the Credit Union.

BANKS

Banks and Deposit Companies Act 1999

The following section (pages 20 to 25) 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).

Legislative Changes

No changes were made to banking legislation during the year.

Policy Developments

Overview of Basel II Implementation

Following the successful completion of an extensive policy revision project in 2008, the Authority met its key objective of implementing Basel II in Bermuda from 1st January 2009. The Authority's 'Revised Framework for Regulatory Capital Assessment', published in late 2008, set out the final rules with regard to the new Accord, and its implementation in 2009 introduced an enhanced supervisory framework and capital standard for banks.

The new framework consists of three pillars. Pillar 1 provides rules for calculating the base capital requirement for banks. Regulatory capital reporting by institutions under Pillar 1 of the framework began in the first quarter of 2009.

Pillar 2 describes the process whereby the Authority reviews the internal capital assessments by banks of their capital needs, taking into account all the risks to which an individual institution is exposed and the quality and effectiveness of its risk management. As part of its Pillar 2 implementation, the Authority conducted an initial review of Capital Assessment and Risk Profile (CARP) submissions received from the banks in the first quarter of the year. Preliminary feedback was provided to the institutions in late March 2009. The Authority subsequently received final CARP submissions from all relevant institutions, completed its reviews and communicated preliminary conclusions to each institution during August 2009. After reviewing feedback from the banks, the Authority issued final capital guidance to each institution at the end of October 2009.

One of the main outcomes of this process is that the banks are now subject to a wider range of minimum capital requirements that better reflects their individual business and control risks.

Pillar 3 of the new framework has the objective of seeking to strengthen market discipline by providing a common and consistent reporting framework for banks to make publicly available information about their capital and risk profiles. Institutions made their preliminary Pillar 3 disclosures, which have been published on their respective websites, at the end of the third quarter of 2009. The Authority conducted a review of these disclosures and provided the institutions with feedback at the end of October.

Stress Testing and Capital Buffer

The Authority maintained its enhanced supervision of Bermuda's banking sector during 2009 through continued challenging economic conditions. In

particular, the Authority conducted a capital assessment exercise in the form of a stress test, whose purpose was to ensure that Bermuda's banks held a capital buffer as a proactive and precautionary measure. In the event, three banks were required to raise additional capital to meet the Authority's stress test, which mandated that all banks should be able to withstand the losses likely to be incurred in a severe downturn while maintaining a Tier 1 capital ratio of at least 6%.

During the year the Authority worked in conjunction with the Bermuda Bankers' Association to enhance its stress test methodology appropriate for the Bermuda market. The goal of this exercise was to provide guidance to the banks to facilitate a more consistent approach to stress testing, which is now an integral part of the Authority's enhanced supervisory programme for the banking sector.

Draft guidelines were circulated to the banks in December 2009 for comment. Following feedback received from the market, the Authority published the new guidance in March 2010. This guidance will help inform the 2010 review of banking capital requirements.

Overview of the Financial Position

While Bermuda was not sheltered from the effects of the international financial crisis, the banking sector held up comparatively well, with the exception of one institution which recorded substantial losses for the year and had to raise a substantial amount of new capital in early 2010 to repair its balance sheet.

The proactive recapitalisation of the banks, following the stress testing exercise mandated by the Authority earlier in the year, undoubtedly strengthened the sector's balance sheet, leading to higher capital

ratios. Specifically, the sector raised approximately \$220 million in new capital in the first half of the year, taking the combined risk asset ratio up to 17.7% at mid-year compared to 16.1% at end-March, although it subsequently fell back somewhat in the second half of the year (see chart page 23).

The low interest rate environment during the year combined with shrinking balance sheets served to depress total net interest income for the sector. Aggregate profitability was also adversely impacted by the recognition of investment losses and significant increases in provisions for impaired loans, largely confined to one institution. There was a small reduction in the level of operating expenses, as a result of the various cost-cutting measures taken by the institutions.

Assets and Liabilities

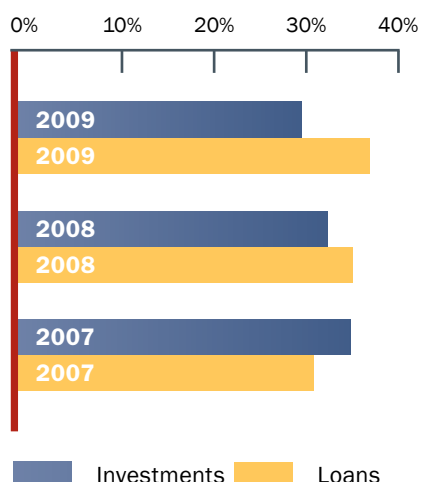
The consolidated assets of Bermuda's banking sector decreased by 5.2% in 2009 (compared to a 6% decrease in 2008), declining from \$22.8 billion to \$21.6 billion at the end of 2009. Within this total, there was a decline in deposits with other banks and investments of 9.7% and 12.2% respectively. This contraction in deposits with other banks and investments was slightly offset by a 4.9% increase in loans and advances.

Total customer deposits decreased over the year by 4.7% from \$19.4 billion to \$18.5 billion. The decline is attributable to decreases in time deposits of 17.2% during the year. Savings deposits increased by 6.6% while demand deposits increased marginally by 0.4%.

Balance Sheet Structure

The sector experienced a shift in asset allocation during the year, with loans and advances accounting for 38.6%

Loans and Investments as a Proportion of Total Assets



of total assets at the end of the year (34.9% in the previous year), while investments fell to 29.9% (32.3% in the previous year). The proportion of deposits with other banks to total assets fell from 27.4% to 26.1%. The year-on-year decreases in the level of investments (from \$7.4 billion to \$6.5 billion) and deposits with other banks (from \$6.3 billion to \$5.7 billion) were mainly driven by the reduction in customer deposit liabilities during the year. In total, loans and advances increased by 4.9% during the year while total assets declined by 5.2%.

Earnings and Profitability

The interest margin to interest income increased year-on-year from 55.0% in 2008 to 76.8% in 2009. The increase came as a result of the steepening yield curve, which allowed banks to secure short-term funding cheaply while being able to lend at a higher rate for longer periods. Overall, net interest income decreased in absolute terms during the year reflecting the decrease in interest-bearing assets. Net interest income as a proportion of total income, however, increased from 53% in 2008 to 60.8% at the end of 2009.

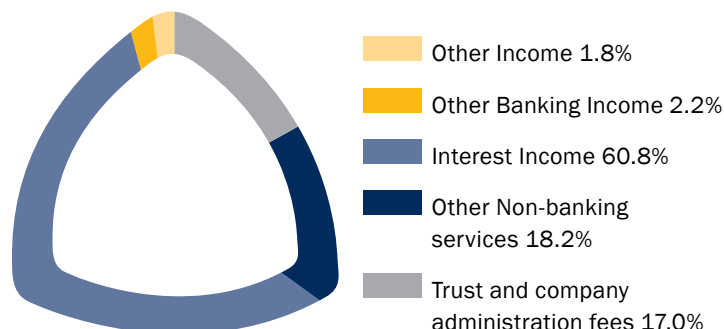
The sector reported a year-on-year drop in total operating expenses of 8.8%, reflecting cost-cutting measures taken by the institutions in response to declining revenues.

The profitability of the sector was further impacted by losses relating to write downs in investments, largely confined to one institution. The same institution also reported an increase in its specific provision for credit losses. Generally, however, credit quality across the sector continued to compare favourably against international levels. There was only a marginal decrease in the proportion of performing loans to total loans during the year from 97.7% at the end of 2008 to 96.9% at the end of 2009.

Banking Sector Assets & Deposits

	2009-Q4	2009-Q3	2009-Q2	2009-Q1	2008-Q4	2008-Q3
Total Assets (\$ millions)	21,627	21,284	21,933	21,456	22,805	24,277
Quarterly Change (%)	1.6	-3.0	2.2	-5.9	-6.1	-0.3
Total Deposits (\$ millions)	18,462	17,823	18,332	18,036	19,380	20,828
Quarterly Change (%)	3.6	-2.8	1.6	-6.9	-7.0	-0.7

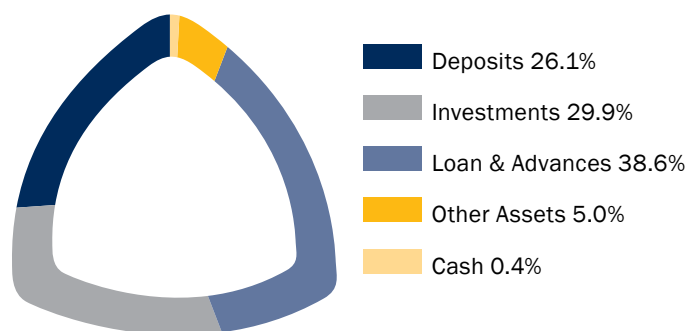
Banks and Deposit Companies Net Income (Consolidated) as at 31st December 2009



Note: 1. Other banking income consists of; profit or loss on foreign exchange dealing and currency positions, profit or loss on investments held for dealing, net income from banking fees and commissions, and any increase or decreases in the book value of investments.

2. Other non-banking services includes; investment management fees, custodian fees, fund management fees, investment dealing profits and commissions, profit or loss on fixed assets and other income other than extraordinary items.

Composition of Banks' Assets as at 31st December 2009



Capital Adequacy

The aggregate risk asset ratio of Bermuda banks computed according to the requirements of the Revised Framework was 15.5% at the end of 2009, compared to 16.1% reported in the first submission of capital adequacy returns under the new requirements at the end of March 2009.

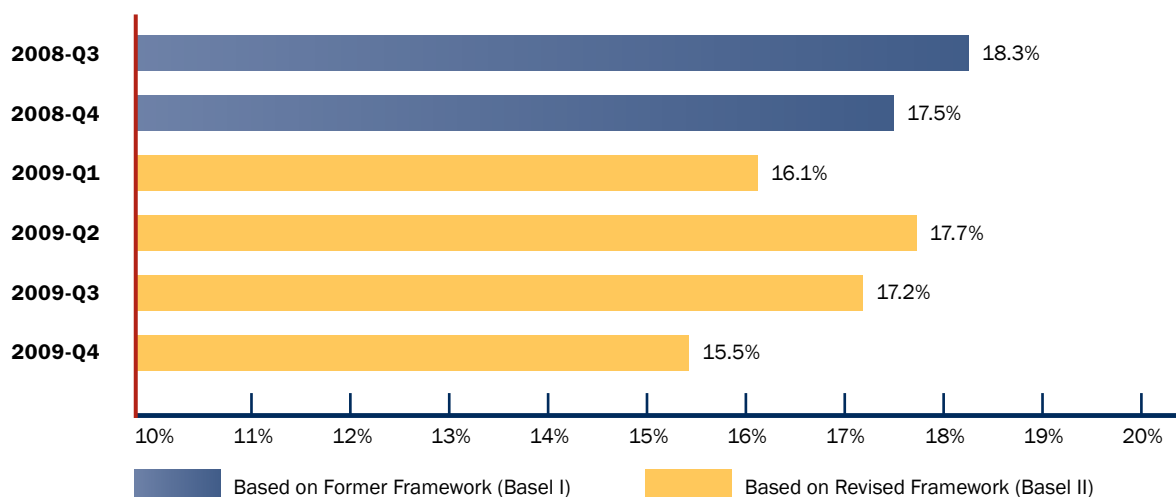
The chart below shows the movements in the risk asset ratio for the last six quarters.

The initial decrease in the aggregate risk asset ratio in Q1 2009 to 16.1% (from 17.5% at the end of 2008) was in part attributed to the shift to the new capital framework, where additional capital charges previously not captured were applied. Specifically, the introduction of the operational risk charge resulted in a 2.8% downward impact on the risk asset ratio. The operational risk charge was, however, somewhat offset by the lower risk weights applying to residential mortgages in the new framework.

The increase in the risk asset ratio in Q2 2009 reflected the new capital raised by three banks following the stress testing exercise mandated by the Authority earlier in the year.

The subsequent decrease in the capital ratio at year end was a result primarily of the substantial losses recorded by one bank, which reported significant investment write-downs and loan loss provisions in the fourth quarter.

Banking Sector Consolidated Risk Asset Ratio



This institution subsequently raised an additional \$550m in new capital and it is anticipated that the aggregate capital ratio for the sector will show significant improvement in the first quarter of 2010.

Bermuda Money Supply

The Bermuda dollar money supply was little changed over the year, up 0.18% at 31st December 2009 compared with a year earlier.

Combined Banks and Deposit Companies Foreign Position (Consolidated)

Total net foreign currency liabilities decreased by 6.4% during the year while total net foreign currency assets declined by 9.0%. As a result, the deficit in the net foreign currency position of the banks increased from \$426 million a year earlier to \$807 million at the end of 2009.

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

The sector reported a year-on-year increase in the proportion of BD\$ lending relative to BD\$ deposit liabilities, with the deficit increasing from 127.5% to 134.1% during the year.

BD\$ loans and advances increased by 5.8% while BD\$ customer deposits increased by less than 1% year-on-

year. The shortfall in BD\$ deposits over BD\$ loans and advances is financed by foreign currency denominated customer deposits, which are predominantly in US dollars. This position is mitigated by the fact that the Bermuda dollar is pegged to the US dollar. 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.

Formal Use of Powers

Sections 17 and 18 of the Act enable the Authority to restrict or revoke a licence where such action is judged necessary for the protection of depositors or potential depositors. The provisions were not used in 2009.

Sections 25 and 26 of the Act provide for the Authority to review the fitness of all proposed new controllers of licensed institutions. No such notification was received during the year.

Section 27 enables the Authority to object when it concludes that an existing controller is no longer fit and proper; no such cases occurred in 2009.

Section 35 provides, among other things, that licensed institutions must give written notice to the Authority when a person becomes a director or senior executive. As in the past, the Authority was notified of all such new

Bermuda Money Supply

(BD\$ millions)	2009-Q4	2009-Q3	2009-Q2	2009-Q1	2008-Q4	2008-Q3
Notes & Coins in Circulation*	139	123	127	126	141	119
Deposit Liabilities	3,840	3,858	3,816	3,802	3,815	3,821
Total	3,977	3,981	3,943	3,929	3,956	3,940
Less: Cash at Banks**	70	60	60	59	57	36
BD\$ Money Supply	3,907	3,921	3,883	3,870	3,900	3,904
% Growth on Previous Period	-0.36%	0.98%	0.33%	-0.76%	-0.10%	0.97%
% Growth Year on Year	0.18%	0.43%	0.44%	2.12%	5.01%	4.19%

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.

Combined Banks and Deposit Companies Foreign Currency Position (Consolidated)

(BD\$ millions)	2009-Q4	2009-Q3	2009-Q2	2009-Q1*	2008-Q4	2008-Q3
Total Foreign Currency Assets	15,960	15,575	16,396	15,987	17,470	19,121
Less: Other Assets	478	501	518	604	593	530
Less: Foreign Currency Loans to Residents	1,172	1,128	1,110	1,089	1,146	1,197
Net Foreign Currency Assets	14,310	13,947	14,768	14,294	15,731	17,395
Foreign Currency Liabilities	14,940	14,262	14,889	14,597	15,822	17,384
Add: BD\$ Deposits of Non-Residents	176	204	350	348	335	196
Net Foreign Currency Liabilities	15,116	14,466	15,238	14,945	16,157	17,581
Net Foreign Currency Position (Consolidated)	(807)	(519)	(471)	(651)	(426)	(186)

Totals may not add due to rounding.

* Restated based on submissions from the banks.

appointments and conducted the appropriate vetting. Section 36 provides that a person who becomes a significant shareholder in relation to a licensed institution must give written notice of that fact to the Authority. This requirement is triggered when a person, alone or with associates, controls 5% or more of an institution or of another company of which the institution is a subsidiary. The Authority received no such notifications during the year.

Section 39 provides for the Authority to require the commissioning of reports from auditors, accountants or other persons with relevant professional skill on matters relating to the Authority's responsibilities. The Authority did not find it necessary to use this power during the year. The Authority had no need to make use of its powers under sections 40, 41 and 42 of the Act to require the production of documents, to obtain entry to premises or to appoint persons to investigate an institution. In addition, the Authority did not need to make use of its formal enforcement powers under sections 43 and 44 of the Act to investigate suspicions of illegal deposit-taking activity. There were no appeals against decisions of the Authority under the Act during 2009.

Licensing

The Authority did not receive any applications for a new banking licence during the year. Therefore, the total number of licensed institutions remained unchanged at four banks and one deposit company.

CREDIT UNIONS

At present the Authority undertakes certain supervisory functions delegated to it by the Minister of Finance under the Credit Unions Act 1982, including the supervision of Bermuda's one credit union, the Bermuda Industrial Union Members' Credit Union Co-op Society (the Credit Union). In furtherance of this role, the Authority held regular meetings with the board and management of the Credit Union throughout the year. The Authority continued work on updating the legislative and regulatory framework and supervisory approach for credit unions in 2009. Under the proposed new legislative framework, the regulation of credit unions will be brought within the Authority's responsibility. Consultation on the Authority's proposals commenced in early 2009 and involved the Credit Union, the Ministry of Finance and other interested stakeholders. It is anticipated that the new legislation will come into effect in 2010.

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

(BD\$ millions)	2009-Q4	2009-Q3	2009-Q2	2009-Q1	2008-Q4	2008-Q3
Deposit Liabilities	3,840	3,858	3,816	3,802	3,815	3,821
Less:						
Loans, Advances and Mortgages	(5,148)	(5,205)	(5,097)	(5,039)	(4,865)	(4,686)
Surplus Deposit	(1,308)	(1,347)	(1,280)	(1,237)	(1,050)	(865)
Percentage of Deposit Liabilities Loaned	134.1%	134.9%	133.5%	132.5%	127.5%	122.7%

Totals may not add up due to rounding.

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

TRUST COMPANIES

Trusts (Regulation of Trust Business) Act 2001

The following section (pages 26 to 28) 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.

Developments in the Trust Sector

There were no policy or regulatory changes within the sector. The Authority continued its regular liaison with the Society of Trust and Estate Practitioners (Bermuda Branch), the Bermuda Association of Licensed Trustees, and the Association of Bermuda Compliance Officers.

On going Supervision

The Authority conducted eight on-site reviews of licensed trust companies under its supervisory risk-based approach for the trust sector during 2009. In addition, prudential meetings were held with management of several trust companies to discuss past performance, current operations and future initiatives.

Licensing

The Authority received no new applications for a trust licence during the year. Accordingly, 31 licences remained in operation at the end of 2009.

Private Trust Companies

The Authority conducted reviews and recommended 14 private trust companies for incorporation during 2009, compared with 13 in 2008. Each review included the appropriate checks to be satisfied that the business the

firm intends to conduct was strictly limited and eligible for exemption from licensing under the Act.

Newly incorporated private trust companies continued to provide requests for trust exemption certificates, which the Authority monitored, particularly with respect to their timeliness.

Legislative Changes

There were no legislative changes during 2009.

Formal Use of Powers

Sections 15, 16, 17, 20 and 23 of the Act provide powers 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. There was no need to make use of any of these provisions during the year.

Sections 25 and 26 provide powers for the Authority to object to a new or existing controller or to increased control by an existing controller. The Authority was not required to use these powers during 2009.

Licensed undertakings continued to notify the Authority, in accordance with section 34 of the Act, of all changes in controllers and officers. The Authority received 11 such notifications during the year and appropriate vetting was conducted. In accordance with the existing arrangements agreed with the industry for the conduct of the Authority's on-site review programme, the Authority exercised its powers under sections 36 and

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

(BD\$ millions)	2009-Q4			2009-Q3			2009-Q2		
	Total	BD\$	Other	Total	BD\$	Other	Total	BD\$	Other
Assets									
Cash	89	56	33	83	42	41	83	43	40
Deposits	5,651	60	5,591	5,183	70	5,113	5,365	55	5,311
Investments	6,457	43	6,413	6,597	45	6,552	7,163	34	7,129
Loans & Advances	8,341	5,009	3,332	8,307	5,051	3,256	8,235	4,965	3,270
Premises & Equipment	477	364	113	487	375	112	473	344	129
Other Assets	611	133	478	626	125	501	613	95	518
Total Assets	21,627	5,666	15,960	21,284	5,708	15,575	21,933	5,537	16,396
Liabilities									
Demand Deposits	8,110	866	7,244	7,643	896	6,746	7,674	851	6,822
Savings	4,461	1,445	3,017	4,104	1,430	2,674	4,151	1,412	2,739
Time Deposits	5,891	1,472	4,419	6,076	1,479	4,596	6,507	1,503	5,005
Sub Total - Deposits	18,462	3,783	14,679	17,823	3,806	14,017	18,332	3,766	14,566
Other Liabilities	570	309	261	616	371	245	672	349	323
Sub Total - Liabilities	19,032	4,092	14,940	18,439	4,177	14,262	19,004	4,115	14,889
Equity & Subordinated Debt	2,594	1,705	889	2,845	1,886	959	2,928	2,023	906
Total Liabilities and Capital	21,627	5,798	15,829	21,284	6,063	15,221	21,933	6,138	15,794

(BD\$ millions)	2009-Q1			2008-Q4*			2008-Q3		
	Total	BD\$	Other	Total	BD\$	Other	Total	BD\$	Other
Assets									
Cash	77	43	34	96	57	39	76	36	39
Deposits	5,859	51	5,808	6,258	33	6,225	7,016	41	6,975
Investments	6,579	32	6,547	7,356	13	7,343	8,303	24	8,279
Loans & Advances	7,803	4,901	2,902	7,954	4,794	3,159	7,803	4,600	3,203
Premises & Equipment	453	362	91	462	352	110	454	359	95
Other Assets	683	80	604	680	87	593	625	95	530
Total Assets	21,456	5,469	15,987	22,806	5,335	17,470	24,277	5,155	19,121
Liabilities									
Demand Deposits	8,137	855	7,282	8,079	908	7,171	8,527	856	7,671
Savings	3,643	1,369	2,274	4,183	1,358	2,826	3,575	1,344	2,231
Time Deposits	6,257	1,553	4,703	7,117	1,558	5,559	8,725	1,615	7,110
Sub Total - Deposits	18,036	3,777	14,259	19,379	3,824	15,556	20,827	3,815	17,013
Other Liabilities	849	511	338	809	542	267	699	328	372
Sub Total - Liabilities	18,885	4,288	14,597	20,188	4,366	15,822	21,527	4,143	17,384
Equity & Subordinated Debt	2,571	1,953	618	2,617	1,531	1,086	2,749	1,576	1,173
Total Liabilities and Capital	21,456	6,241	15,215	22,805	5,897	16,908	24,277	5,719	18,558

Totals may not add due to rounding.

* Restated based on submissions from the banks.

37 of the Act to obtain information and reports and to obtain the production of documents. Sections 38 and 39 provide powers for the Authority to gain right of entry to premises and to carry out investigations, as well as for the appointment of inspectors. During the year, the Authority had no need to make use of these powers. No matters were submitted under section 29 of the Act for appeal to the relevant tribunal.

INVESTMENT BUSINESS

Investment Business Act 2003

The following section (pages 28 to 29) 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 \$144 billion* compared to \$88 billion the previous year. This change reflects the recovery in securities markets worldwide during 2009. The aggregate capital of the licensed sector was \$1.2 billion as at the end of 2009.

The Authority received and reviewed an application for a merger between two licensed investment businesses during the year. The application was approved and the merger took place in January 2010.

Legislative Changes

No changes were made to the Act during the year.

On going Supervision

Throughout the year the Authority continued to supervise licensed firms in accordance with the framework established under the Act. Off-site supervision includes a review of quarterly financial reporting, audited financial reports, other periodic reports and scheduled prudential meetings. Prudential meetings take place with the investment provider's senior management to discuss the development of the company's business, encompassing past performance and future strategy. On-site review

visits assess the effectiveness of policies, procedures, internal controls as well as compliance with the requirements of the Act, Regulations and Codes.

The Authority conducted 13 prudential and strategy meetings with institutions or regulated groups as well as seven on-site reviews. The scope of standard on-site visits encompassed 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 General Business Conduct and Practice Code of Conduct and Advertising Code of Conduct; general compliance with the Act; Proceeds of Crime legislation and the financial viability of the investment provider; and follow-up to remedial action plans in relation to earlier on-site visits. Following each review, the Authority provides a written report on its findings, identifying any specific concerns or weaknesses and makes recommendations as to remedial action or areas in which policies or practices require enhancement. In addition, the Authority held a number of strategy or ad hoc meetings with institutions to discuss specific issues or concerns.

Licensing

There were 61 licences in issue at the end of 2008. Three applications outstanding from 2008 were approved during the course of 2009. The Authority received one licence application during the year which was also approved. Seven licences were surrendered or wound up by the end of the year. As a result, a total of 58 licences were in issue at the end of 2009.

Formal Use of Powers

Under section 17(4) of the Act, the Authority may, on an application made by an investment provider, vary or remove any limitation imposed on the scope of a licence. There was no need for the Authority to have recourse to these powers during the year.

Under sections 20, 21 and 23, the Authority may restrict or revoke a licence. These powers were used

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

in 2009 with respect to three entities, all part of the same group. The Authority imposed a restriction on the licences of the companies by Notice under section 23 of the Act. Under section 28, persons intending to become shareholder controllers of licensed providers are required to serve notice on the Authority which has a power to object to the proposal. The Authority received one proposal from a licensed undertaking for a new shareholder controller during the year to which the Authority did not object.

During the year, 15 investment providers gave notice to the Authority of changes in controllers and officers, as required by section 43 of the Act and the Authority conducted appropriate vetting of such persons. The Authority continued to receive from investment providers on a voluntary basis the information and reports necessary for the conduct of its supervision. Consequently, no use was made of the formal powers in sections 45, 46 and 47 of the Act to obtain information and reports, to require the production of documents, and to gain entry to premises. During the year the Authority used the powers in section 49 to investigate the three licensed entities on which Notices of Restriction were subsequently served.

With regard to perimeter policing under section 50, and the related power in section 51 to obtain a warrant to enter and search premises, the Authority was not required to make use of these powers. No use was made in 2009 of the powers in Chapter 6 of the Act to publish a statement of public censure. However, it was necessary for the Authority to use the protective measures powers under Chapter 7, by petitioning to the court under section 61 for the winding up of the three investment providers that had been the subject of formal investigation and licence restrictions earlier in the year.

There was no use of the various powers contained in Part IV of the Act relating to investment exchanges and clearing houses during the year.

MONEY SERVICE BUSINESS

Money Service Business Regulations 2007

Legislation

No changes were made to the Regulations during the year.

On going Supervision

Supervision is intended to assist the Authority to assess the on going financial viability of a money service provider, the fitness and propriety of its management, the prudent conduct of its business and its compliance with the Regulations. The Authority's supervision of money service businesses involves regular meetings with the senior management of licensed firms, together with scrutiny of financial and statistical information in connection with the institutions' business activities and periodic on-site visits to the institutions' premises. During 2009, the Authority conducted one post-licensing meeting with a money service business provider.

Licensing

No new money service business licence applications were received during 2009 and two licences were in issue at the end of the year.

Formal Use of Powers

During the year, one money service provider gave notice to the Authority of changes in director, senior executive and controller pursuant to Regulation 9 of the Regulations.

Under Regulation 15, the Authority may give notice of direction or revocation of licence. These powers were used once in 2009.

INVESTMENT FUNDS

Investment Funds Act 2006

The aggregate net asset value (NAV) of Bermuda funds was \$147 billion at the end of 2009, a decrease of 13%, compared with a year earlier. In part, this reflects a decline in the number of funds from 1,133 at the end of 2008 to 955 at end of 2009. The decline in the number of Bermuda funds throughout the year reflected the continued volatility in global market conditions for the

Investment Fund Statistics

	2009-Q4	2009-Q3	2009-Q2	2009-Q1	2008-Q4	2008-Q3
Mutual Funds	662	697	712	774	819	878
Umbrella Funds	71	72	74	77	76	81
Sub-Funds	175	203	206	220	220	238
Segregated Account Companies	84	86	84	85	83	82
Segregated Accounts	317	343	335	331	336	390
Total	1,309	1,401	1,411	1,487	1,534	1,669
Unit Trusts	44	53	67	72	71	94
Umbrella Trusts	94	108	101	99	84	151
Sub-Trusts	25	201	198	198	198	221
Total	163	362	366	369	353	466
Total Portfolios	1,472	1,763	1,777	1,856	1,887	2,135
Total Number of Funds	955	1,016	1,038	1,107	1,133	1,286
Total Net Asset Value (In billions)	\$147.30	\$154.45	\$154.62	\$158.92	\$171.19	\$196.30

period. However funds leaving the register were typically small in size and the resultant impact on the aggregate sector NAV was not material. Although the total NAV did show a decline in the fourth quarter, the fall was much less when compared to the same period the previous year.

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

Legislation

No changes were made to the Investment Funds Act 2006 (the IFA) during the year. The Authority, in consultation with industry, commenced a review of the IFA with a view to making possible changes as deemed necessary in 2010.

Licensing

During 2009, 83 new investment funds were authorised, a marginal decrease compared to the 88 recorded in 2008. Bermuda funds continue to be targeted primarily towards institutional/ sophisticated investors. There were 1,472 different investment portfolios operating within Bermuda's 955 authorised funds at the end of the

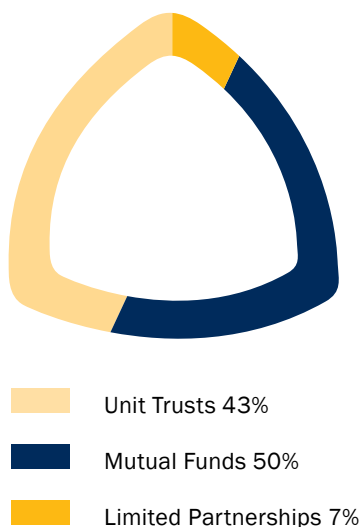
year. This compared with 1,887 and 1,133 respectively at the end of 2008. There were 44 fund administrator licences in issue at the end of 2009, compared to 41 at the end of 2008. Five new fund administrator licences were issued in 2009, compared to 34 in 2008, when the bulk of the applications from fund administrators came through due to the new licensing requirement established under the Investment Funds Act 2006. Two fund administrators surrendered their licences during the year.

Supervision

The Authority continued to supervise authorised investment funds in line with the relevant legislative framework, with the aim of protecting investors. The main focus of the Authority's supervision is the review of funds' periodic statistical reports and the content of prospectuses, as well as the vetting of fund service providers. In total, the Authority reviewed and processed 448 notifications and 809 material changes in relation to investment funds.

Throughout the year, the Authority continued to implement its programme of on-site visits to licensed

Investment Funds Applications Reviewed 2008



fund administrators. A total of 13 on-site visits and one post-licensing visit were completed in 2009, compared to six on-site visits in 2008. The purpose of on-site supervision is to enable the Authority to review a firm's compliance with relevant policies and procedures, 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, information technology and disaster recovery.

BERMUDA STOCK EXCHANGE

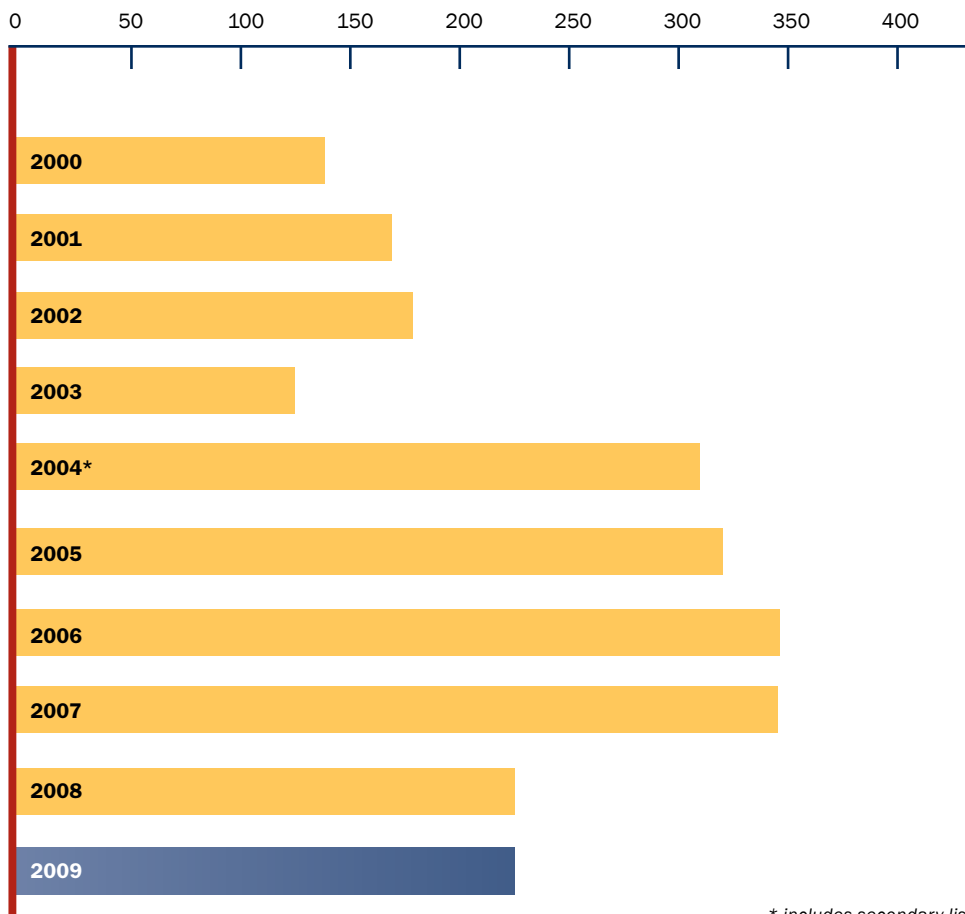
The impact of the global economic slowdown created a challenging operating environment for domestic companies, resulting in most share prices ending the year at lower levels. The Bermuda Stock Exchange (BSX) listing business remained buoyant however, and the BSX made continued progress in entering and supporting the market for insurance-linked securities.

The total market capitalisation of the BSX as at 31st December, 2009 (excluding fund listings) stood at over \$225 billion, of which approximately \$1.4 billion represented the domestic market. Total trading volume for the period was 5.7 million shares with a corresponding value of \$50.9 million, compared to 7.4 million shares with a corresponding value of \$101.5 million in 2008.

At the end of the year, 670 issuers were listed on the BSX. Included in the new listings were two insurance-linked securities, underscoring the BSX's commitment to support Bermuda's insurance sector. The Exchange also listed 11 international derivative warrants, 55 new collective investment schemes and five subsequent issues, including a rights issue of a major local bank.

Noteworthy also was the placement of Bermuda's largest initial public offering (IPO), with a local banking institution raising \$200 million largely supported by Bermuda-based investors.

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



* includes secondary listing of HSBC Holdings in 2004.

Assessment and Licensing Committee

The Authority's Assessment and Licensing Committee (ALC) reviewed a total of 70 applications during the year. Out of this total, 62 were insurance-related and eight were banking, trust and investment (BTI) related.

Insurance Applications

Out of the 62 insurance applications received, 60 were approved, one remains outstanding with deferred status and one was declined. Of the successful applications, 36 were for insurers ranging from Class 1 to Class 4. There were four applications for Long-Term insurers; two for Dual Licences (which were Class 3 and Long-Term insurers); and three for Special Purpose Insurers (SPI). The remaining 15 insurance-related applications were for insurance agents, insurance brokers and insurance managers. As required by the Act, the Authority maintains a register of licensed insurers. This register is available on the Authority's website: www.bma.bm.

Banking, Trust & Investment Applications

All eight of the BTI licensing applications reviewed by the ALC were approved; four of these were for fund administrators and four were investment business applications.

In summary, the 2009 breakdown of applications approved by the ALC are as follows:

Class 1	10
Class 2	4
Class 3	12
Class 3A	8
Class 3B	1
Class 4	1
Long-Term	4
Dual Licence	2
SPI	3
Insurance Agent	6
Insurance Manager	2
Insurance Broker	7
Investment Business	4
Fund Administrator	4
Money Service Business	-
Total	68

Insurance

The Insurance Department is responsible for the supervision, regulation and inspection of Bermuda's insurance companies and for the licensing of all brokers, agents, managers and salesmen under the Insurance Act 1978 and related provisions. The Insurance Act (the Act) provides the Authority with full licensing and intervention powers, including the power to obtain information and reports and to require the production of documents from insurance entities subject to the provisions within the Act.

Developments in the Sector

The Bermuda market maintained its characteristic resilience against the backdrop of a prolonged soft market and the effects of the financial crisis. Despite challenging conditions, Bermuda's insurers recorded* a 7% increase in aggregate total assets of \$472.9 billion during the reporting period, over the \$442.2 billion achieved the previous year.

The Bermuda insurance market remained strong, writing a total of \$123.5 billion in gross premiums, achieving a similar volume of business to the \$124.4 billion written the previous year. Of that total, the commercial sector wrote \$103.4 billion in gross premiums. Bermuda's captive sector also maintained significant results, writing \$19.6 billion in gross premiums; supporting Bermuda's position as a leading domicile among captives.

While some companies did experience losses impacting capital levels during the period, the market remained highly capitalised and these losses were primarily

related to impairments within their investment portfolios, in line with global trends.

Overall, the Bermuda market endured through the demanding economic environment, while continuing to produce strong results. These results indicate on going confidence in Bermuda's position as a leading centre for insurance and reinsurance business globally.

Incorporations

Incorporations increased slightly during 2009: a total of 42 new (re)insurers were incorporated during the year, as compared to 40 in 2008. Most of the new market entrants for 2009 were a combination of captive and commercial insurers within the Class 3, Class 3A and Class 3B sectors. The companies covered various lines of business, including property and catastrophe and professional liability; there was also increased interest from the life insurance sector, which in turn brought increased assets and new capital to the market. The greatest proportion of business came from the US during the year, with respect to both the captive and commercial markets.

Approach to Supervision

During 2009, the Authority continued with its programme of regulatory framework enhancements in preparation to meet its key strategic objective of achieving regulatory equivalence with other major international markets. In line with the Authority's risk-based approach to supervision, this work was focused primarily on the commercial sector, which comprises the jurisdiction's largest firms with the highest risk profiles. The Authority's priority with regard to its equivalence programme is to achieve this status for its commercial insurance framework under Europe's forthcoming Solvency II Directive.

* These figures relate to year-end 2008 filings of Statutory Financial Returns (SFRs). Companies submit SFRs on a staggered basis throughout the year following the financial year-end. The initial submission deadline for 2008 SFRs was April 2009 and submissions were received through to the end of 2009.

In March 2009, the Authority published “Bermuda’s Insurance Solvency Framework – The Roadmap to Mutual Recognition”, referred to as the Solvency II Roadmap. This publication highlights the Authority’s work plan and framework changes relating to achieving broad equivalence with Solvency II for Bermuda.

Considerable progress was made during the year on the items identified for action in the Roadmap. This included progressing further with proposals to implement a broader and comprehensive group-wide supervision framework, which will supplement the Authority’s existing regime for solo entity supervision. The Authority began its consultation with industry on group-wide supervision during 2009 with the publication of a Discussion Paper outlining its preliminary proposals. The feedback received from this initial phase of consultation assisted the Authority in developing a Consultation Paper with more concrete proposals, which was issued in early 2010.

The Authority also continued with its supervisory colleges programme, hosting two colleges during the fourth quarter of 2009. The supervisory college programme has assisted the Authority in meeting the objective of enhancing cooperation and dialogue with its regulatory counterparts overseas in relation to Bermuda entities that are part of international groups. It has also supported the Authority’s work towards establishing group supervision for Bermuda’s insurance sector.

In September 2009 the Authority issued a Consultation Paper on Eligible Capital, which outlined its planned approach to determining capital resources eligible to meet regulatory capital requirement levels. The proposals in the paper supplement the requirements of the Bermuda Solvency Capital Requirement, the Authority’s standard risk-based capital adequacy model that was implemented at the end of 2008.

Consultation Papers were also published proposing enhancements to the Authority’s disclosure and transparency regime and the Insurance Code of Conduct. The Authority proposed a measured approach to enhancing the disclosure regime for (re)insurers, with three distinct phases of implementation, as a way to ensure that enhancements in this area keep pace with evolving international standards on disclosure. The Insurance Code of Conduct Paper addressed such pertinent issues as corporate governance, risk management, governance mechanisms, outsourcing and market discipline.

The Authority also published the draft Insurance (Prudential Standards) (Class 4 Solvency Requirement) Amendment Order 2009 and the draft Insurance Accounts Amendment Regulations 2009 that support proposed enhancements to its disclosure and transparency regime.

A Discussion Paper on Own Risk and Solvency Assessment (ORSA) which relates to Pillar 2 of Solvency II was also issued. The ORSA process, which assists regulators in better understanding the risk profile of companies they supervise, involves requiring firms to demonstrate the link between their capital model, risk governance and strategic decision-making. The Authority acknowledges that while ORSA is becoming a requirement of regulatory regimes worldwide, the concept is still very much in development. Therefore, the Discussion Paper provided high-level guidance on the Authority’s proposed approach to implementing an ORSA process suitable for the Bermuda market.

The standards and applications process for permitting the use of insurers’ internal capital models (ICM) to assess regulatory capital was formally established during 2009. The Authority issued guidance to the market with details of the various components of

Market Statistics by Company Type For the year ended 31st December 2008

Company Type	No. of Co's	Gross Premiums	Net Premiums	Total Assets	Capital and Surplus
Captives					
Association Captive	104	3,661,460,016	3,049,156,489	20,151,877,461	7,068,750,916
Captive writing 3rd party	162	8,879,460,794	7,993,399,065	41,331,393,918	14,808,023,638
Group Captive	92	1,906,693,090	1,335,229,588	4,514,282,332	1,169,433,633
Health Care Captive	54	774,030,830	487,317,200	3,323,599,070	776,308,102
Rent-A-Captive	69	1,089,935,255	849,816,146	3,099,510,877	825,689,459
Single-Parent Captive	292	3,330,491,366	2,197,220,990	15,848,084,283	10,584,924,325
Sub-Totals:	773	19,642,071,351	15,912,139,478	88,268,747,941	35,233,130,073
Professional Ins./Reinsurers					
Affiliated Reinsurer	57	9,649,680,807	7,431,048,984	30,239,973,376	11,298,456,022
Class 4 Ins./Reinsurers	37	33,621,458,128	30,556,721,614	143,575,450,346	58,655,808,833
Professional Ins./Reinsurers	373	60,650,476,366	54,006,403,312	210,883,135,387	51,623,291,091
Sub-Totals:	467	103,921,615,301	91,994,173,910	384,698,559,109	121,577,555,946
Totals:	1,240	123,563,686,652	107,906,313,388	472,967,307,050	156,810,686,019

the Authority's ICM framework, including provisions relating to pre-application conditions; application review procedures; and post-approval monitoring and control activities. The Authority is continuing with the development of its ICM framework throughout 2010 and will be conducting a pilot implementation of the ICM application and review process with selected Class 4 insurers as a next step towards full implementation of the framework.

The Authority completed its reclassification of the Class 3 sector during the year resulting in the segregation of the Class 3 sector into three distinct classes based on the percentage of unrelated business and the amount of net premiums written. This initiative supported consistency in risk-based supervision of all commercial insurers by appropriately identifying those Class 3 companies that are truly commercial carriers and which should therefore receive a higher level of regulatory and supervisory oversight. Certificates of Registration for Class 3A and 3B insurers were issued during the first quarter of 2009, thereby completing the initiative.

Licensing

The Authority received 62 insurance applications during the year, 60 of these were approved, one remains outstanding with deferred status and one was declined. Of the successful applications, 36 were for insurers ranging from Class 1 to Class 4. There were four applications for Long-Term insurers; two for Dual Licensed entities, which were Class 3 and Long-Term insurers; and three for Special Purpose Insurers. The remaining 15 applications were for insurance agents, insurance brokers and insurance managers. As required by the Act, the Authority maintains a register of licensed insurers. A listing of licensed insurers is available on the Authority's website www.bma.bm.

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 Insurance department continued to ensure that companies conducted the filing of statutory financial returns (SFRs) in a timely manner.

Market Statistics by Domicile of Beneficial Owner/s For the year ended 31st December 2008

Domicile of Owners	No. of Co's	Gross Premiums	Net Premiums	Total Assets	Capital and Surplus
Captives					
Africa/Middle East	5	79,323,301	14,394,347	113,894,050	33,936,506
Asia	24	605,136,682	530,593,735	1,735,592,578	700,135,424
Australia/New Zealand	9	143,116,851	112,950,930	446,891,581	290,636,050
Bermuda	45	770,528,684	592,705,679	2,847,041,429	989,969,319
Caribbean/Latin America	31	846,922,347	464,888,214	2,350,857,268	1,238,166,251
Europe	110	2,360,498,358	1,682,718,328	12,226,671,408	8,159,654,718
North America	548	14,835,797,036	12,513,140,153	68,544,756,572	23,817,791,649
Worldwide	1	748,092	748,092	3,043,055	2,840,156
Sub-Totals:	773	19,642,071,351	15,912,139,478	88,268,747,941	35,233,130,073
Professional Ins./Reinsurers					
Africa/Middle East	7	1,977,956,458	1,673,820,734	8,375,451,133	1,076,576,107
Asia	19	780,227,811	724,252,429	2,368,031,556	1,459,051,383
Australia/New Zealand	3	1,517,270,570	1,459,274,556	3,254,740,115	684,944,128
Bermuda	92	21,987,564,529	19,990,640,146	109,785,745,812	40,948,292,192
Caribbean/Latin America	21	1,312,023,442	1,166,452,655	11,344,134,817	2,541,186,600
Europe	73	11,530,101,115	10,088,974,725	66,487,122,921	12,156,216,988
North America	251	64,089,076,130	56,163,363,419	181,076,554,239	62,310,576,960
Worldwide	1	727,395,246	727,395,246	2,006,778,516	400,711,588
Sub-Totals:	467	103,921,615,301	91,994,173,910	384,698,559,109	121,577,555,946
Totals:	1,240	123,563,686,652	107,906,313,388	472,967,307,050	156,810,686,019

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 during the year of the Bermuda Solvency Capital Requirement (BSCR), the Authority's standard risk-based capital model has enhanced the solvency regime for Bermuda (re)insurers. After a trial run of year-end filings for 2007, Class 4 companies were required to file under the BSCR for their 2008 year-end filings. Class 3B (re)insurers will come within scope of the BSCR with a trial run for 2009 year-end filings, after which the requirement will extend to this class of (re)insurer. The solvency requirements, which are determined according to the nature and risk of the business being conducted by an insurer, complement the other factors

supporting 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

During the year the Authority conducted on-site examinations/inspections for 13 Class 4 companies and three Class 3B companies registered prior to 31st December 2008. The Authority also conducted inspections of three insurance managers, as part of its Insurance Manager On-site programme. The on-site programme remains a key aspect of the Authority's supervisory approach for Bermuda's insurance sector. The Authority conducted regular prudential

meetings with the management of (re)insurance companies throughout 2009, as part of its supervisory responsibilities. These meetings continued to provide opportunities to maintain close monitoring of corporate issues and general industry developments. The visits were supplemented with assessments from on-site visits and continuous analysis of financial returns.

In an effort to improve its service to stakeholders the Authority successfully focused on increasing efficiencies around the on-site process and issuing its commercial and insurance manager on-site reports. In addition, companies which received on-sites were asked to participate in a survey designed to obtain overall feedback on the process, to identify areas for enhancements and identify training potential opportunities in specialised areas.

During 2009, the Authority addressed challenges resulting from the insolvency of an international health and life insurance company with retail policyholders in its Bermuda branch. With the assistance of a Bermudian Long-Term company, which assumed the healthcare book of business, the financial consequences facing local policyholders of the branch were minimised. The Authority's efforts are now focused on finding a solution to the issues facing the life policyholders of the branch, which has since been placed into liquidation.

As is normally the case, during the year, the Authority assisted several companies which redomiciled into or out of Bermuda, managing this process in cooperation with regulators in other jurisdictions.

International Developments

The Authority stepped up its participation in, and contributions to the work of the International Association of Insurance Supervisors (IAIS) and now represents Bermuda on a total of 13 IAIS committees, subcommittees and other working groups. A highlight of the year involved the Authority being elected to the

IAIS Executive Committee, the decision-making body of the international standard setter. The Authority is also a member of the IAIS's Financial Stability Committee, a new committee formed in response to calls from the G20 and Financial Stability Board for increased macro-prudential surveillance of the global insurance market. Senior members of the Authority's staff are also members of the IAIS's Technical Committee, and hold the Chairmanship of the Reinsurance Transparency Group and Vice Chairmanship of both the Insurance Groups and Cross-Sectoral Issues Subcommittee and the Reinsurance and Other Forms of Risk Transfer Subcommittee. This senior level participation in the work of the IAIS allows the Authority to remain abreast of, and contribute to, debates on regulatory reform and to influence, where possible, international standards as they are in development.

With regard to Solvency II, the Authority continued its active dialogue with supervisory counterparts and key standard setters in Europe with a view to ensuring its preparations for equivalence remained aligned with developments in the Directive. In terms of other key markets, the Authority kept abreast of developments in the National Association of Insurance Commissioners reinsurance modernisation proposals in the US. The Authority also continued to build relationships and establish formal information exchange agreements with US state insurance commissions, and worked with relevant insurance commissioners with respect to insurance groups impacted by the financial crisis.

Market Statistics by Class of Insurer For the year ended 31st December 2008

Class of Insurer	No. of Co's	Gross Premiums	Net Premiums	Total Assets	Capital and Surplus
Class 1	309	3,277,232,857	2,134,959,468	15,603,815,853	10,135,083,342
Class 2	322	7,858,056,496	6,431,552,133	38,517,761,793	15,134,032,557
Class 3	343	18,357,875,391	15,912,719,417	69,874,966,928	24,279,833,021
Class 3A	124	15,460,871,428	11,467,627,929	54,159,037,491	13,870,598,749
Class 3B	19	13,261,522,347	9,676,076,329	39,172,401,463	14,813,423,412
Class 4	37	33,621,458,128	30,556,721,614	143,575,450,346	58,655,808,833
Long-Term	86	31,726,670,005	31,726,656,498	112,063,873,176	19,921,906,105
Totals:	1,240	123,563,686,652	107,906,313,388	472,967,307,050	156,810,686,019

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) Dual Licence – Insurers writing a combination of long-term (or life) business and Class 1, 2, 3, 3A, 3B or 4 business.

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

Class of Insurer Incorporated

Class of Insurer	2009	%	Restated* 2008	Restated* %
Class 1	9	21.4	5	12.5
Class 2	6	14.3	4	10.0
Class 3	12	28.6	24	60.0
Class 3A	4	9.5	—	—
Class 3B	2	4.8	—	—
Class 4	1	2.4	2	5.0
Long-Term	4	9.5	5	12.5
SPI	3	7.1	—	—
Dual Licences	1	2.4	—	—
Totals:	42	100	40	100

Analysis of all International Insurers Registered

Class of Insurer	2009	%	2008	%
Class 1	310	23	333	24
Class 2	345	26	356	26
Class 3	330	24	459	34
Class 3A	118	9	—	—
Class 3B	15	1	—	—
Class 4	31	2	32	2
Long-Term	103	8	92	7
SPI	1	—	—	—
Dual Licences	95	7	100	7
Totals:	1,348	100	1372	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.

Actuarial Services

The Actuarial Services Unit supports the Authority in a wide range of areas including the execution of supervisory functions, the development of policy, and representation at industry and international fora. The Unit brings broad technical and market experience to the Authority, enabling less of a reliance on external expertise in these areas.

On going Policy Development – Solvency II

The Unit continues to participate in a number of policy initiatives in relation to the Authority's Solvency II equivalence agenda, providing policy guidance in a number of key areas, including asset and liability valuations for both general and long-term business, as well as recommendations on internal model and ORSA validation processes and procedures.

Internal Capital Models

In consultation with the industry, the Authority published a paper entitled "Standards and Application Framework for the Use of Internal Capital Models for Regulatory Capital Purposes" in June of 2009. The Actuarial Unit leads the internal capital model initiative, which will allow companies to use internal capital models for the determination of regulatory capital. The standards and framework are consistent with international best practice, and the paper was well received by the Bermuda market. In the second half of 2009, the Unit continued to develop the internal capital model review process to prepare for pilot reviews that will be conducted in 2010.

Long-Term Solvency and Capital Requirements

To modernise Bermuda's standards for supervision of Long-Term insurers and to respond to Solvency II requirements, the Authority published its "Discussion Paper on A Capital and Solvency Framework for Long-Term Insurance" in December 2009. The Paper puts forward the Authority's preliminary proposals for developing new capital standards for Long-Term insurers to initiate discussion with industry and obtain feedback. The proposals introduce risk-based approaches to determining capital requirements that are consistent with emerging international practices. The Authority's work to enhance the Long-Term insurer regime will continue throughout 2010.

Own Risk and Solvency Assessment

In consultation with the industry, the Authority published a discussion paper on the Own Risk and Solvency Assessment (ORSA) in September of 2009. The paper introduced the ORSA concept to the Bermuda market, and described how the Authority intends to implement this regulatory requirement in a way that both enables it to more effectively carry out its duties and keep compliance costs to a minimum, while encouraging sound risk management practices within the sector. The proposed standards and framework are consistent with international best practice, and the proposals were well-received by the Bermuda market.

The Authority is currently working with industry to develop an ORSA process that meets international regulatory requirements and reflects the unique characteristics of the Bermuda market, with the aim of issuing a consultation paper by June 2010. It is expected that the existing management information systems within Class 4 and Class 3B firms will have established metrics and procedures to monitor risk exposure and aggregation, and appropriate controls and governance processes. Class 3A insurers will be able to use the Authority's guidelines to establish or develop an ORSA that is appropriate to their operations and risk profile.

Special Purpose Insurers

During the year the Unit, in consultation with an Advisory Group comprised of international industry representatives, led the development of the Authority's Special Purpose Insurer (SPI) regime. In October 2009, "Guidance Note #20 - Special Purpose Insurers" was published along with an Information Bulletin. SPIs were introduced as a class of insurer within the Bermuda insurance class system under the Insurance Amendment Act 2008. They are special purpose, single transaction, or single customer insurance vehicles which assume (re)insurance risks, and typically fully fund their exposure to such risk. Popular examples of such entities include sidecars and catastrophe bonds. The Guidance Note outlines the Authority's approach to the supervision of SPIs, which involves a vetting process and setting out

Continued on page 42

Actuarial Services *continued from page 41*

prudent, robust fundamental requirements that SPIs must meet in order to be licensed under Bermuda law. The Information Bulletin, which comprises a series of documents and appendices, supplements the Guidance Note. Together these documents provide a comprehensive overview of the Authority's licensing and on going supervisory activities associated with SPIs.

On going Technical Support

The Unit continued to provide technical support to the Authority's Licensing and Assessment Committee, as well as to the Authority's supervisory departments, on a range of issues during the year. The Unit assisted the Assessment & Licensing Committee by conducting reviews of licensing applications, focusing particularly on reserving, underwriting, risk aggregation and

capital management. With regard to the supervisory programmes, the Unit assisted in examining requests involving capital extraction, mergers and acquisitions and the analysis and application of developments in accounting, actuarial science and other related practices. The Unit also continued to develop efficient procedures in the management of Loss Reserve Specialist and Approved Actuary applications. This support resulted in increased depth and rigor to both the Authority's vetting process and on going supervisory programmes during the year. With the addition of a dedicated resource for life insurance within the team, the Unit has begun to establish guidelines setting out enhanced criteria for the Authority's supervisory staff to use in assessing Long-Term applications.

Policy, Research & Risk Assessment

The Policy, Research & Risk Assessment Department (PRRAD) provides dedicated resources that address overall regulatory policy development, strategic research and risk analysis for the Authority. The department works closely with the supervisory departments to execute the Authority's risk-based supervisory programme effectively.

During the year the department successfully managed to meet its objective of supporting policy development and supervisory initiatives to enhance the Authority's regulatory framework. The department also assisted with managing the impact of the financial crisis on Bermuda's financial market. Work continued, along with the supervisory units, to prepare the Authority's insurance framework for equivalence assessments in relation to Europe's Solvency II Directive. This included drafting and publication of various papers for market consultation. In addition, PRRAD continued its active monitoring of international debates on various regulatory reforms, including those underway within the International Association of Insurance Supervisors (IAIS) and National Association of Insurance Commissioners in the US. The department also continued to spearhead the Authority's participation in the work of international standard setters.

POLICY DEVELOPMENT

As part of the Authority's policy development agenda, a number of policy documents were drafted and issued to industry for comment during the year, in accordance with the 2009 Business Plan:

Group-wide Supervision

The Authority began its consultation process on group supervision for Bermuda's largest commercial insurers during the year with the distribution of a

Discussion Paper to the market in March 2009. The Paper described the Authority's proposed regulatory framework for supervising insurance groups operating from Bermuda. It underscored the need for group-wide supervision in the context of maintaining global financial stability, and addressed some of the issues raised in international fora, for example within the IAIS, concerning groups. The Paper focused on the following areas: defining a group for the purposes of group-wide supervision; the role of the Group-wide Supervisor; supervisory cooperation and equivalence; group corporate governance and risk management; group solvency; treatment of unregulated entities; and group reporting.

The feedback received from this initial phase of consultation provided useful input for the development of a Consultation Paper which, along with requisite draft legislation, was issued by the Authority in the first quarter of 2010 for industry comment. The Authority will continue its consultation with Bermuda market participants during 2010, as it further develops its group supervision framework.

Disclosure and Transparency

The Consultation Paper on Disclosure and Transparency was published in June 2009 and outlined the Authority's proposed approach to the enhancement of existing public and regulatory disclosures. The Paper proposes a number of additional qualitative and quantitative public and regulatory disclosure requirements, initially for Class 4 and Class 3B insurers, due to the complexity of their risk profiles. The Authority will extend some of the enhanced reporting requirements to Class 3A firms, as appropriate to their risk profile.

Eligible Capital

The Consultation Paper on Eligible Capital was published in September 2009. It introduced a three-tiered capital system that will initially apply to Class 4 and 3B insurers. This tiered system is designed to assess the quality of

(re)insurers' capital resources that would be eligible to satisfy their regulatory capital requirement levels. This system will be introduced to the Class 3A insurers on a proportional basis, and will also be extended to cover groups once the Authority's group-supervision regime is operative.

Code of Conduct

The first draft of the Insurance Code of Conduct was completed and circulated for industry comment in September 2009. The Authority published the final version of the Code in February 2010, and it will formally come into effect on 1st July 2010. Insurers registered under Section 4 of the Insurance Act 1978 will be required to comply with the duties, requirements and standards that the Code establishes. The Code has been drafted to ensure proportionality; therefore the requirements are commensurate with the size, nature, complexity and risk profile of the insurer. The provisions set out in the Code are based on international standards and establish sound principles for the conduct of insurers in the following areas: corporate governance; governance mechanisms; risk management; outsourcing; and market discipline and disclosure.

RESEARCH

Annual Market Survey on Captives

The third annual market survey on the captive insurance sector was completed during the year, in conjunction with the Bermuda Insurance Management Association. The survey collects detailed financial data on the sector, including premium configuration by geographical location of risk, line 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 at the jurisdictional level, and were presented during the Bermuda Captives Conference in June 2009. A report on the survey, entitled "A Profile of the Bermuda Captive Insurance Market" was published during the third quarter of 2009 and is available on the Authority's website.

Academic Contributions

On behalf of the Authority, PRRAD and the Legal Services and Enforcement department co-authored a paper entitled "Handling conflicts of interest within

financial innovation - The case of regulation and supervision of Bermuda sidecars". The paper was published in the October 2009 issue of the Journal of Financial Crime, a quarterly journal regarded as a leading source of authoritative information on economic crime. The paper was one of several submissions for publication in the journal following the Cambridge Symposium on Financial Crime, held in Cambridge, England during the year. It discusses the strategies used by the Authority in identifying and treating conflicts of interest within a highly innovative market that involves sophisticated counterparties. The paper may be accessed at www.emeraldinsight.com/reprints.

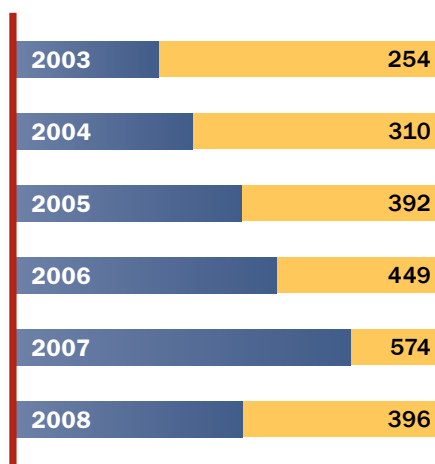
Members of the department contributed a chapter to the forthcoming book "Insurance/Reinsurance: Balancing National Interests and Globalisation" co-edited by Michel Flamee, the Chairman of the International Association of Insurance Supervisors, and Cecelia Kempler, an independent consultant on insurance industry matters and director of the Kaye School of Finance, Insurance and Economics at Florida Atlantic University. The chapter entitled "Securitisation and Insurance" looks at the current state of cross-sectoral risk transfer between the insurance and capital markets.

International Association of Insurance Supervisors Global Reinsurance Market Reports 2009

The Reinsurance Transparency Subgroup of the IAIS, chaired by the Authority's CEO, Jeremy Cox, produced its first mid-year edition of the Global Reinsurance Market Report (GRMR), as a response to international requests for enhanced macro-prudential surveillance of global financial markets. The mid-year edition of the GRMR aims to address topical issues in reinsurance, and to complement the year-end report which provides overall market analysis. The Authority took a leading role in launching the inaugural edition of the mid-year GRMR, entitled "Developments in (Re)insurance Securitisation," and contributed to content covering current insurance securitisation practices and the evolving regulatory approach in this area. The mid-year edition was well received by international media.

The year-end GRMR continued to evaluate the performance of the market based on data provided by

CPIS: Bermuda Cross-Border Portfolio Investments, 2003-2008 (US\$ billion)



reinsurers from Bermuda, France, Germany, Japan, Switzerland, UK, USA, Spain and Luxembourg. The Authority facilitated the provision of Bermuda data for the Report and contributed again to drafting and producing the final document. Together, these reports support significant progress towards developing macro-prudential surveillance tools for insurance supervision. Each report is 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, aims to measure cross-border investment in equities and debt securities by participating jurisdictions.

Data for 2008 show that total cross-border investments held by Bermuda entities totalled \$396.1 billion, a decrease of 31% from the figure of \$573.7 billion recorded for 2007. Provisional global CPIS data released by the IMF report a decrease of 21%, the first ever decline in the Survey's history. The results reflect the downward turn in global equity markets which negatively affected the 2008 investment climate.

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 40 reporting jurisdictions providing data to this study. Data for 2009 show that at the end of the year Bermuda's banks had aggregate cross-border claims of US \$10.6 billion (2008: US \$ 11.4 billion) and total cross-border liabilities of US \$10.4 billion (2008: US \$11.1 billion). Comprehensive coverage of locational statistics dating back to 1977 is available from the BIS website: www.bis.org.

RISK ASSESSMENT

Quarterly Banking Digest

The Quarterly Banking Digest was launched in the third quarter of 2009. This new publication is aimed at supporting the Authority's strategic goals with respect to enhancing transparency across its operations. The Digest targets local and international readers who influence or participate in either the financial services sector or development of financial regulations.

The publication provides analysis and reporting of key trends

and banking sector developments, and gives readers clear and concise explanations of the issues influencing those trends. The intention 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.

Capital Assessment Process – Banking Sector

Assessment of the Capital Adequacy and Risk Profile (CARP) reports submitted by the individual banks took place as part of the requirement of Pillar 2 of the Basel II Accord. This involved developing an internal framework for assessment of Pillar 2 risks such as concentration risk, among others. The overall process provided a basis for determining the minimum capital level individual banks are required to maintain taking into account their different risk profiles.

Stress Testing Guidelines

During the year discussions took place with the banks to obtain their input for revised guidelines on stress testing for Bermuda's banking sector. The Authority circulated the draft guidelines on stress testing to key stakeholders in December 2009 for comments. Banks will be required to follow the new guidelines while carrying out stress testing as part of the 2010 CARP process.

IAIS Participation

The Authority continues to proactively participate with the IAIS via membership in various IAIS committees, subcommittees and working groups. The PRRAD team, along with colleagues from the Authority's insurance department spearheads the Authority's involvement with these various groups, assuming leadership roles as appropriate. Highlights of this involvement during the year included:

- **Financial Stability Committee**

Previously the Financial Stability Task Force, this new committee was formed in response to the calls from international bodies, such as the G20 and Financial Stability Board, for international-standard setters to address regulatory change in the aftermath of the financial crisis. The Committee has four work streams, of which the Authority actively leads the macro-prudential surveillance work stream.

- **Technical Committee**

On behalf of the Reinsurance Transparency Group, the Authority presented the Global Reinsurance Market Report 2009 Mid-year Edition to the Technical Committee at the IAIS triannual meeting in June in Taipei.

- **Common Assessment Framework Taskforce**

The Authority contributed to and shared, via a survey, Bermuda's views on group-wide supervision to support the work of this Taskforce.

- **Reinsurance and Other Forms of Risk Transfer**

The Authority attended meetings of this Committee throughout the year, and contributed to the review and revision of the Insurance Core Principles standards and guidance.

- **Insurance Core Principles (ICP) Coordination Group**

Through various IAIS subcommittees, the Authority is actively involved in the review of the IAIS's 28 core principles. The Authority carried out a focused revision and review of ICP #17. The target adoption deadline for the revised ICPs is October 2011.

International Relations

The Authority maintained an active schedule of presentations and meetings with various regulatory counterparts internationally during the year. The Authority made presentations on risk-based frameworks on behalf of the Financial Stability Institute for the benefit of Central and South American regulators, in Chile; the National Association of Insurance Commissioners, in San Diego, California; and the Financial Services Authority and the Association of British Insurers in the UK. The Authority also made a presentation on group-wide supervision and the importance of supervisory cooperation to the Offshore Group of Insurance Supervisors in Curacao.

A Prudent Monetary Authority



International Supervisory Cooperation

The importance of effective supervisory cooperation among regulators was highlighted even further during 2009, as a major post-mortem on regulatory reform began in the aftermath of the global financial crisis.

Debates on strengthening international regulatory standards gained momentum during the year, driven by such bodies as the G20 and the Financial Stability Board, in response to the crisis. This increased pressure on regulators, particularly those with responsibility for markets with global scope, to maintain pace with the rate of international regulatory change. The Authority continued its active monitoring of these developments and increased its participation and involvement in the work of international standard-setting bodies with a view to ensuring that Bermuda's framework continued to comply with evolving international standards.

The financial crisis also highlighted the critical need for financial regulators to achieve greater cooperation in supervising firms of mutual interest. The Authority demonstrated its commitment to supervisory cooperation and effective regulation by pursuing further formal arrangements with its overseas counterparts through signing additional Memoranda of Understanding (MOUs) during the year. These MOUs supplement the information exchange provisions that currently exist under Bermuda's legislative framework.

MOUs have become an important means of improving peer-to-peer interaction between regulators who supervise firms with cross-border operations. The Authority has long-standing MOUs with regulatory authorities such as the UK's Financial Services Authority, the US Commodity Futures Trading Commission, the

State of Jersey Financial Services Department, and the Isle of Man Financial Supervision Commission.

The Authority became a first round signatory to the International Association of Insurance Supervisors (IAIS) Multi-lateral Memorandum of Understanding (MMOU) in June 2009. The IAIS MMOU provides signatories with a framework for requesting and providing information about entities of mutual interest for regulatory purposes, confidentially and within strict criteria. It also covers various issues related to the supervision of insurance companies, including licensing, on going supervision and winding-up processes, as well as anti-money laundering/anti-terrorist financing matters. The MMOU is applicable to insurance companies and intermediaries that are regulated by the signatories. During the year the Authority also signed MOUs with Luxembourg (Commissariat Aux Assurances); the Florida Office of Insurance Regulation; the Nebraska Department of Insurance; and the Pennsylvania Insurance Department, bringing the total number of MOUs signed with international regulatory agencies to 15.

In addition to being a signatory to the IAIS MMOU, the Authority is also a member of the IAIS Signatories Working Group. The Working Group reviews applications from authorities wishing to become MMOU signatories.

During the year the Authority received 9 requests for assistance from regulatory bodies in 4 countries.

International Association of Insurance Supervisors

The Authority's leadership and commitment to the work of the International Association of Insurance Supervisors (IAIS) in developing global standards for insurance regulation was recognised with the appointment of Bermuda to the IAIS Executive Committee in October 2009. The Authority also represents Bermuda on the Executive Committee of the Offshore Group

of Insurance Supervisors (OGIS) which is actively engaged with the IAIS. OGIS is an informal grouping of regulators representing domiciles engaging in the supervision of international insurance business. In addition to representing Bermuda on the IAIS Executive Committee, senior members of the Authority's staff actively participate and contribute to the work of 13 IAIS committees, subcommittees, and working groups. These committees include the Technical Committee, Financial Stability Committee, Mutual Recognition Subcommittee, Solvency Committee, Actuarial Subcommittee, Accounting Committee, Core Principles Review Task Force and the Captives Working Group. The Authority also holds the Chairman and Vice Chairman positions for the Reinsurance Transparency Group and Groups Subcommittee respectively.

Through its participation with the IAIS the Authority seeks to contribute actively to the issues that are shaping insurance regulation globally. With this high level of involvement with the international standard-setter for insurance regulation, the Authority can provide the benefit of Bermuda's depth of experience in risk-based insurance regulation, and practical advice and input to emerging global standards.

Banking, Investment/Securities

The Authority remained involved in discussions about changes in global regulation within the banking and securities industries through its participation in various international regulatory bodies. Representatives of the Authority participated in meetings of the Offshore Group of Banking Supervisors, the International Organisation of Securities Commissions, the Council of Securities Regulators of the Americas and the Caribbean Group of Banking Supervisors.

The international debate regarding appropriate

regulation for hedge funds was revived in 2009 by the G20 in response to the financial crisis. Accordingly, financial regulators are assessing their frameworks against any regulatory changes that will result from this international exercise. The Authority monitored these developments closely during the year. Towards the end of 2009 the Authority embarked on a more fundamental analysis of its funds regime. This work continued into 2010 and is being conducted in collaboration with other jurisdictions under the auspices of the Offshore Group of Banking Supervisors.

Corporate Communications

During the year the Communications Unit was primarily focused on supporting the Authority's key strategic objective of achieving regulatory equivalence under Solvency II, through expanded advocacy, industry relations and media relations programmes.

The Unit also provided communications support for the Authority's continued work to manage the impact of the financial crisis on the Bermuda market. In addition, the Unit assisted the organisation with maintaining stability in the Bermuda marketplace by developing and managing strategic crisis communications programmes. These programmes addressed issues relating to local firms, particularly in the investment sector, that would particularly impact retail consumers.

The Authority has embarked upon an aggressive regulatory change programme to further strengthen the standards of regulation in Bermuda, and to prepare the jurisdiction for regulatory equivalence assessments with other major markets. The Communications Unit supported this effort by providing strategic communications support for the various policy and supervisory initiatives undertaken during the year, as outlined in the Authority's equivalence work plan. During the year the Authority increased momentum around its advocacy programme. The programme, which was established to foster a better understanding of Bermuda's framework and suitability for equivalence,

continued to provide a platform for relationship-building with the Authority's counterparts overseas, as well as raising awareness about Bermuda's regulatory approach and supervisory standards. It also provided additional opportunities for the Authority to contribute to, and monitor, emerging developments in international regulatory reforms resulting from the financial crisis. The Unit supported the Authority's advocacy work, which involved an expanded programme of meetings, presentations and coordination of speaking engagements with key regulators, representatives from international standard-setting bodies and international contacts. This activity not only improved the understanding of the nature and effectiveness of Bermuda's regulatory framework among both international and local stakeholders, but also increased awareness of the progress that the Authority has made in preparing for equivalence.

Representing Bermuda in a variety of fora, the Authority made a number of presentations and speeches at significant industry events during the year including: the Geneva Association International Meeting; the International Association of Insurance Supervisors (IAIS) Annual General Meeting; the Symposium on the Impact of the Credit Crisis on Bermuda-based Insurers and Reinsurers; and meetings of the Committee of European Insurance and Occupational Pensions Supervisors. The Communications Unit supported this activity with the production and delivery of keynote speeches and presentations, covering a wide range of issues relating to the regulation of all financial sectors in Bermuda. Building relationships with local and international

media is a cornerstone of the Authority's media relations programme. During the year, the Unit stepped up its proactive media outreach activities, to provide information and assistance that would result in accurate and comprehensive media coverage of the Authority. The Unit developed and contributed articles to various industry publications about a range of topics related to the Authority's supervisory programmes, framework enhancements, and work towards equivalence. The Unit also arranged a series of briefings and individual interviews with international and local media. This activity resulted in favourable coverage of the Authority and Bermuda's regulatory framework with articles published in the financial media and in industry publications including: Reuters, the Financial Times, Insurance Journal, Business Insurance, Global Reinsurance, National Underwriter, Asia Insurance Review, The Banker and Hedge Fund Manager Week.

The Communications Unit continued to issue key publications for the Authority during the year. These were developed in collaboration with the Authority's supervisory, policy, research and risk assessment, and legal teams and included the quarterly Regulatory Update, the Annual Report, and the Quarterly Banking Digest, a new publication which provides analysis and reporting of key trends and market sector developments within Bermuda's banking sector. Also in 2009, the Unit supported the development of "Bermuda's Insurance Solvency Framework – The Roadmap to Mutual Recognition" referred to as the Solvency II Roadmap. This comprehensive publication presented the Authority's work plan for achieving

regulatory equivalence with Solvency II for Bermuda, and highlighted its progress on related framework changes.

Highlights of other initiatives that received strategic communications support during the year included the introduction of Bermuda's new banknote series, with the development of a comprehensive educational campaign targeted to the Bermuda public; coordinating activities that took place throughout 2009 to commemorate the 40th anniversary of the Authority; and on going content management of the Authority's website and e-subscription service. The Unit also supported the Authority's change management programme, which involved strategic internal communications planning and execution of related initiatives.

Corporate & Financial Services

The Corporate & Financial Services department comprises the Authority's administrative and support groups, including financial operations, currency operations, facilities, security and document management. The department also has responsibility for coordinating the Authority's enterprise risk management (ERM) functions.

Financial Operations

Following discussions in late 2008, the Finance Unit worked with its internal and external information technology consultants to introduce a new online budgeting, forecasting and requisitioning system for the Authority. These new systems are now in place and provide the Authority with an enhanced systems-based financial management infrastructure to support efficiencies across the organisation.

Currency Operations

On 9th March 2009 Bermuda launched the first major redesign of the Bermuda banknote series since decimalisation in 1970. The modern vertical design has themes and scenes including Bermuda flora, fauna and scenery. The notes also incorporate the latest in banknote security features that will provide Bermuda currency with the highest level of protection. The 2009 series, with denominations of \$100, \$50, \$20, \$10, \$5 and \$2, will be in circulation on a parallel basis with the previous banknote series until the latter is demonetised. The Authority was supported in the launch by Bermuda's banks who participated in a banknote Working Group to consider calibration, training and other issues pertinent to the launch. The Currency Unit was also ably supported

during the process by banknote printers DeLaRue, based in the UK. The Authority is very grateful to these organisations for their support and valued input during the course of the project.

During 2009 the Authority also issued its first four-sided coin to commemorate the 400th anniversary of the settlement of Bermuda, which also coincided with the 40th anniversary of the establishment of the Bermuda Monetary Authority. This new commemorative coin was well-received by residents and visitors alike and provided a complementary product to other organisations in Bermuda charged with managing the Island's full year of 400th anniversary celebrations.

Facilities and Document Management

The Facilities and Document Management Units continued to provide quality service to the Authority's staffing groups in line with the responsibilities of the units. In 2009 the Facilities team coordinated the relocation of our staffing groups on four floors of BMA House and the Document Management team established a newly equipped archive storage area for the management of the Authority's departmental records.

ERM/Internal Audit

All departments within the organisation were reviewed by the Authority's appointed internal auditors during the year, with specific emphasis placed on reviewing its ERM mitigation plan results. A comprehensive review of the Authority's Information Technology Unit's operations will be undertaken in 2010.

Legal Services & Enforcement

The Legal Services and Enforcement department supports the Authority by advising on the performance of the organisation's statutory functions. The department also provides advice on a wide range of legal matters relating to the administration of the Authority. In addition, the department participates in the development of financial legislation by advising on policy and legislative proposals and by drafting legislative instruments on behalf of the Authority.

The department is also responsible for compliance by financial institutions with AML/ATF regulations. In addition, the department ensures that unlicensed persons do not operate as financial institutions in or from Bermuda, a process known as 'policing the perimeter'. This involves investigating any cases of unlicensed activity about which the department becomes aware that fall within the scope of the Authority's responsibilities. The department also assists supervisors with the investigation of cases of non-compliance by licensed entities. In addition, the department deals with all requests from overseas regulators for assistance involving the use of the Authority's compulsory powers under the Bermuda Monetary Authority Act 1969. These powers enable the Authority to obtain information from entities in Bermuda that have the information in their possession or under their control.

Legislation

A number of pieces of legislation that were passed at the end of 2008 were implemented during 2009. These included, for the insurance sector, the Insurance Accounts Amendment Regulations 2008 and Insurance Returns and Solvency Amendment Regulations 2008.

Also coming into effect as of 1st January 2009 were the Proceeds of Crime Regulations (Supervision and Enforcement) Act 2008 and Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing) Regulations 2008. These two new measures are part of a suite of legislation enacted progressively since 2007 that enhances Bermuda's anti-money laundering/anti-terrorist financing framework. The Authority took the lead in developing policy and in providing drafting assistance. As in previous years, such legislative development was conducted in consultation with relevant government ministries and other bodies.

The Authority also assisted with updating the legislative framework for the supervision of credit unions in Bermuda with the drafting of the Credit Union Act 2009. It is anticipated that the Act, which facilitates regulation of credit unions to be the direct responsibility of the Authority, will be enacted in early 2010.

The Exempted Partnerships Act 1992 and Limited Partnerships Act 1883 were amended as of September 2009. Among other matters, the amendments transferred responsibility for giving consent for the registration of an exempted and/or limited partnership from the Minister of Finance to the Authority. The amendments also clarify that the requirement for consent includes consenting to the general partners of the partnership.

Further assistance was provided to the Attorney General's Chambers with drafting the Bermuda Monetary Authority (Bermuda Petrel Commemorative Coins) Regulations 2009. The Regulations allow the Authority to issue to the public two commemorative coins in 2010 to be called the "Bermuda Petrel Commemorative Coins". The series of commemorative coins will depict a Bermuda Petrel (commonly known as a "cahow") in flight.

Enforcement

The Enforcement Unit continued to support the Authority's on going efforts to enhance the organisation's enforcement framework for Bermuda to ensure it remains consistent with international standards. During 2009 the Authority's powers relating to anti-money laundering/anti-terrorism financing (AML/ATF) were enhanced, with an emphasis on enforcing compliance with AML/ATF regulations applicable to finance institutions. The Authority now has the power to impose civil fines, and to cancel registrations for breaches of Bermuda's AML/ATF regulations. This evolution of the Authority's enforcement framework is set to continue. The Authority intends to explore further potential developments to its enforcement framework, and the adequacy of its enforcement powers. This work will be conducted incrementally, and in full consultation with industry. With regard to policing the perimeter, the Unit continued to remain vigilant throughout 2009 to ensure that unauthorised business was not conducted in or from Bermuda. It also continued to advise and assist line supervisors with enforcement matters and carried out a number of enquiries into possible breaches of Bermuda's regulatory provisions.

International Regulatory Cooperation

Following the enactment of the Bermuda Monetary Authority Amendment Act 2008, the Authority now has extended powers to obtain information for the purposes of assisting foreign regulators. During 2009, the Authority did not have occasion to serve notice on any unlicensed person; however Section 30B notices were served on licensed institutions following requests from five foreign jurisdictions. Where available, the licensed institution concerned provided the information required in each case and this was transmitted to the requesting regulator.

Memoranda of Understanding

During 2009, the Authority entered into Memoranda of Understanding with the following overseas supervisory authorities:

- Luxembourg (Commissariat Aux Assurances) - signed 2nd February 2009
- Florida Office of Insurance Regulation - signed 24th September 2009
- Nebraska Department of Insurance - signed 28th October 2009
- Pennsylvania Insurance Department - signed 10th December 2009

Bermuda was also approved as a signatory to the new Multi-lateral Memorandum of Understanding (MMoU) established by the International Association of Insurance Supervisors (IAIS) on 5th June 2009 at the IAIS Triannual meeting which took place in Chinese Taipei. The Authority was one of only three regulatory authorities approved as first round signatories to the MMoU, the others being the Federal Financial Supervisory Authority (BaFin) of Germany and the Financial Supervisory Commission of Chinese Taipei.

Committees

During the year, members of the department provided the Authority's continued participation on various external committees engaged in legislative developments relating to Bermuda's financial services and its regulation. This participation involved being part of a team of technical officers to the Joint Select Committee on Private Bills and continuing to assist in the review of petitions for the tabling of Private Bills in the House relating to financial institutions during 2009.

The Director of Legal Services and Enforcement is also a member of the IAIS Working Group of the IAIS MMoU, and part of the verification team tasked with assessing applications submitted by regulators seeking admission as signatories to the MMoU.

On-site Examinations

During the year the AML/ATF Compliance Unit participated in 23 on-site examinations, and reviewed 16 institutions for compliance with the Regulations. The examinations are categorised as follows:

BT&I On-site Examinations

<i>Deposit Taking Institution</i>	1
<i>Investment Business</i>	2
<i>Fund Administrators</i>	6
Total	9

BT&I Follow Up Examinations

<i>Investment Business</i>	1
<i>Fund Administrators</i>	3
Total	4

AML/ATF On-site Examinations

<i>Money Service Business</i>	2
Total	2

AML/ATF Follow Up Examinations

<i>Money Service Business</i>	3
Total	3

AML/ATF On-site Thematic Examinations

<i>Deposit Taking Institutions</i>	5
Total	5

The Authority has issued licences to two money service businesses and both were the subject of AML/ATF on-site examinations in 2009.

Thematic reviews were conducted at the four banks and one deposit taking institution, evaluating compliance with Regulation 7 'On Going Monitoring'. The Authority is providing the results of the AML/ATF Compliance Unit's reviews to the relevant institutions for comment. Any deficiencies found as a result of the Unit's participation in on-site examinations will be addressed during 2010.

Self-Assessment Questionnaire

In October 2009, the AML/ATF Compliance Unit surveyed licensed trust companies, fund administrators and those persons licensed to conduct investment business by issuing a Self-Assessment Questionnaire (SAQ). The SAQ allowed institutions to provide the Authority with their own assessments of their AML/ATF compliance. One hundred and twenty eight (128) questionnaires were issued and the Authority received 110 responses. The outstanding 18 institutions were in the process of completing the SAQ at the end of the year. Responses will be analysed and will assist the Unit in determining its supervisory priorities for 2010.

AML/ATF Compliance Unit

Legislative enhancements to Bermuda's anti-money laundering and anti-terrorist financing framework (AML/ATF) came into force on 1st January 2009. A more comprehensive set of AML/ATF regulations were introduced with the enactment of the Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing) Regulations 2008. In order to ensure compliance with the Regulations, the Authority is designated as the supervisory authority for AML/ATF regulated financial institutions under the provisions of the Proceeds of Crime Regulations (Supervision and Enforcement) Act 2008. The Act also provides for the registration of non-licensed persons and gives the Authority the power to impose a civil penalty on an institution that breaches the Regulations.

The Authority created a dedicated unit, the AML/ATF Compliance Unit, to monitor institutions for compliance with the Regulations. As at 31st December 2009, 421 non-licensed persons have been registered and are included in the register of AML/ATF regulated financial institutions; the majority applied for registration from June onwards after the Authority undertook an awareness campaign with stakeholders.

Enhancement to Corporate Registration Process (CRP)

During the year the Authority implemented its new automated e-filing and e-approval system for corporate registrations. The system enhances Bermuda's existing process for company incorporations by improving the speed of processing applications, while maintaining the integrity of its application review procedures. Development and testing of the system began during the early part of the year and was completed in September 2009.

The CRP System was made available to industry on 5th October 2009 and has exceeded the initial expectations of the Authority. The use of the CRP System by industry has, among other improvements, reduced errors made in the filing and processing of applications; provided faster feedback in relation to applications; and provided applicants with the ability to submit an application 24 hours a day, 7 days per week.

Authorisations

During 2009, the Authority received 1834 applications for the incorporation of new companies and partnerships, as well as permits for overseas companies. The Authority gave consents for a total of 1482 applications during the year, which comprised consents granted for exempted undertakings i.e. exempted companies, exempted partnerships, overseas companies overseas partnerships and continuations. The Authorisations Unit within the department vets applications for company incorporations and partnerships in accordance with the Bermuda Monetary Authority Act 1969. The Unit conducts these functions on behalf of the Ministry of Finance. The Unit also processes applications for share issuances and transfers made under the Exchange Control Act 1972 (and related regulations).

Companies Partnerships and Permits Statistics - Applications Approved

	2009-Q4	2009-Q3	2009-Q2	2009-Q1	2008-Q4	2008-Q3
Exempted Companies (Bermuda companies exempted from the 60% Bermudian ownership requirement)	185	117	151	141	206	233
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	27	7	12	28	33	23
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	3	1	0	1	0	2
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	18	3	4	1	9	12
Unit Trusts	41	13	4	12	1	12
Continuation Companies (companies from other jurisdictions continuing into Bermuda as exempted companies)	5	4	7	7	9	5
Unlimited Liability Companies	0	1	0	0	2	1
Local Companies	41	23	36	47	35	42
Total Applications Approved *	320	169	214	237	295	330

* 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.

A Professional Team



Human Resources

During 2009 the Human Resources department focused on managing a number of strategic initiatives in support of the Authority's goal to enhance operational capability.

The Authority recognises that its ability to respond effectively to the increasing demands and challenges of the environment in which it operates is to a large degree dependent on the preparedness of its staff to perform their duties successfully. During 2009 the Authority continued to increase the depth of technical skills and resources throughout the organisation via focused recruitment efforts, a commitment to staff retention and dedication to effective staff development and training. The Authority remains strongly committed to ensuring its staff are provided with the professional development, tools and support they require to deliver effectively on their responsibilities and the objectives of the organisation.

Workforce Planning

The Authority recognises the importance of effectively managing its operational capacity to enable it to meet both its immediate and future goals. In 2009 the Authority began a strategic workforce planning exercise as a first step in assessing its operational needs going forward. This initiative, which is aligned with planned regulatory and strategic development for the Authority for the next three years, is designed to identify and address the workforce, development, and organisational resources needed to facilitate successful execution of the Authority's strategic objectives. This comprehensive approach, which includes obtaining the views of external

stakeholders, began in the last quarter of 2009. The outcome of the workforce planning initiative will be an action plan that will be produced by the end of 2010. This plan will direct developments in terms of human capital management, outsourcing and other organisational effectiveness issues to address both short- and long-term needs.

Recruitment

Acquiring key talent has been a major focus for the Authority over the past few years. 2009 yielded further success in this regard with the recruitment of key individuals who will directly support the areas of supervision including policy, research and risk assessment, actuarial, complex institutions, licensing and authorisation, anti-money laundering/anti-terrorist financing, and banking, trust, and investments. Further recruitment will take place throughout 2010, in particular to support implementation of regulatory framework developments such as group supervision of the insurance sector.

Building Professional Regulators

There was continuous expansion of the learning and development framework during the year. This included the use of in-house subject matter experts to deliver core training on topics related to the Authority's supervisory framework and operational functions, as well as technical skills training. Staff received continuous exposure to technical skills training on a variety of topics such as solvency, IFRS and advanced financial statement analysis, with particular emphasis on key areas related to Bermuda's regulated entities. There were also a number of learning events focused on individual enhancement to support increased effectiveness within teams. The

Authority also provided support to in-house subject matter experts in their roles as trainers. Workshops took such individuals through the adult learning theory with various instructional and retention techniques, and also covered workflow analysis around processes and procedures. E-learning opportunities were expanded during the year via the introduction of external and in-house on line training programmes; this programme will continue throughout 2010.

Succession Planning

A key area of focus of the Authority's human resource strategy is succession planning, to ensure that the

organisation retains the necessary talent to sustain its operations and goals going forward. During the year the leadership team underwent career development training as part of this strategy. The Authority intends to continue with leadership assessments and discussions as part of its on going audit of existing leadership capability. Another key component of the organisation's succession planning framework is the on going success of the Authority's Graduate Training Programme. The programme was established by the Authority two years ago as a way to cultivate Bermudian talent in the field of financial services regulation and to help create a future pool of employees for succession planning purposes.

BMA Management Team

Actuarial Services

Brant Kizer	<i>Assistant Director</i>
Richard May	<i>Assistant Director</i>
Gina Smith	<i>Assistant Director</i>

Banking Trust & Investment

Graeme Dargie	Director
Tamara Anfossi	<i>Assistant Director, BTI Financial Institutions & Investment Funds</i>
Courtney Christie-Veitch	<i>Assistant Director, BTI Financial Groups</i>

Chief Executive Officer's Office

Jeremy Cox	Chief Executive Officer
Pat Phillip-Bassett	<i>Deputy Director, Corporate Governance & Communications</i>

Corporate & Financial Services

Marcia Woolridge-Allwood	Director
Terry Pitcher	<i>Assistant Director, Corporate & Financial Services</i>

Human Resources

Cynthia Currie	Director
Elizabeth Amyoony	<i>Assistant Director, Learning & Development</i>
Mesheiah Crockwell	<i>Assistant Director, Programme Implementation</i>
Verna Hollis Smith	<i>Assistant Director, Organisation Management</i>

Information Technology

John Dill	Director
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Insurance, Licensing & Authorisation

Shelby Weldon	Director
Judith Howe Tucker	<i>Assistant Director, Insurance, Licensing & Authorisation</i>
Leslie Robinson	<i>Assistant Director, Insurance, Licensing & Authorisation</i>

Insurance Supervision, Complex Institutions & Restoration, Run-off & Monitoring

Shanna Lespere	Director
Roderick Gray	<i>Assistant Director, Insurance Restoration, Run-off & Monitoring</i>
Susan Molineux	<i>Assistant Director, Insurance Supervision, Complex Institutions</i>
Suzanne Williams	<i>Assistant Director, Insurance Supervision, Complex Institutions</i>

Legal Services & Enforcement

William Kattan	Director
Thomas Galloway	<i>Senior Legal Counsel</i>

Policy, Research & Risk Assessment

Craig Swan	Director
Yvette Pierre	<i>Assistant Director, Policy, Research & Risk Assessment, Risk</i>
Vanessa Potts	<i>Assistant Director, Policy, Research & Risk Assessment, Regulatory Frameworks</i>
Marcelo Ramella	<i>Assistant Director, Policy, Research & Risk Assessment, Research</i>

Information Technology

As the Authority prepares itself and the Bermuda financial services sector for regulatory equivalence, it has placed a heavy reliance on its ability to leverage technology for operational, regulatory and supervisory efficiencies, and this emphasis will continue.

In 2009, the Authority continued to implement its Strategic Information Technology Roadmap, which was established the previous year. The Roadmap consists of three phases, “containment”, “positioning”, and “advancement” which are designed to support the Authority’s goal to enhance operational capability.

Technology Services

Following the successful completion of the “containment” phase, which saw the introduction of state-of-art technology focused on providing efficient IT operations and system resiliency, the Authority embarked on phase two of the IT Roadmap during the year. This phase delivered improvements to internal IT delivery capabilities through a focus on governance, risk, and compliance activities that centered on the Information Technology Infrastructure Library (ITIL) and the Control Objectives for Information and related Technology (COBIT) international industry standards. Additions were also made to the information technology team to strengthen the team’s delivery capabilities, and to implement a 24 x 7 service desk.

The IT department also completed several initiatives that enhanced a number of the Authority’s business and supervisory processes during the year. These

included a corporate registration processing system - an e-filing and workflow enhancement initiative that improved the efficiency of processing corporate registrations and related activities. The department also developed an anti-money laundering / anti-terrorist financing (AML/ATF) electronic questionnaire, which resulted in streamlining of the data collection process for the Authority’s enhanced AML/ATF activities. Additionally, and in keeping with the Authority’s mandate of prudence, the department implemented improvements to the Authority’s financial management capabilities in the form of an advanced budgeting and financial management tool.

Project Management Office (PMO)

The Authority’s Project Management Office (PMO) undertook project management oversight of the Solvency II Programme, in addition to all other project-based activity within the Authority. In 2009 much of the attention of the PMO was focused on consolidation and positioning of the interdependencies among the numerous work streams that comprise the Authority’s Solvency II programme. The programme is being implemented in a dynamic and complex environment that is consistent with best practice in this area. The PMO has introduced a structured project management methodology to assist the Authority in maintaining steady progression in its preparations for Solvency II equivalence.

Project RAIN

During the year, Project RAIN (Reporting, Analysis and Information retrieval Network) was introduced, a multi-year initiative that involves automation of the Authority’s core business processes with

industry. Project RAIN forms the cornerstone of the “advancement” phase of the Authority’s IT strategy and more broadly is consistent with the organisation’s overall strategic goal of establishing itself as a leading risk-based financial regulator. The objective of Project Rain is to move from paper-based to electronic processes to create greater efficiency, richer data analysis, and improved reporting capability from the Authority’s systems. For 2010 the project is focused on the work streams associated with the Authority’s two major equivalency initiatives: Solvency II and Basel II.

Project RAIN will use eXtensible Business Reporting Language (XBRL), an international industry standard, for most of the regulatory filing submissions firms make to the Authority. XBRL provides a standardised way of classifying, organising and describing information. The use of these formats will enable the Authority to automate internal processes and to achieve higher levels of operational efficiency, as well as strengthening analytical and supervisory capabilities.

Financials



30th April 2010



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

BMA House
43 Victoria Street
Hamilton HM 12 Bermuda
P.O. Box 2447
Hamilton HM JX Bermuda
tel: (441) 295 5278 fax: (441) 292 7471
email: enquiries@bma.bm website: www.bma.bm

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 2009 together with the annual statement of accounts and the opinion of the Auditor General.

This document also contains the reports for the year 2009 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,

A handwritten signature in black ink, appearing to be 'JC', is written over a horizontal line.

Jeremy Cox
Chief Executive Officer

30th April 2010



BMA House
43 Victoria Street
Hamilton HM 12 Bermuda
P.O. Box 2447
Hamilton HM JX Bermuda
tel: (441) 295 5278 fax: (441) 292 7471
email: enquiries@bma.bm website: www.bma.bm

The accompanying financial statements of the Bermuda Monetary Authority have been prepared by management in accordance with 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.

A handwritten signature in black ink, appearing to read 'Alan C. Cossar'.

Alan C. Cossar
Chairman

A handwritten signature in black ink, appearing to read 'Jeremy Cox'.

Jeremy Cox
Chief Executive Officer



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E-mail. auditbda@gov.bm
Website. www.oagbermuda.gov.bm

AUDITOR'S REPORT

To the Board of Directors

I have audited the balance sheet of the Bermuda Monetary Authority as at December 31, 2009 and the statements of earnings, changes in capital and reserve and cash flows for the year then ended. These financial statements are the responsibility of management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Bermuda Monetary Authority as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

Hamilton, Bermuda
April 13, 2010

A handwritten signature in black ink, appearing to read 'HJM' followed by a long horizontal stroke.

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

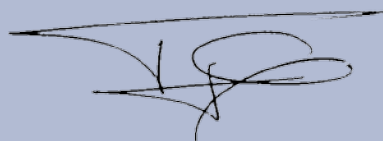
BERMUDA MONETARY AUTHORITY

Balance Sheet as at 31st December 2009

(In thousands of Bermuda dollars)	2009	2008
ASSETS		
Investment Income Earning Assets		
Cash and cash equivalents	52,945	55,606
Term deposits (Note 4)	15,975	35,475
Investments (Note 5)	79,279	59,250
	148,199	150,331
Capital Assets (Note 6)	29,794	30,501
Other Assets		
Accounts receivable and accrued interest	4,816	2,461
Stock of notes and coins for circulation	3,556	3,784
Stock of numismatic items	738	676
Prepaid expenses and other	362	353
	9,472	7,274
	187,465	188,106
LIABILITIES, CAPITAL AND RESERVE		
Liabilities		
Notes and coins in circulation (Note 7)	139,066	141,066
Accounts payable, accrued liabilities and deferred income	3,684	3,762
Due to the Consolidated Fund of the Government of Bermuda (Note 8)	—	815
	142,750	145,643
Capital and Reserve (Note 9)		
Capital subscribed and fully paid	20,000	20,000
General Reserve	24,715	22,463
	44,715	42,463
	187,465	188,106



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 2009

(In thousands of Bermuda dollars)	2009	2008
REVENUES		
Supervisory & licensing fees (Note 10)	29,054	23,498
Investment income (Note 11)	4,078	4,694
Incorporation fees, vault commission and other income	680	777
Net sales of special coins	362	(200)
Rental income (Note 13)	13	481
	34,187	29,250
EXPENSES		
Salaries and employee benefits (Note 15)	23,018	19,676
General expenses (Note 12)	4,404	4,156
Amortisation of capital assets	1,961	1,656
Professional fees	1,593	1,555
Circulation note and coin expenses	932	577
Loss on disposal of capital assets	27	—
	31,935	27,620
NET EARNINGS FOR THE YEAR	2,252	1,630
TRANSFERRED TO GENERAL RESERVE	(2,252)	(815)
DISTRIBUTION TO CONSOLIDATED FUND	—	(815)
	—	—

BERMUDA MONETARY AUTHORITY

Statement of Changes in Capital and Reserve for the year ended 31st December 2009

(In thousands of Bermuda dollars)	2009	2008
CAPITAL	20,000	20,000
GENERAL RESERVE		
Balance, beginning of year	22,463	21,648
Transfer from net earnings for year	2,252	815
Balance, end of year	24,715	22,463
CAPITAL AND RESERVE	44,715	42,463

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

BERMUDA MONETARY AUTHORITY

Statement of Cash Flows for the year ended 31st December 2009

(In thousands of Bermuda dollars)	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings for the year	2,252	1,630
Adjustments to convert earnings to a cash basis:		
Amortisation of capital assets	1,961	1,656
Net amortisation of premiums/discounts on investments	151	62
Loss on disposal of capital assets	27	—
Gain on sale of investments	—	(57)
	4,391	3,291
Changes in non-cash working capital:		
Accounts receivable and accrued interest	(2,355)	(514)
Stock of notes and coins for circulation	228	(2,649)
Stock of numismatic items	(62)	337
Prepaid expenses and other	(9)	(134)
Accounts payable, accrued liabilities and deferred income	(78)	1,545
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,115	1,876
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments and term deposits	(36,947)	(67,321)
Proceeds from sale and maturity of investments and term deposits	36,267	49,351
Purchase of capital assets	(1,283)	(1,820)
Proceeds from disposal of capital assets	2	—
NET CASH USED IN INVESTING ACTIVITIES	(1,961)	(19,790)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in notes and coins in circulation	(2,000)	16,465
Distribution to the Consolidated Fund of the Government of Bermuda	(815)	(2,941)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(2,815)	13,524
DECREASE IN CASH AND CASH EQUIVALENTS	(2,661)	(4,390)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	55,606	59,996
CASH AND CASH EQUIVALENTS, END OF YEAR	52,945	55,606

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 2009

(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 Legislature, its objects and powers being set out in the Bermuda Monetary Authority Act 1969 (“the Act”), as amended.

The primary responsibilities of the Authority are:

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

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 dates. 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 & 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.

(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. 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 the year of acquisition, a half-year of amortisation is 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 will probably 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 4 years. Costs associated with maintaining software programs 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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Museum Items

Museum items have been capitalised at a nominal amount of \$1 and are included in the stock of numismatic items. All new additions to museum items are expensed during the year of purchase.

(j) Revenue recognition

Supervision 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.

(k) Financial Instruments

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

All financial instruments are to be 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 as held for trading and accounts receivable and other receivables 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. The fair values of these financial instruments approximate their carrying values due to their relative short-term nature.

(l) Going Concern

Management has assessed that the Bermuda Monetary 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 the defined contribution 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 \$779 (2008 - \$570).

The Public Service Superannuation Fund administered by the Government of Bermuda covers the remainder of the Authority's employees. Contributions of 8% (2008 - 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 \$107 (2008 - \$106).

(b) Other Benefits

Other employee benefits include maternity leave, sick leave, vacation days and pre-retirement leave.

Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation liability as of 31st December 2009 is \$306 (2008 - \$323) and is included in accounts payable and accrued liabilities.

3. EMPLOYEE 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, a pre-retirement leave benefit of \$22 was paid. The liability as of 31st December 2009 is \$223 (2008 - \$236) and is included within accounts payable and accrued liabilities.

4. TERM DEPOSITS

Maturities and effective yields of term deposits are as follows:

			2009	2008
	Less Than 1 Year	1 to 5 Years	Total	Total
Bermuda Dollar Term Deposits	10,975	5,000	15,975	15,975
USD Term Deposits	—	—	—	19,500
Total Deposits	10,975	5,000	15,975	35,475
Weighted average effective yield	5.28%	5.25%	5.27%	4.07%

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 \$81,655 (2008 - \$63,141).

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

			2009	2008
	1 to 5 Years	> 5 Years	Total	Total
US Government Agencies	—	32,573	32,573	44,301
Supranational Bank	36,421	10,285	46,706	14,949
Total Investments	36,421	42,858	79,279	59,250
Weighted average effective yield	3.33%	4.88%	4.17%	4.76%

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

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.

The Authority is exposed to a concentration of credit risk as 57.2% (2008 - 65.5%) of its income earning assets are in US Government and US Government Agency securities.

Credit risk: The Authority's credit risk arises 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.

5. INVESTMENTS (continued)

Liquidity risk: The Authority manages liquidity risk by complying with provisions of the BMA Act 1969 section 19 (1) (a) which states that the Authority shall at all times maintain a reserve of external assets which shall be in value not less than an amount equivalent to 50% of the total liabilities of the Authority in relation to the face value of currency notes in circulation.

6. CAPITAL ASSETS

	2009		2008
	Cost	Accumulated Amortisation	Net Book Value
Land	4,000	—	4,000
Building	26,072	3,472	22,600
Furniture & fixtures	2,549	1,548	1,001
Intangible assets - computer software	2,408	1,128	1,280
Computer equipment	2,179	1,266	913
	37,208	7,414	29,794

The following deposits are included in capital assets and are not amortised:

	2009	2008
Intangibles - computer software	10	—
Furniture and fixtures	99	112
Building	—	427

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. Furniture and fixtures with cost and accumulated amortisation of \$314 and computer equipment with cost and accumulated amortisation of \$246 and \$217, respectively as of 31st December 2009 were written off and the related loss is included in the statement of earnings. No such adjustments were made in 2008.

7. 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.

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

In accordance with Section 8 (3) of the Act, earnings in the amount of \$ - (2008- \$815) is payable to the Consolidated Fund of the Government of Bermuda.

9. 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 dates.

General reserve

A general reserve of \$24,715 (2008 - \$22,463) has been established in accordance with Section 8 of the Act.

The Minister of Finance granted approval for \$2,252 (2008 - \$815) of net earnings to be transferred to the general reserve account.

10. SUPERVISORY & LICENSING FEES

	2009	2008
Insurance fees	22,536	17,224
Bank and deposit company fees	5,439	5,329
Trust company fees	591	547
Investment business licence fees	443	398
Anti-Money Laundering Fees	45	—
	29,054	23,498

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

11. INVESTMENT INCOME

	2009	2008
Interest on investments	2,876	2,790
Interest on term deposits	1,282	1,128
Interest on cash and cash equivalents	65	876
Net foreign exchange gain (loss)	6	(95)
Gain on sale of quoted securities	—	57
Net amortisation of premium/discount on investments	(151)	(62)
	4,078	4,694

12. GENERAL EXPENSES

	2009	2008
Premises and general office expenses	2,663	2,579
Communication and computer expenses	945	537
Conferences, seminars, education and training	796	1,040
	4,404	4,156

13. 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 9th January 2009 and the Authority now occupies all floors of the facility.

14. IFRS CONVERSION

In accordance with International Financial Reporting Standards (IFRS), effective for fiscal years commencing on or after 1st January 2011, institutions compiling financial statements under Canadian GAAP are required to compile financial statements using IFRS. The Authority is committed to adopting IFRS at 1st January 2010 in order to compile comparative financial statements for the year ending 31st December 2011. The Authority will disclose any material effects in subsequent financial statements.

15. COMPARATIVE FIGURES

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

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