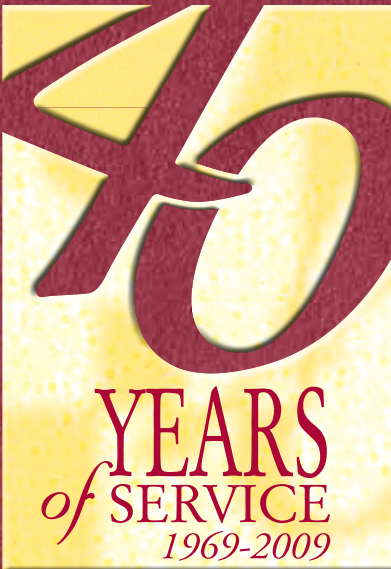




BERMUDA MONETARY AUTHORITY



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Statistical & Financial Highlights 2008

Total net income for 2008 was \$1.63 million a decrease over the previous year's figure of \$5.88 million. This level of income reflected lower than anticipated investment income and incorporation fees, primarily due to lower incorporations relating to soft market conditions in the insurance sector. The Authority's total revenue for the year amounted to \$29.25 million, an increase of \$280,000 on the \$28.97 million recorded in 2007. This increase reflected a combined \$2.10 million increase in supervisory and licensing fees to support the Authority's increased supervisory responsibilities, and rental income, offset by a \$1.82 million decrease in investment income, incorporation fees and net sales of special coins.

Expenses for the year totaled \$27.62 million, which compared to \$23.09 million in 2007, an increase of \$4.53 million. \$5.11 million of the increase represented growth in overall salaries and employee benefits as the Authority continued to build its professional team, particularly within the supervisory departments, a \$110,000 increase in circulation note and coin expenses and a \$193,000 net increase in general expenses and amortisation of capital assets, offset by an \$880,000 decrease in professional fees. In accordance with Section 8 (3) of the Bermuda Monetary Authority Act 1969, the Authority contributed 50% of its net income to the Bermuda Government's Consolidated Fund. For 2008, this amounted to \$815,000, a decrease over the \$2.94 million contributed in 2007.

Bermuda Currency Operations

The amount of Bermuda notes and coin in circulation at the end of 2008 was \$141 million, as compared to \$125 million for 2007. 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 \$131.7 million was in circulation for Cup Match, an increase of 5.95% over the same period in 2007. The figure for Christmas week was \$143 million, an increase of 13.91% over Christmas 2007.

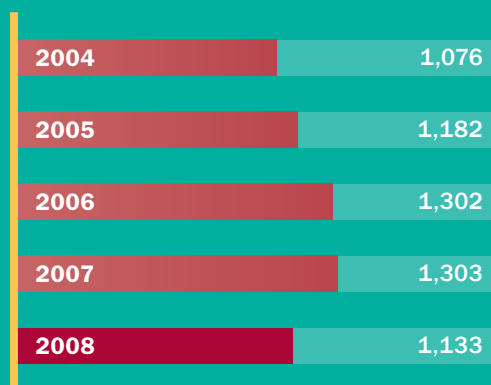
Bermuda Money Supply

(BD\$ millions)	2008-Q4	2008-Q3	2008-Q2	2008-Q1	2007-Q4	2007-Q3
Notes & Coins in Circulation*	141	119	118	114	125	110
Deposit Liabilities	3,815	3,821	3,783	3,709	3,634	3,666
Banks and Deposit Companies (unconsolidated)	3,956	3,940	3,901	3,823	3,759	3,776
Less: Cash at Banks and Deposit Companies	57	36	35	33	45	29
BD\$ Money Supply	3,900	3,904	3,866	3,790	3,714	3,747
% Growth on Previous Period	-0.10%	0.97%	2.02%	2.04%	-0.88%	1.88%
% Growth Year on Year	5.01%	4.19%	5.13%	8.63%	3.87%	5.35%

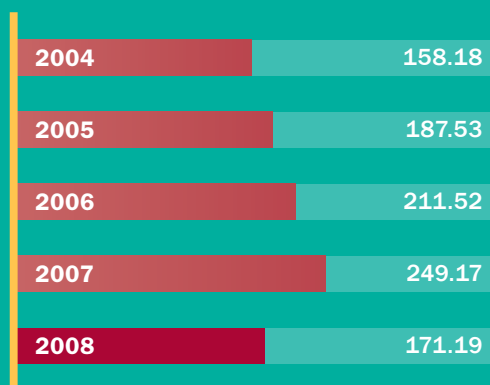
Totals may not add due to rounding.

* 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.

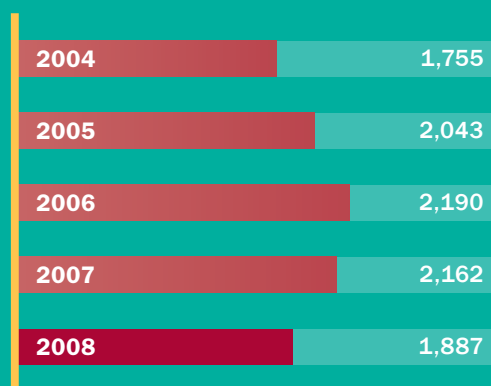
Investment Funds Total Number of Funds



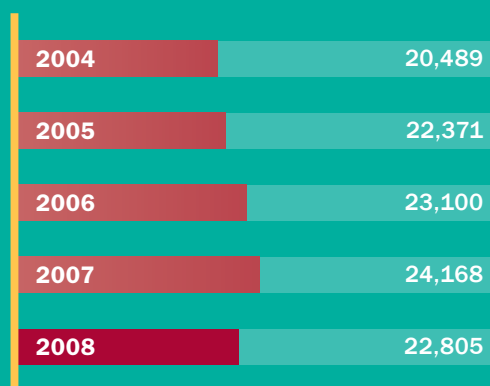
Investment Funds Net Asset Value (BD\$ billions)



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		Notes Issued				Net Issues During Month	
Month	New	Re-issue	Total	Notes Redeemed	Notes Issued & O/S at End of Month	Change	% Change
January	1,181,344	2,645,000	3,826,344	17,975,000	95,927,074	(14,148,656)	-12.85%
February	572,887	8,940,000	9,512,887	6,575,600	98,864,361	2,937,287	3.06%
March	202,266	7,180,000	7,382,266	6,839,000	99,407,627	543,266	0.55%
April	1,155	6,640,000	6,641,155	6,764,100	99,284,682	(122,945)	-0.12%
May	262,587	10,430,000	10,692,587	7,296,100	102,681,169	3,396,487	3.42%
June	282,668	8,000,000	8,282,668	7,313,500	103,650,337	969,168	0.94%
July	10,647,940	10,310,000	20,957,940	7,748,000	116,860,277	13,209,940	12.74%
August	902,960	3,500,000	4,402,960	13,781,000	107,482,237	(9,378,040)	-8.035%
September	1,113,318	5,420,000	6,533,318	10,089,000	103,926,555	(3,555,682)	-3.31%
October	2,220,061	9,634,000	11,854,061	8,951,000	106,829,616	2,903,061	2.79%
November	1,191,652	7,310,000	8,501,652	4,663,000	110,668,268	3,838,652	3.59%
December	5,551,644	15,861,000	21,412,644	6,012,072	126,068,840	15,400,572	13.92%
Year							
2008	24,130,482	95,870,000	120,000,482	104,007,372	126,068,840	15,993,110	14.53%
2007	16,433,545	93,634,000	110,067,545	106,908,200	110,075,730	3,159,345	2.95%

Currency Coins Issued and Redeemed

Bermuda Dollar				Net Issues During Month	
Month	Coins Issued	Coins Redeemed	Coins Issued & O/S at End of Month	Amount Change	% Change
January	1	-	14,525,393	1	0.00%
February	11	-	14,525,404	11	0.00%
March	0	-	14,525,404	0	0.00%
April	60,089	-	14,585,492	60,089	0.41%
May	59,206	-	14,644,698	59,206	0.41%
June	197,428	-	14,842,126	197,428	1.35%
July	21,099	-	14,863,225	21,100	0.14%
August	55,553	-	14,918,778	55,553	0.37%
September	8,186	-	14,926,963	8,186	0.05%
October	(247)	-	14,926,717	(247)	0.00%
November	69,900	-	14,996,617	69,900	0.47%
December	0	-	14,996,617	0	0.00%
Year					
2008	471,225	0	14,996,617	471,225	3.24%
2007	396,620	0	14,525,392	396,620	2.8%

Analysis of all International Insurers Registered

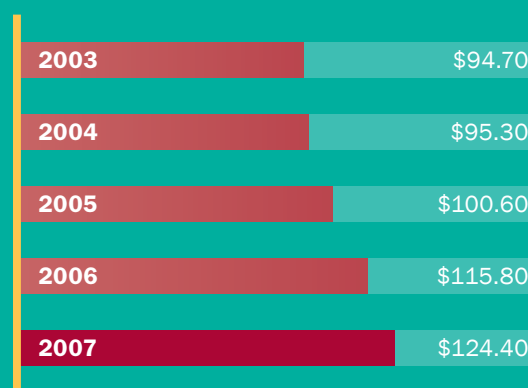
Class of Insurer	2008	%	2007	%
Class 1	333	24	353	24
Class 2	356	26	380	26
Class 3	459	34	504	34
Class 4	32	2	30	2
Long-Term	92	7	103	7
Dual Licences	100	7	111	7
Grand Totals:	1372	100	1481	100

Actively Writing International Insurers by Company Type (2007)



- Professional Ins/Reinsurance 34%
- Affiliated Reinsurer 4%
- Single Parent Captive 23%
- Rent-A-Captive 6%
- Health Care Captive 4%
- Group Captive 8%
- Captive Writing 3rd Party 13%
- Association Captive 8%

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



Celebrating 40 Years of Service

Over the past 40 years the Bermuda Monetary Authority has grown to become the sole regulator for Bermuda's financial sector. The Authority has played an important role in maintaining Bermuda's reputation as a quality financial centre, and continues to do so. It has achieved this by upholding the island's commitment to quality business through strict and thorough vetting of company applications and by maintaining a regulatory framework that is practical and effective for the Bermuda market, and also consistent with international standards and best practice.

Our Mission

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



In the past four decades, the Authority's scope of responsibilities has broadened considerably. This growth has been supported by skillful leadership over the years and underpinned by a legislative framework that has been thoughtfully enacted.

1969 - 1989

The Authority was established with the passing of the Bermuda Monetary Authority Act 1969. For the first twenty years of its existence the Authority focused primarily on its initial remit, which was to issue Bermuda's currency, supervise the island's banking sector, manage exchange control, and provide advice to the Minister of Finance on fiscal matters.

In 1970, the Authority introduced the Bermuda dollar, which replaced the pound sterling as the island's currency. After the passing of the Exchange Control Act 1972, the Authority took on the responsibility of exchange control. In 1981 Bermuda's Companies Act was enacted. This legislation, which provided the Authority



Bermuda Currency

The Shipwreck Series



Sea Venture coin



Hunter Galley coin



Mary Celestia coin



North Carolina coin

Minted 2006

BMA Act established

BMA Chairman -
C. Winston Kempe
(1969-1973)

BMA Chairman -
Dudley Butterfield
(1973-1979)

Insurance Act established

BMA Chairman -
Frederick Yearwood
(1979-1982)

BMA Chairman -
The Hon. Sir David Gibbons
(1984-1986)

BMA Chairman -
Charles Mann
(1986-1992)

1969

1969

1973

1978

1979

1984

1986



Pictured from top to bottom: (1) Cheryl-Ann Lister (2) Mr. Mansfield Brock Jr. & former Premier Dame Pamela Gordon (3) Former General Manager Malcom Williams (4) Official Opening of BMA House by the Hon. Paula Cox JP MP, Minister of Finance

with the responsibility of vetting all company applications on behalf of the Ministry of Finance, provides the underpinning for corporate registrations and remains a key component in Bermuda's corporate legislative framework.

This period also saw tremendous growth in all sectors of Bermuda financial services market. The banking sector experienced continued growth, both through increased competition domestically and local banks expanding their network internationally. The island was also becoming known as a centre for captive insurer formations. The world's first captive was established in Bermuda in the 1960s, and for the remainder of that decade and into the 1970s, the insurance market was dominated by this type of insurer. In the mid-1980s, Bermuda's insurance market changed dramatically with the establishment of new types of insurance companies, namely large excess liability companies such as ACE and XL.

The Insurance Act 1978 (the Act) was passed in response to the evolving nature of Bermuda's insurance market and was the first significant step by the jurisdiction

to formalise regulation of the market. This legislation is reviewed and amended as part of the Authority's continual review of its regulatory frameworks to ensure that they remain effective. The Act (as amended), which is designed to facilitate continued innovation in the sector, while at the same time ensuring companies operate responsibly within strict margins of solvency, has proven the test of time and continues to serve the market well.

1990 - 2009

With international business and financial services booming on the island, and with the growing recognition internationally of the threat of money laundering, in 1991 the Authority introduced the Anti-Money Laundering (AML) Code of Conduct and related guidance. This was the first step to establish a formalised AML regime for the island. In 1997, the Proceeds of Crime Act was passed, further strengthening Bermuda's AML provisions. This regime has been updated over the years, and was significantly enhanced recently with the enactment of a suite of AML-related legislation and regulations in 2008.

Banknote exhibit set up at Commissioner's House, Bermuda Maritime Museum in Dockyard

BMA Chairman - Mansfield Brock Jr. (1993-1998)

BMA employee Leonora Stovell-Smith discovers Hogge Money during excavation project.

Proceeds of Crime Act legislation established

Banking & Deposit Company Act established

BMA's first female Chairman & CEO appointed Cheryl-Ann Lister (1999-2006)

On-site programme for Investment companies established

1992

1993

1994

1997

1999

2000



BMA House 2007



BMA on Burnaby Street 1985

Other significant events which occurred in the 1990s that shaped the Authority during this period included: the abolition of the interest rate ceiling and the ten percent foreign currency purchase tax; the establishment of the Bermuda Stock Exchange; and the relaxation of exchange controls. In 2002, the Authority took responsibility for insurance regulation, which had previously been conducted under the remit of the Registrar of Companies within the Bermuda Government. This added responsibility expanded the Authority's mandate as Bermuda's sole independent financial services regulator.

With the regulation of all financial services sectors within Bermuda now under its mandate, the Authority was faced with the challenge of implementing further enhancements to its regulatory framework that would continue to support the jurisdiction's reputation as a first-class financial services centre.

The Insurance Act (as amended) was in place and had provided an appropriate supervisory framework for the insurance sector into the 21st century. However, an updated suite of financial services legislation and related regulations covering the banking, trust, and investment markets were needed. During 1998 – 2006 the following legislation was enacted with regard to these sectors: the Investment Business Act 1998; the Banks and Deposit Companies Act 1999; the Trust (Regulation of Trust Business) Act 2001; the Investment Business Act 2003; and the Investment Funds Act 2006. This primary legislation provides the foundation for the regulatory environments which these sectors operate today.

With a legislative framework in place, the Authority continued to enhance its supervisory programmes for Bermuda's financial sectors. In response to the evolving nature of business conducted in the local



Bermuda Biological Station coin minted 2003 • Dinghy coin minted 2003 • The State House coin minted 2001



BMA employee Leanora Stovell-Smith uncovers Hogge Money during an excavation project



market and the increasing demands of regulatory standards internationally, the Authority's supervisory programmes were enhanced to become more risk-focused. The insurance market classification system, which was introduced in 1995, is an early example of a risk-based approach, whereby insurance entities are classified based on their risk profile. Class 1 companies, or pure captives, are considered lower risk as they write only the risk of their owners, while Class 4 companies which comprise very large, highly capitalised (re)insurers underwriting excess liability and/or property catastrophe reinsurance risk, are considered high risk. Continual review of risk-based frameworks remains a

priority; the most recent series of legislative enhancements were completed during 2008 and covered insurance, banking and AML provisions.

The Authority's risk-based philosophy is at the foundation of its supervisory work. Being a risk-based regulator means that the Authority's supervisory programmes are calibrated to the nature, scale and complexity of the entities seeking to do business from or within the jurisdiction. The approach takes into account the related risk and level of sophistication of the clients involved. It also allows for the efficient use of supervisory resources, which are deployed to those firms which pose the greatest risk.

The Authority's risk-based approach to regulation has been endorsed by a variety of international regulatory and standard setting bodies, most recently, the International Monetary Fund in its 2007 assessment of Bermuda's regulatory regimes for financial services sector. Having a regulatory framework that is endorsed by the international community is an important standard to maintain for any regulator looking to be regarded as credible. However, the Authority is not resting on its laurels, but instead maintains a programme of constant review and enhancement of its framework to ensure that the island's regulatory environment continues to serve Bermuda's market well, now and into the future.



Redesigned Bermuda Banknote Series 2009

Bermuda appointed to
Chairmanship of IAIS Reinsurance
Transparency Group

Second IMF review

Jeremy Cox, BMA Deputy CEO,
is announced as Insurance
Person of the Year

Official Opening of BMA House

Basel II Implementation

BMA releases redesigned
banknote series

New AML regime comes into effect

POC Regulations (Supervision and
Enforcement) Act 2008 established

2007

2007

2009

2009

Board of Directors

Pictured from left to right:

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

Matthew Elderfield
Chief Executive Officer

Jeremy Cox
Deputy Chief Executive Officer



Tracy Tepper

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

R. Alan F. Richardson, CA, JP
Chairman

Ronald Simmons, CA, CPA

*Partner,
Moore Stephens & Butterfield*

Robert D. Steinhoff, FCA

*Deputy Chairman,
Senior Partner, KPMG (retired)*

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

*Senior Partner,
Lynda Milligan-Whyte & Associates*

E. Barclay Simmons, MBA, LLB

*Managing Partner,
Attride-Stirling & Woloniecki*

Darren Q. Johnston, CA, CPA, CFA

*Partner,
PricewaterhouseCoopers (not shown)*

Walter Bell

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



Chairman's Letter

The overriding challenge for all organisations connected to the financial services industry over the past year was the impact and growing scope of the global financial crisis. The Authority sought to manage the situation with proactive and pragmatic actions designed to address supervisory matters possibly impacted by the crisis, while maintaining a focus on work supporting framework enhancements and its own long-term strategic development as a regulator.



The Board remained fully engaged with how the Authority was managing the impact of the financial crisis. The initiatives the Authority undertook and put in place throughout the year to monitor the market and develop a proactive supervisory response to mitigate the impact of the crisis have been successful and prudent. As a Board, we were required to consider and discuss issues and developments in relation to sectors of the Bermuda market, and specific regulated institutions, in the context of the crisis. Any conflicts of interest that arose due to Board Directors' professional or personal connections in the market were addressed swiftly and as prescribed by our existing codes of conduct and relevant conflicts policies, with individuals being recused from discussions as required.

From the perspective of both the Board and management, as Bermuda's financial services regulator, the Authority's priority has been to ensure that stability in our local markets is maintained for the clients and customers using those services, and also for the long-term health of the domestic economy. This priority drove the work the Authority conducted during 2008 with market participants and international regulators to manage the impact on Bermuda's financial markets. Clearly Bermuda cannot be immune to the effects of the global financial crisis; however the overall strength, quality and resilience of our financial markets, and the regulatory framework that governs them, means this jurisdiction is well placed for the current challenging environment.

R. Alan F. Richardson, CA, JP
Chairman

For the Authority's Board, 2008 was a year of embedding the strategic policy work conducted by new Board committees formed the previous year, as well as building on the ongoing activities of the existing committees. Our strategic focus remained on the continued development of policies and systems for the Authority's corporate governance, risk management, legislative and policy and human capital frameworks.

The Authority achieved significant progress on implementation of the Risk Management Plan during the year. This resulted in completion of projects designed to enhance systems and controls within the organisation's Enterprise Risk Management (ERM) framework. By year-end, the majority of initiatives and targets within the ERM plan that had been set at the beginning of 2008 had been completed.

Enhancements to the corporate governance framework also continued. This included work to consolidate established policies governing the conduct of the Board and staff with new policies that foster the high level of integrity that exists across the organisation, resulting in the establishment and adoption of a formal Ethics Framework for the Authority. The Framework is consistent with best practice internationally and provides a clearly recognisable, cohesive system that sets standards for ethical conduct and mechanisms for addressing real or perceived conflicts of interest proactively and consistently. Work to review and revise the systems and procedures

governing Board delegations also took place, particularly to take into account the creation of the Deputy Chief Executive Officer position which became effective at the beginning of the year. Having established this post as an important initial step in the Authority's succession planning process, the next phase of development in this area focused on senior management and progressed significantly during 2008. Action to assess management skills and leadership development took place throughout the year. The results of this activity will align and nurture skills within the management team to meet current and future operational and leadership needs at the Authority.

Enhancing transparency in relation to the Authority's governance arrangements and procedures, as well as its regulatory actions, remained an area of focus during the year. The Authority has made the commitment to be more transparent and able to demonstrate best practice in terms of its governance and risk management systems. There is also the intention to enhance transparency around the Authority's regulatory decision-making processes, as applicable given confidentiality constraints. The Transparency Initiative established during the year sets out a plan for the phased implementation over the next three years of initiatives and projects designed to support greater transparency moving forward.

The Authority also continues to ensure it demonstrates accountability as it

conducts its work as Bermuda's financial regulator. Internally, from the Board's perspective, the introduction of the Balanced Scorecard methodology for 2008 has been effective in supporting that goal, as we monitor the Authority's performance against the goals management set for the year. From an external perspective, the publication of the Authority's Business Plan has effectively served a similar purpose, as well as supporting the Authority's transparency goals.

The past year has once again been one of significant activity, and productivity, for the Authority. My fellow Board members and I have had the privilege of contributing to that effort, with an emphasis on ensuring the Authority maintains the strategic focus and high standards that characterise the work it conducts on behalf of Bermuda. It has been a distinct pleasure to work with the Board, and I wish to extend my sincere thanks to them all for the hard work, insight and support they bring to the Authority. This organisation has worked diligently throughout the year in applying effective supervision to protect financial stability in markets at home, while maintaining an international perspective and high level of engagement with peer regulators abroad. Having an outward looking, progressive perspective in this changing regulatory landscape is vital. This perspective was enhanced even further during 2008 with the appointment of the Authority's first international Director to the Board, Mr. Walter Bell. We extend a warm welcome to Walter, who has already provided invaluable

input based on his wealth of experience as a former insurance regulator and current status as a senior executive in industry. His appointment is a milestone for the organisation and in keeping with our necessary adoption of a global perspective in support of developing our role and responsibilities as Bermuda's financial regulator.

Overall, there has been an even greater level of focus and alignment of strategy and business objectives throughout the Authority over the past year, reflecting a maturity in the organisation and its expanded responsibilities that is fitting as it celebrates 40 years as Bermuda's financial regulator. The Board has continued to provide strategic direction on policy matters that support the Authority's major objectives, and its growing profile internationally as a leading financial regulator that can make useful contributions to regulatory developments with global implications. We intend to continue providing this level of strategic input as the organisation continues to develop its capabilities, contributions and influence as Bermuda's unitary financial regulator, while maintaining the high standard of regulation that has supported this jurisdiction's success. Building on the Authority's position in this way has possibly never been more important, given the constantly evolving climate in international regulation, and the potential fall out from the financial crisis in terms of regulatory reforms that could be of great relevance to Bermuda.

Board Committee Reports:

Audit and Risk Management Committee

Robert Steinhoff, Chairman

Anthony Joaquin

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 Audit and Risk Management Committee comprises three non-executive directors who are appointed annually by, and serve at the discretion of, the Board. The Committee met as required during the year 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;
- Complete the review and oversight of the external audit process for the Authority's 2007 financials; recommending the external auditor for 2008;
- Conduct the review, approval and ongoing monitoring and reporting on progress by management on the Authority's Risk Management Plan; and
- Conduct the review process and selection of an internal auditor for the Authority based on proposals from external service providers, making this appointment towards the end of the year.

Corporate Governance and Ethics Committee

Darren Johnston, Chairman

Alan Richardson

Anthony Joaquin

Barclay Simmons

Matthew Elderfield

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 2008 the Committee successfully completed the following major items on its agenda for the year:

- Completed the process to review and update the Board delegations;
- Established the Authority's Transparency Initiative, which sets objectives to enhance transparency around the regulatory and operational work of the organisation; the Committee also reviewed and approved management's action plans related to the Initiative;
- Reviewed all Board sub-committee objectives as well as the CGEC's own mandate, and completed preliminary work towards establishing a self-assessment and reporting protocol for the Board sub-committees;
- Drafted the Authority's new Ethics Framework and related new policies (which was formally approved and adopted by the Board in January 2009); implementation of the related revised Staff Personal Dealings Policy; and
- Conducted the 2008 Board self assessment survey.

Human Capital Committee

Alan Richardson, Chairman

Robert Steinhoff

Darren Johnston

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 responded to a wide range of issues last year in connection with people and compensation issues. Chief among the matters considered for approval and ongoing review was the Authority's Balanced Scorecard (BSC). The BSC established for 2008 was a first for the Authority, and successfully supported further alignment of strategy and operational objectives across all departments. Other significant matters related to the organisation's work on establishing long-range succession plans for the senior management levels, which progressed well during the year.

Non-Executive Directors Committee

Alan Richardson, Chairman

Robert Steinhoff

Walter Bell

Anthony Joaquin

Darren Johnston

Lynda Milligan-Whyte

Barclay Simmons

Ronald Simmons

Tracy Tepper

The Non-Executive Directors Committee is composed of 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.

During 2008 the Committee met as required and maintained under review the matters with which it is charged by the Act, drawing on the work of the Board, the Human Capital Committee and the

Audit and Risk Management Committee. This included ongoing monitoring of developments related to the direction and execution of the Authority's strategic plan, as well as items in relation to the organisation's budget for the year. The Committee also met to review and approve certain compensation actions that fell beyond the remit of the Human Capital Committee. In addition, the Committee dealt with the appointment of Jeremy Cox to the new position of Deputy Chief Executive Officer. All other matters relevant to the Committee were dealt with through the full Board.

Investment Committee

Barclay Simmons, Chairman

Lynda Milligan-Whyte

Ronald Simmons

Matthew Elderfield

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 overriding objective for the Investment Committee in 2008 remained avoiding exposure to material capital risk on the Authority's investment portfolio and maintaining a high degree of liquidity within it to meet unforeseen demands. This remains particularly important given the Authority's role and responsibilities as a public sector regulatory body. The Committee achieved this goal successfully by maintaining a high level of oversight on the activities of the Authority's Portfolio Manager and Cash Manager.

Legislative and Policy Committee

Lynda Milligan-Whyte, Chairman

William Kattan

Robert Steinhoff

Craig Swan

Tracy Tepper

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.

The Committee reviewed the legislative and policy implications of major regulatory initiatives developed by the Authority during the year, in particular those covering matters related to insurance supervision, enforcement issues and proposals to introduce new Credit Union legislation. This activity included the Committee making recommendations on the required legislative amendments underpinning implementation of the Bermuda Solvency Capital Requirement; reclassification of the Class 3 insurance sector; and revisions to regulations governing insurer solvency and reporting requirements.

The Committee also reviewed consultation proposals covering the Authority's plans for group supervision, and further enhancements to insurance supervision and enforcement powers. Any changes resulting from market consultation on those proposals were also brought to the Committee for its review and recommendations.

Executive Team

Pictured from left to right:

Marcia Woolridge-Allwood, BBA, JP
*Director,
Corporate & Financial Services*

John Dill
*Director,
Information Technology*

Matthew Elderfield
Chief Executive Officer



Jeremy Cox
Deputy Chief Executive Officer

Harry Whitcher
Deputy Director,
Insurance Restoration, Run-off & Monitoring

Shanna D.R. Lespere, BSc.H, CMA
Director,
Insurance Supervision, Complex Institutions

William Kattan, LLB(Hons), LLM
Director,
Legal Services & Enforcement

Shelby R. Weldon, CPA
Director,
Insurance Licensing & Authorisation

Cynthia Currie
Director,
Human Resources

Graeme Dargie, MA, Dip
Director,
Banking, Trust & Investment

Craig Swan
Director,
Policy, Research & Risk Assessment

Rick Shaw
Director,
Actuarial Services



CEO's Letter

Change and challenges were the constant themes throughout 2008 for the Authority, in common with financial regulators around the world. I am proud to report that the Authority has managed those changes and challenges successfully. As we look forward to celebrating the significant milestone of the Authority's 40th anniversary in 2009, we can look back on completing another highly productive year of achievements that have raised the standards and quality of Bermuda's risk-based regulatory framework.



Matthew Elderfield

Matthew Elderfield
Chief Executive Officer

As the global financial crisis continued to develop, the Authority increased its active supervisory management of the challenges emerging from this unprecedented situation. At the same time, having set an aggressive regulatory agenda at the beginning of the year, the Authority's work plan for 2008 maintained its focus on moving us closer to meeting a key goal: establishing the BMA as a leading risk-based financial regulator by achieving mutual recognition for Bermuda's regulatory framework.

Managing the Financial Crisis

Even though the origins of the dislocation in the financial markets primarily arose from major onshore banking centres, all financial jurisdictions around the world have been touched by its ripple effects, including Bermuda. The Authority took a proactive role when market disruption occurred in August 2007 from the impact of sub prime investment exposure, which was the first wave of the financial crisis. Throughout 2008, we worked closely with market participants and international regulators to manage the impact of the growing crisis on Bermuda's financial markets. This took the form of a combination of specialised market surveys, stress testing, enhanced supervisory monitoring, and restructuring

negotiations with challenged financial guaranty companies, which were the most impacted within the insurance market. The Authority also played an active role in an international regulatory task force formed to manage the response to the challenges at AIG.

The unprecedented drops recorded in global markets during the last two quarters of 2008 put significant pressure on investment portfolios. Almost all of the financial firms in Bermuda were affected by this downturn. Therefore, as the crisis developed further from its origins in sub prime, the Authority maintained its active monitoring of the sectors within the Bermuda market most impacted.

We intensified our supervision of the banking sector throughout 2008, and will continue this enhanced monitoring during 2009. The sector remained resilient through the year, maintaining compliance with the Authority's capital and liquidity standards. However, in keeping with our proactive approach to this situation, and in line with our implementation of Pillar 2 of the Basel II Accord, the Authority conducted a review of capital levels across Bermuda's banks. The banks were required to undertake a series of stress tests to simulate the impact on

their operations of a severe economic downturn. As a precautionary measure, the Authority decided to require banks to hold an additional capital buffer to withstand the severe economic downturn simulated by these tests. This requirement was implemented in the first quarter of 2009, resulting in Bermuda's banks being in an even stronger position to manage further disruptions that may occur from the financial crisis.

One of Bermuda's largest financial institutions, Butterfield Bank, announced a public offering of preferred shares to raise the additional capital to meet the additional capital buffer requirement. Recognising that this capital raising was taking place in a challenging investment environment, the Bermuda Government decided to provide support for this initiative, in the form of a conditional share purchase and guarantee, should the offering not be fully subscribed by the private sector. This arrangement is consistent with public sector support being provided to financial institutions globally in the current volatile market conditions. The Authority welcomed this support as a prudent and practical decision by the Government in the interests of Bermuda's continued financial stability.

The insurance market, the largest within Bermuda's financial services sector, managed to absorb investment losses related to the crisis, which in effect amount to those resulting from a major hurricane or a similar catastrophic event, and this remained the case at the end of the year. The market did experience a decrease in incorporations, reflecting for the second consecutive year worldwide incorporation trends that were impacted by the financial crisis and soft market conditions. Moving into 2009, the Authority heightened its supervision of long-term insurance firms in light of the increasing pressures on life insurers, in addition to continuing its monitoring of the sector overall to assess potential underwriting and investment portfolio exposures.

The Authority also stepped up monitoring of retail investment businesses during the year, to ensure that the firms within this important sector have the appropriate systems and controls in place to manage the challenges presented by the crisis. We also enhanced supervision of the funds sector, to address specifically the impact on hedge funds within the market from the financial crisis as a result of investment losses and increased redemption rates being experienced in fund markets

globally. This intensified supervisory activity will continue throughout 2009.

The experiences driven by the financial crisis over the past year have been challenging, and provide lessons for the future. It is clear the international debate on regulatory reform that has emerged from the crisis will result in changes with implications for Bermuda's framework for financial regulation. We ensured that Bermuda contributed to that debate during 2008, by increasing the Authority's representations and participation in key international standard-setting bodies. Maintaining this high level of engagement with developments in the regulatory arena globally will remain a priority for us in 2009.

On Track for Mutual Recognition

Whilst managing the financial crisis required the Authority's attention throughout 2008, we also remained very focused on the key strategic goal of achieving mutual recognition.

Mutual recognition is the process by which regulatory authorities assess the frameworks and standards set by other jurisdictions. Where a jurisdiction's framework is deemed to be broadly equivalent, access to global markets for companies improves and duplicative regulation is eliminated. Many firms operating in Bermuda also conduct significant cross-border business via the branches and subsidiaries they have in other countries. Therefore achieving mutual recognition is an important goal that will benefit Bermuda by assisting us to maintain our competitiveness as a

jurisdiction. It will also enable Bermuda companies to avoid duplicative regulation and capital charges by conducting business with international markets on non-discriminatory terms.

During 2008, the Authority's work towards achieving mutual recognition status continued to build on our base of high compliance with international standards. This high level of compliance was acknowledged by the latest report from the International Monetary Fund regarding its 2007 assessment, which was published in 2008. Our work on mutual recognition maintains a particular focus on Europe and the US, with emphasis on continuing to develop our regime for insurance supervision. Most notably, we introduced a new risk-based approach for Bermuda's largest commercial insurers, including a sophisticated assessment of catastrophe risk. We also began the process to establish a framework that will review and approve the use of internal models by insurers to determine their required regulatory capital. Work developing proposals for looking at solvency on a group basis also progressed steadily during the year.

Bermuda can demonstrate that, based on the considerable amount of work completed over the past year, it has already made substantive preparations for mutual recognition. The Authority remains confident that our framework will receive a favourable equivalence assessment in due course.

New Anti-Money Laundering Standards

During the year the Authority supported a major initiative by the Bermuda Government to enhance the regulatory framework for anti-money laundering and anti-terrorism financing (AML/ATF). This work was assisted by relevant recommendations from the International Monetary Fund arising from their 2007 assessment of Bermuda's financial regulations.

A suite of legislation was drafted during the year, and adopted towards the end of 2008, which enhanced various aspects of Bermuda's AML standards. As a result of those legislative changes, the Authority now has broader responsibilities and powers for monitoring and enforcing compliance with these standards. These include the powers to register unlicensed financial institutions for the purposes of AML supervision, and to monitor these firms for AML compliance. The changes also allow for us to conduct enforcement action as necessary and to cancel registrations or impose fines of up to \$500,000, for breaches of the AML regulations. To support our newly-expanded AML responsibilities and enforcement activities, we increased our resources during the year by establishing a supervisory team focused exclusively on executing these functions.

During the course of 2009, the Authority will work with companies to ensure their compliance with the new standards. In the event that a firm does not make efforts to address issues of non-compliance, or where we find egregious breaches with the regulations, we will use our new fining powers.

Transparency

The Authority remains committed to enhancing transparency around our work, and the strategic rationale that underpins ongoing developments in Bermuda's regulatory framework. 2008 saw another round of policy and legislative changes designed to support and maintain consistency with international standards – such as insurer solvency changes in line with Solvency II and the implementation of Basel II for Bermuda's banking sector; and to maximise the effectiveness of our risk-based supervision – such as the reclassification of Class 3 insurers.

The Authority conducted extensive consultation on all of its proposals for policy and legislative changes with public and private sector stakeholders throughout the year. All parties who would be impacted by such changes were invited to provide feedback on our proposals, through circulation of a variety of consultation papers and discussion papers drafted during 2008, as well as face-to-face meetings. Initiatives covered in those papers were wide ranging: from the effectiveness of our supervisory review process to proposed enhancements to the corporate registration system, as well as key regulatory matters such as risk-based capital regimes and internal models.

We recognise the importance of this type of consultation and, accordingly, took the opportunity to focus our attention on the Authority's consultative process itself during the year. Our goal, which we successfully achieved, was to set clear,

formal standards for our consultative process and to identify areas for enhancement that would ensure the process is as efficient and inclusive as possible.

The Authority also conducted its first comprehensive External Stakeholders Survey during the year, to seek independent feedback on our performance, effectiveness and transparency as an organisation. The paper based survey, which was distributed to over 300 Bermuda based businesses who interact with the Authority including, banks, trust companies, investment businesses, insurers and financial service providers, had an above average response rate of 46%. Overall, respondents to the survey, who submitted their responses anonymously, gave an overwhelmingly positive rating for the Authority's performance as a financial services regulator.

Specifically, the results of the survey showed strong support for the Authority's performance against its strategic goals and objectives, in particular, its ability to protect Bermuda's reputation and competitive position. Respondents also gave high ratings for key areas such as: transparency in business objectives and processes; inclusiveness (for industry consultation); delivering on commitments (in particular progress on BMA Business Plan projects); knowledge and professionalism of staff; responsiveness and communicating effectively.

There were some specific areas identified

from the survey that received lower or neutral responses, i.e. the on-site programme, the fee payment process and the policy development process, on which the Authority is already taking action as part of our Business Plan for 2009.

We are very happy to have received this level of endorsement, and appreciate the high level of participation we received from stakeholders, but we are not complacent. Our goal is to ensure that we execute our duties as Bermuda's financial regulator as efficiently as possible. The results of this survey, which we intend to conduct every two years, will help us identify and articulate the perceived areas of strength and weakness within our organisation, and will assist us in our operational and strategic planning as we seek to deploy our organisational resources even more efficiently. We recognise that we must maintain our high level of performance and will continue to focus on continual improvement.

Another initiative to build on our transparency included publication for the first time of the Authority's Business Plan. Publication of the Plan represented the first of a series of action items set for phased execution under the Authority's Transparency Initiative, which was established during the year within our corporate governance framework. The Plan explained the enhancements to Bermuda's regulatory regimes that would take place in the near future, and was well received by the market locally and internationally. The Authority intends to publish its Business Plan annually to

publicly present its short-medium term work plan and demonstrate accountability for its commitments as Bermuda's financial regulator. I am very pleased to report that for 2008 we successfully met those commitments, completing work on the major milestones in our Business Plan, as highlighted in the summary on page 21.

Maximising Resources and Operational Capability

In 2008 we placed emphasis on increasing efficiency in these tough economic times by putting in place measures to ensure tight cost controls, even as our supervisory responsibilities grew during the year. Our focus also remained on enhancing our operational capability by further strengthening the depth of skills within the Authority with targeted increases in headcount, primarily to support our supervisory programmes. The enhanced technical resources brought into the Authority via our successful recruitment strategy were supported by an expanded learning and development framework to provide our staff with first class supervisory training opportunities. This, together with a highly focused work plan, assisted the Authority to deliver on our commitments in the 2008 Business Plan.

Looking Ahead

Although Bermuda's financial markets have proved resilient in the face of the financial crisis, the Authority recognises we must set out initiatives that will strengthen our ability to respond to the crisis as it moves into a new phase

during the coming year. Such initiatives include the implementation of the Basel II Accord for banks and some investment businesses, and further enhancements to the Authority's solvency framework for insurers.

We will continue our work toward the important medium-term goal of achieving mutual recognition for Bermuda. This work will involve developing a framework for group supervision; enhancements of supervisory and public disclosure standards; and consultation on aspects of qualitative review of risk management by both firms and supervisors.

As regards AML, having completed the significant policy changes required to enhance Bermuda's regime, we will focus attention on conducting on-site reviews of AML standards among relevant firms. These reviews will provide a basis for feedback to the market on progress in implementing the new standards and will also establish a benchmark for follow-up enforcement activity, if deemed necessary.

We will also employ a range of tools to ensure a high level of service to stakeholders. Included in the Authority's second published Business Plan are service standards related to specific regulatory transactions and we intend to report on our performance against those standards in future Annual Reports. In addition, the Authority will seek to improve efficiency within regulatory transaction areas by leveraging

information technology and will introduce e-filing during 2009, beginning with the corporate authorisations function.

Conclusion

The continued fallout from the global financial crisis dominated our activities during 2008, and will no doubt be with us throughout the coming year. There will also be more changes to the regulatory framework in 2009 as the Authority seeks to ensure Bermuda maintains its leadership position as a cooperative jurisdiction with a high standard of regulation. Our focus over the past year and for the future remains on maintaining stability in the market through close, active monitoring and prudent use of regulatory intervention. Our work throughout the past year has been driven by many influences, both internal and external to Bermuda, as well as our own strategic objectives. The cooperation and teamwork that we have enjoyed with our colleagues in the Bermuda Government throughout 2008, in particular in the Ministry of Finance as well as the Ministry of Justice, has again been vital in addressing many of these challenges. We especially extend our sincere thanks to Minister of Finance the Honourable Paula Cox, JP MP, and her team for another year of productive collaboration.

It has also been a year of many changes as regards the regulatory framework. The smooth transition to the new standards and supervisory requirements implemented during 2008 reflect the cooperation of industry stakeholders

in Bermuda's financial services sector. We appreciate the very good working relationship we have in place with the various industry representative bodies.

Having now been with the Authority for almost two years, I continue to benefit from the leadership and strategic direction of our Chairman Alan Richardson and the Board of Directors of the Authority; I thank them all for their invaluable contribution to the Authority.

In closing, I would like to express my sincere gratitude to the staff of the Authority for their commitment, hard work and support in what has been a very challenging year. As we celebrate the Authority's 40th anniversary in 2009, it is clear that the organisation could

not have accomplished the impressive results from 2008 that are presented in this Report without the dedicated efforts of our people. Our staff continues the Authority's tradition of serving Bermuda to the highest standard and I am very proud to be a part of this team.

2008 Business Plan Milestones

-  **Class 3 Reclassification**
 - Consultation Paper published/Implementation completed
-  **Risk-based Capital, Internal Models and Group Supervision**
 - Bermuda Solvency Capital Requirement legislation adopted and in force
 - Consultation on operational risk charge and regulatory add-on
 - Supplemental reporting & stress testing completed
 - Pilot on-site model visits initiated and survey published
 - Supervisory colleges conducted
 - GAAP account disclosure adopted
-  **Basel II**
 - Consultation on Pillars 1 & 2 and new reporting framework
 - Pillars 1 & 2 final rules and guidance published
 - Pillar 3 Consultation Paper rules developed
-  **AML/ATF**
 - Consultation on AML/ATF legislative proposals completed
 - Legislation adopted
 - Guidance and Regulations completed
-  **Corporate Registration**
 - Consultation completed
 - E-filing in development
-  **Currency Activities**
 - Design of new banknote series unveiled
-  **Supervisory Review Process completed**



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 and Deposit Companies

Act 1999

The following section (pages 24 to 28) 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

• Basel II Implementation

The Authority completed a major overhaul of the banking policy framework to comply with the Basel II Accord, which introduces an enhanced supervisory framework and capital standard for banks, and some investment firms. Basel II has been widely accepted around the world as the next evolution in global standards for banking supervision and implementing this new policy ensures that Bermuda's regulation remains consistent with international best practice and expectations.

Following a lengthy consultation with industry, the Authority published its "Revised Framework for Regulatory Capital Assessment" on 30th June 2008 setting out in a single policy document the final rules for implementation in Bermuda of Pillars 1 and 2 of Basel II. Pillar 1 provides new rules for calculating the base capital

requirement for institutions, while Pillar 2 sets out the process under which the Authority reviews how institutions assess the amount of capital they should hold, given the full range of risks they are exposed to, and the quality of controls they have established to mitigate those risks.

The Authority also published a consultation paper on 18th July 2008 setting out the approach it proposed to adopt for the implementation of Pillar 3 of the Accord, which deals with disclosure and market discipline. After a period of consultation with industry participants which concluded in early December, the final rules for the implementation of Pillar 3 were incorporated into the "Revised Framework for Regulatory Capital Assessment" Handbook on 31st December 2008. The Authority has also published in final form the revised reporting framework for capital adequacy reporting of credit, market and operational risks together with related guidance notes.

Following the successful completion of this extensive policy revision project in 2008, the Authority met its key objective of implementing Basel II from 1st January 2009.

• College of Supervisors

On 17th September 2008 the Authority hosted its first college of banking

supervisors in Bermuda. The subject of discussion was an international financial group based in Bermuda for which the Authority is home regulator. A college of supervisors provides a forum for discussion and exchange of information between home and host regulators. Colleges are increasingly recognised internationally as playing an important role in cross-border supervision of groups. Attendees from six overseas supervisory bodies took part.

• IMF Report

On 17th October 2008 the International Monetary Fund's (IMF) Report of its 2007 assessment of financial regulation and supervision in Bermuda was published. The Authority was pleased to note a positive report with respect to banking supervision. The report concluded that "The regulatory and legislative framework is well-developed for the banking sector in Bermuda, and banking supervision has progressed both organisationally and in supervisory practices". This conclusion reflects the substantial effort that has gone into the revision of the banking policy framework and the enhancements to the risk assessment methodology and supervisory procedures that the Authority has put in place to ensure Bermuda's framework remains consistent with the internationally-accepted core principles for banking supervision endorsed by the Basel Supervisors' Committee. The report

also acknowledged the advanced state of preparatory work and policy development the Authority had reached for the implementation of Basel II.

Response to the Global Financial Crisis

• Managing the Financial Crisis

Overall Bermuda's banks continue to be in a strong financial position despite the ongoing global financial crisis. Bermuda's banks did not engage in the reckless lending practices associated with sub prime and Bermuda has a much stronger housing market than the United States or United Kingdom. In general, credit quality has held up very well, with little evidence of any upturn in delinquent loans. However, the local banking community has not been completely immune to the affects of sub prime in their investment portfolios. The Authority has been monitoring the sector very closely.

In the final quarter of 2008, the Authority undertook a major review of capital levels across Bermuda's banking sector. The results of this work showed that Bermuda's banks all continued to exceed the Authority's minimum capital requirements. As a precautionary measure, however, to be prepared for potential continued volatility in global markets, the Authority announced that it was requiring banks to hold an additional capital buffer to withstand a severe economic downturn.

The banks were asked to undertake stress tests as part of this process, requiring them to simulate the effects of a severe economic downturn on their investment portfolios and lending activities.

These stress tests were reviewed by the Authority. The Authority has also conducted its own independent stress test to benchmark the results of the banks.

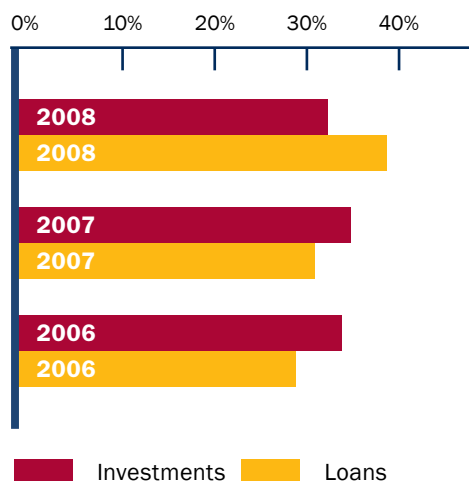
Based on the stress test results, the Authority and each bank have agreed on the level of capital that is required:

- (a) to absorb the losses simulated by a severe economic downturn; and
- (b) still maintain Tier 1 capital of at least 6% of risk-weighted assets, based on Basel II capital rules.

This is a prudent and conservative capital requirement for Bermuda's banks designed as a precautionary measure in light of the continuing global financial crisis. Maintaining 6% Tier 1 capital even after a severe economic downturn ensures that, even in the event of significant investment or lending losses, Bermuda's banks will continue to have adequate capital.

The Authority believes it is appropriate to set a conservative capital level for Bermuda's banks so that the banking sector has a highly prudent buffer against future losses. Given the prevailing unstable market environment, the additional capital buffer will serve to

Loans and Investments as a Proportion of Total Assets



support any potential losses that might occur in the banks' investment portfolios and lending books.

The Authority is continuing its close monitoring of market conditions and the Bermuda financial sector.

Overview of the Financial Position

Consolidated assets of Bermuda banks totalled \$22.8bn at 31st December 2008, a fall of 6% over the year. Customer deposits evidenced a similar trend however loans and advances rose by 17% to total \$8.8bn at the end of the year. Investments and deposits with other banks fell back during the year. There was an improvement in both the total and the core Tier 1 capital ratio, the latter increasing from 18.3% in 2007 to 19.0% at the end of the year. There was a noticeable decline in profitability across the sector relative to the previous year.

Overall, asset quality remained strong with past due loans totaling less than 2% of total loans, similar to the previous year. Notwithstanding an 18% growth in savings deposits, total deposit liabilities declined by 7% to total \$19.4 billion at the end of the year. The overall decline in deposit liabilities reflected a reduction in both demand and time deposits during the year.

Balance Sheet Structure

The sector experienced a shift in asset allocation during the year, as loans and advances accounted for about 39% of the banks' total assets (32% in the previous year), while investments fell to 32% (37% in the previous year). The proportion of deposits with other banks to total assets fell from 32% to 24%. The reduction in deposits with other banks was driven in part by Bermuda's banks responding to global market developments by cutting their lending limits to other banks.

Asset and Liabilities

At end 2008, consolidated assets of Bermuda banks totalled \$22.8 billion, a 6% decline compared to the previous year's level of \$24.2 billion. Within this total, there was a decline in deposits with other banks and investments of 34% and 14% respectively. The contraction in deposits with other banks and investments was partially offset by a 17% increase in loans and advances.

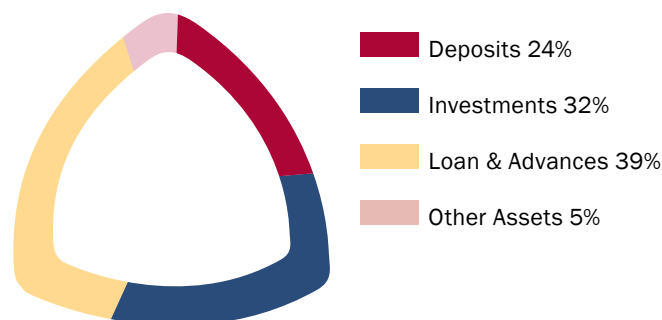
Earning and Profitability

During 2008, net interest income and income from fees and commissions declined by 2.8% and 2.0% respectively. The fall off in net interest income was due to the very low levels of interest rates during the latter part of the year. As a proportion of total income, however, both net interest income and fee and commission income increased to 52% and 39% respectively (49% and 36% in the

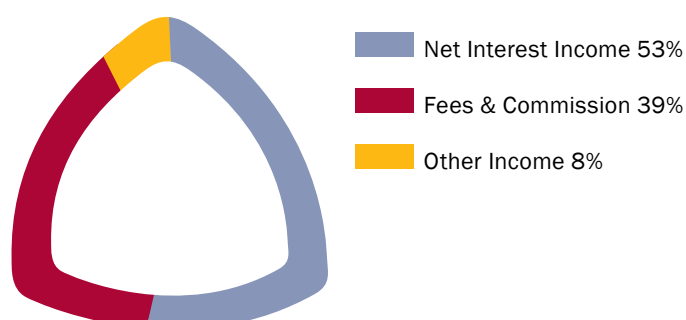
Banking Sector Assets & Deposits

	2008-Q4	2008-Q3	2008-Q2	2008-Q1	2007-Q4	2007-Q3
Total Assets (\$ millions)	22,805	24,277	24,355	24,995	24,168	23,576
Quarterly Change (%)	-6.06	-0.32	-2.56	3.42	2.51	-4.62
Total Deposits (\$ millions)	19,380	20,828	20,972	21,667	20,807	20,332
Quarterly Change (%)	-6.95	-0.69	-3.21	4.13	2.34	-4.95

Composition of Banks' Assets as at 31st December 2008



Banks and Deposit Companies Net Income (Consolidated)



previous year). A decrease in total income coupled with an increase in operating expenses of 6.9% resulted in an overall decline in the net income of the sector.

Capital Adequacy

The aggregate capital adequacy ratio of the banking sector remained strong during the year. Both the Tier 1 capital ratio and the total risk asset ratio (RAR) showed improvement over the previous year. At end December 2008, the aggregate RAR was 17.5% (17.1% at end 2007) and the Tier 1 capital ratio was 19.0% (18.3% in 2007).

The aggregate RAR remained well above the international prudential benchmark of 8% and Bermuda's own minimum requirement of 10%.

Effective 1st January 2009, the banks commenced the reporting of capital positions under the Authority's new capital framework, working to a new transitional minimum capital requirement of 12.5%. In due course this will be replaced by individual capital guidance based on a comprehensive assessment of risks in each of the banks.

Liquidity

The Authority conducted a review of liquidity management in the banks towards the end of 2008, focusing on the

governance arrangements around liquidity risk, use of stress-testing, adequacy of the stock of liquid assets each bank maintains and contingency funding arrangements. At the time of writing, the results are still being analysed. Where necessary, banks will be asked to strengthen their practices. The Authority will also consider what amendments may be necessary to its existing liquidity policy issued in May 2007, "The Measurement and Monitoring of Liquidity", to reflect recently updated guidance from the Basel Committee on Banking Supervision, "Principles for Sound Liquidity Risk Management and Supervision" issued in September 2008.

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 2008.

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.

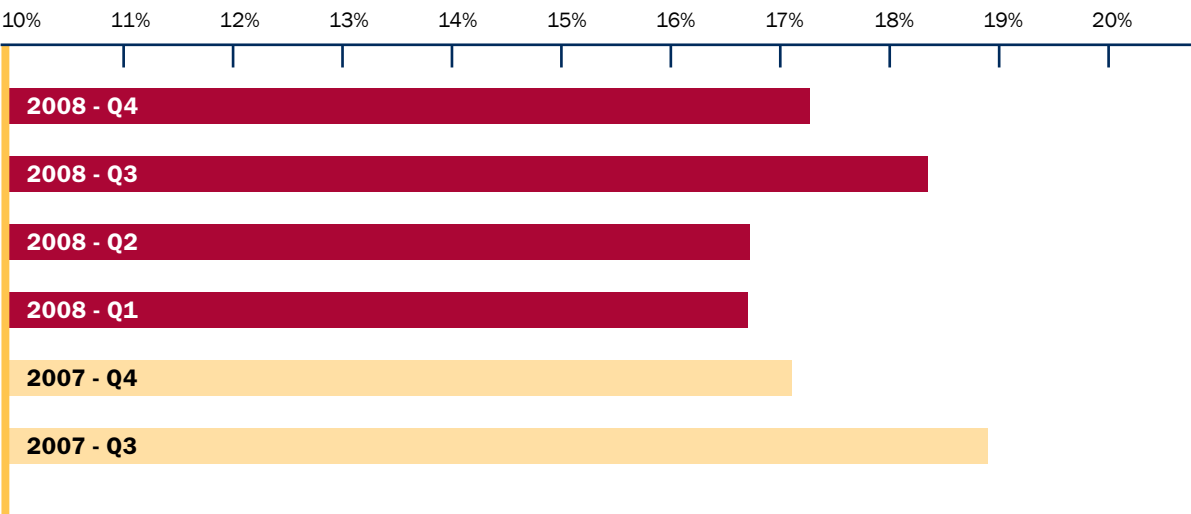
Section 27 enables the Authority to object when it concludes that an existing controller is no longer fit and proper; no such cases occurred in 2008.

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 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

Banking Sector Consolidated Risk Asset Ratio



of illegal deposit taking. There were no appeals against decisions of the Authority under the Act during 2008.

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.

The BIU Members’ Credit Union Co-op Society

The Authority undertakes certain supervisory functions delegated to it by the Minister of Finance under the Credit Unions Act 1982. Regular meetings with the Board and Management of the Credit Union were held throughout the year, and the Authority also conducted an on-site inspection of the Credit Union’s operations. The Authority began work on updating the legislative and regulatory framework and supervisory approach for credit unions in 2008. This involved extensive research to determine relevant standards and best international practice. Revising the Bermuda framework will result in the regulation of credit unions being brought within the Authority’s responsibility. At present, the Authority supervises Bermuda’s one credit union

on behalf of the Ministry of Finance. Completion of this project is one of the objectives set out in the Authority’s 2009 Business Plan. It is anticipated that new legislation will be tabled in Parliament by the end of 2009 following consultation in the first half of the year.

TRUST COMPANIES

Trusts (Regulation of Trust Business) Act 2001

The following section (pages 28 to 29) comprises the report the Authority is required to make annually to the Minister of Finance on the carrying out of its functions under the Trusts (Regulation of Trust Business) Act 2001, pursuant to section 5 of the Act.

Developments in the Trust Sector

Bermuda’s trust sector had a steady year. There were no legislative or regulatory changes within the sector although the new anti-money laundering provisions will apply to trust work in 2009. The Authority continued its liaison with the Society of Trust and Estate Practitioners (Bermuda Branch) the Bermuda Association of Licensed Trustees, and the Association of Bermuda Compliance officers. The market for recruitment of qualified staff continues to be challenging.

Ongoing Supervision

During the past year, the Authority conducted a series of prudential meetings with management of licensed trust companies under its supervisory risk-based approach for the trust sector. Two on-site reviews were also conducted.

Licensing

The Authority received no new applications for a trust licence during the year. One licence was surrendered during the year. Accordingly, there were 31 licences in operation at the end of the year.

Private Trust Companies

The Authority conducted reviews and recommended 13 private trust companies for incorporation during 2008, compared with 32 in 2007. 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. Monitoring of the submissions of required trust exemption certifications from newly incorporated private trust companies also continued, in particular with respect to their timeliness.

The Authority provided advice to the Ministry of Finance with respect to requests to amend the objects and to add

Bermuda Money Supply

(BD\$ millions)	2008-Q4	2008-Q3	2008-Q2	2008-Q1	2007-Q4	2007-Q3
Notes & Coins in Circulation*	141	119	118	114	125	110
Deposit Liabilities	3,815	3,821	3,783	3,709	3,634	3,666
Banks and Deposit Companies (unconsolidated)	3,956	3,940	3,901	3,823	3,759	3,776
Less: Cash at Banks and Deposit Companies	57	36	35	33	45	29
BD\$ Money Supply	3,900	3,904	3,866	3,790	3,714	3,747
% Growth on Previous Period	-0.10%	0.97%	2.02%	2.04%	-0.88%	1.88%
% Growth Year on Year	5.01%	4.19%	5.13%	8.63%	3.87%	5.35%

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.

trusts to the memorandum and articles of association of certain private trust companies.

Legislative Changes

There were no legislative changes during 2008.

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 received proposals for new shareholder controllers from one licensed undertaking during 2008. This remained under review at the end of the year.

Licensed undertakings continued to notify the Authority, in accordance with section 34 of the Act, of all changes in controllers and officers. 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 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 29 to 30) 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

\$88.2 billion* compared to \$180 billion the previous year. This reflects the significant downturn in securities markets worldwide. The aggregate capital of the licensed sector was \$1.1 billion as at the end of 2008.

Legislative Changes

No changes were made to the Act during the year.

Ongoing 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 11 prudential and strategy meetings with institutions

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

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

(BD\$ millions)	2008-Q4	2008-Q3	2008-Q2	2008-Q1	2007-Q4	2007-Q3
Deposit Liabilities	3,815	3,821	3,783	3,709	3,634	3,666
Less:						
Loans, Advances and Mortgages	(4,865)	(4,686)	(4,516)	(4,401)	(4,359)	(4,206)
Surplus Deposit	(1,050)	(865)	(734)	(692)	(725)	(540)
Percentage of Deposit Liabilities Lent	127.5%	122.7%	119.4%	118.7%	120.0%	114.7%

§ Following recent amalgamations within the sector, separate data for the deposit companies are no longer published.

or regulated groups as well as four 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 controls; 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 making 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 57 licences in issue at the end of 2007. One application remained outstanding. During the course of the year, the Authority received a further seven applications for licences, two of which remained outstanding at the end of 2008. One licence was surrendered during the year. As a result, a total of 61 licences were in issue at the end of 2008, while one application remained outstanding.

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 not used during 2008. 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. There was no need to use the power in section 28 or 30 to object to an existing controller or to make use of the powers in section 32 to restrict shares or seek an order for their sale.

During the year, seven 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. There was one instance during the year where the Authority used the powers in section 49 to investigate an investment provider.

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 2008 of the powers in Chapter 6 of the Act to publish a statement of public censure or in Chapter 7 to take protective measures. 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

Legislation

Money Service Business Regulations 2007

The Money Service Business Regulations 2007 (the Regulations) came into force on 16th January 2007. The Regulations provide for a licensing regime for any company (unless otherwise exempted) engaging in money service business

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

(BD\$ millions)	2008-Q4			2008-Q3			2008-Q2		
	Total	BD\$	Other	Total	BD\$	Other	Total	BD\$	Other
Assets									
Cash	96	57	39	76	36	39	75	36	40
Deposits	5,377	33	5,345	7,016	41	6,975	6,706	47	6,658
Investments	7,356	13	7,343	8,303	24	8,279	8,860	26	8,834
Loans & Advances	8,835	4,794	4,040	7,803	4,600	3,203	7,599	4,417	3,182
Premises & Equipment	462	352	110	454	359	95	474	358	117
Other Assets	680	87	593	625	95	530	641	87	554
Total Assets	22,805	5,335	17,470	24,277	5,155	19,121	24,355	4,970	19,384
Liabilities									
Demand Deposits	8,079	908	7,171	8,527	856	7,671	8,868	868	8,000
Savings	4,183	1,358	2,826	3,575	1,344	2,231	3,354	1,285	2,069
Time Deposits	7,117	1,558	5,559	8,725	1,615	7,110	8,749	1,653	7,096
Sub Total - Deposits	19,380	3,824	15,556	20,828	3,815	17,013	20,972	3,806	17,165
Other Liabilities	809	542	267	699	328	372	667	281	386
Sub Total - Liabilities	20,188	4,366	15,822	21,527	4,143	17,384	21,639	4,087	17,552
Equity	2,617	1,531	1,086	2,749	1,576	1,173	2,715	1,634	1,081
Total Liabilities and Capital	22,805	5,897	16,909	24,277	5,719	18,558	24,354	5,721	18,633

(BD\$ millions)	2008-Q1			2007-Q4			2007-Q3		
	Total	BD\$	Other	Total	BD\$	Other	Total	BD\$	Other
Assets									
Cash	70	35	35	80	45	35	67	33	34
Deposits	7,446	36	7,410	7,188	19	7,170	6,359	26	6,333
Investments	8,916	14	8,903	8,387	13	8,374	8,960	15	8,945
Loans & Advances	7,377	4,301	3,076	7,351	4,246	3,105	7,119	4,117	3,002
Premises & Equipment	466	355	111	449	345	105	429	339	90
Other Assets	719	110	609	713	89	624	643	81	561
Total Assets	24,995	4,851	20,144	24,168	4,756	19,412	23,576	4,611	18,965
Liabilities									
Demand Deposits	9,571	829	8,742	8,735	808	7,927	8,886	841	8,045
Savings	3,386	1,229	2,156	3,423	1,182	2,241	2,963	1,199	1,764
Time Deposits	8,710	1,664	7,046	8,650	1,649	7,000	8,483	1,630	6,853
Sub Total - Deposits	21,667	3,723	17,944	20,807	3,639	17,169	20,332	3,670	16,662
Other Liabilities	631	257	374	641	255	387	558	296	262
Sub Total - Liabilities	22,298	3,980	18,318	21,449	3,893	17,555	20,890	3,966	16,925
Equity	2,696	1,664	1,032	2,720	1,433	1,287	2,686	1,564	1,121
Total Liabilities and Capital	24,995	5,644	19,351	24,168	5,326	18,842	23,576	5,530	18,046

Totals may not add due to rounding.

Combined Banks and Deposit Companies Foreign Currency Position (Consolidated)

(BD\$ millions)	2008-Q4	2008-Q3	2008-Q2	2008-Q1	2007-Q4	2007-Q3
Total Foreign Currency Assets	17,470	19,412	19,412	19,412	19,412	18,965
Less: Other Assets P	593	625	671	720	624	561
Less: Foreign Currency Loans to Residents	1,148				975	975
Net Foreign Currency Assets	15,729	18,787	18,742	18,692	17,813	17,428
Foreign Currency Liabilities	15,822	17,384	17,552	18,318	17,555	16,925
P						
Add: BD\$ Deposits of Non-Residents	199	0	0	199	211	211
Net Foreign Currency Liabilities	16,021	17,384	17,552	18,517	17,767	17,136
Net Foreign Currency Position (consolidated)	(292)	1,403	1,190	175	46	292

Totals may not add due to rounding.

P denotes provisional figures.

as defined by the Bermuda Monetary Authority Act 1969 (the Act), either in or from Bermuda. The Regulations enable entities that wish to provide money transmission, bureau de change or cheque cashing services to obtain a licence to do so from the Authority. Issuing, selling or redeeming money orders or traveller's cheques for cash and intermediating or facilitating means of payment over the Internet also come under the scope of the new Regulations. The regulations do not apply to businesses that provide similar services on an ancillary basis without charge, such as hotels cashing guests' personal cheques or a retailer cashing a cheque for a customer. Licensed banks and deposit companies are also exempted from the Regulations.

Exemptions

Institutions licensed under the Banks and Deposit Companies Act 1999 are exempted from the Regulations. In addition, where a company provides any of the services set out in paragraphs (a) to (f) above as an ancillary service to its clients and does not levy a separate charge, the Authority is not likely to treat such an activity as being within scope of the Regulations.

Supervision

Supervision is intended to assist the Authority to assess the ongoing 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 institution's business activities and periodic on-site visits to the institution's premises. During 2008, the Authority conducted one prudential meeting with a money service business provider.

Licensing

No new money service business licence applications were received during 2008. One application under review at the beginning of the year was subsequently approved. Consequently, there were two licences in issue at the end of 2008.

INVESTMENT FUNDS

The aggregate net asset value of Bermuda's authorised funds decreased by 31% in 2008, to \$171.2 billion, from

\$249.2 billion at the end of 2007. This was a reflection of adverse conditions in global financial markets which led to a steep fall in the value of most asset classes during the year. The funds sector also had to contend with a sharp rise in redemptions and, with new subscriptions slowing steeply and in some cases stopping completely, a number of funds took the decision to wind down. The Authority dealt with a number of requests for amendments to approved service providers and for material changes to offering documents during the year. A notable change made by a number of funds was the suspension of redemptions or introduction of redemption gates in order to manage cash outflows.

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

Legislation

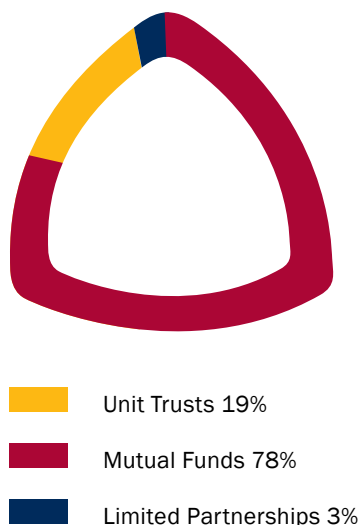
No changes were made to the Investment Funds Act 2006 (the Act) during the year.

The Act, which came into effect on 7th March 2007, introduced a licensing requirement for persons carrying on the business of a fund administrator in

Investment Fund Statistics

	2008-Q4	2008-Q3	2008-Q2	2008-Q1	2007-Q4	2007-Q3
Mutual Funds	819	878	886	883	881	879
Umbrella Funds	76	81	82	80	77	71
Sub-Funds	220	238	240	244	253	261
Segregated Account Companies	83	82	82	78	77	78
Segregated Accounts	336	390	383	388	391	396
Total	1,534	1,669	1,673	1,673	1,679	1,685
Unit Trusts	71	94	93	106	106	106
Umbrella Trusts	84	151	143	168	162	153
Sub-Trusts	198	221	213	214	215	215
Total	353	466	449	488	483	474
Total Portfolios	1,887	2,135	2,122	2,161	2,162	2,159
Total Number of Funds	1,133	1,286	1,286	1,315	1,303	1,287
Total Net Asset Value (In billions)	\$171.19	\$196.30	\$235.33	\$249.88	\$249.17	\$230.54

Investment Funds Applications Reviewed 2008



or from Bermuda, thereby making such companies subject to ongoing supervision by the Authority. After consultation with the industry, the Authority issued a Code of Conduct (the Code) for licensed fund administrators, which covers the duties, requirements and standards to be complied with, and the procedures and sound principles to be observed by persons conducting fund administration business.

The objectives of the Code are to ensure that licensed fund administrators act prudently in the conduct of funds administration business and with due skill, care and diligence in their operations.

Licensing

During 2008, 88 new investment funds were authorised, a marginal decrease compared to the 95 recorded in 2007. As in the past, these were mostly targeted towards institutional/sophisticated investors. At the end of the year, there were 1,887 different investment portfolios

operating within Bermuda's 1,133 authorised funds. This compared with 2,162 and 1,303 respectively at the end of 2007. There were 41 fund administrator licences in issue at the end of 2008. Five applications remained outstanding, two of which were approved and licences issued in January 2009.

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 and the vetting of the funds' service providers. The Act requires fund operators to furnish the Authority with such reports on funds' activities as the Authority may reasonably require. During the year, the Authority conducted a number of surveys of the industry to assess the impact of the financial crisis on the Bermuda market.

In the second half of the year, the Authority implemented a programme of on-site visits to fund administrators. The purpose of on-site supervision is to enable the Authority to review compliance with policies and procedures, as well as the effectiveness of processes that management have put into place to monitor and control key risks in the business.

The scope of the visits included a review of the organisational structure, strategy and financial position and an assessment of the policies and controls around risk management, fraud, new business acceptance, anti-money laundering, information technology and disaster recovery.

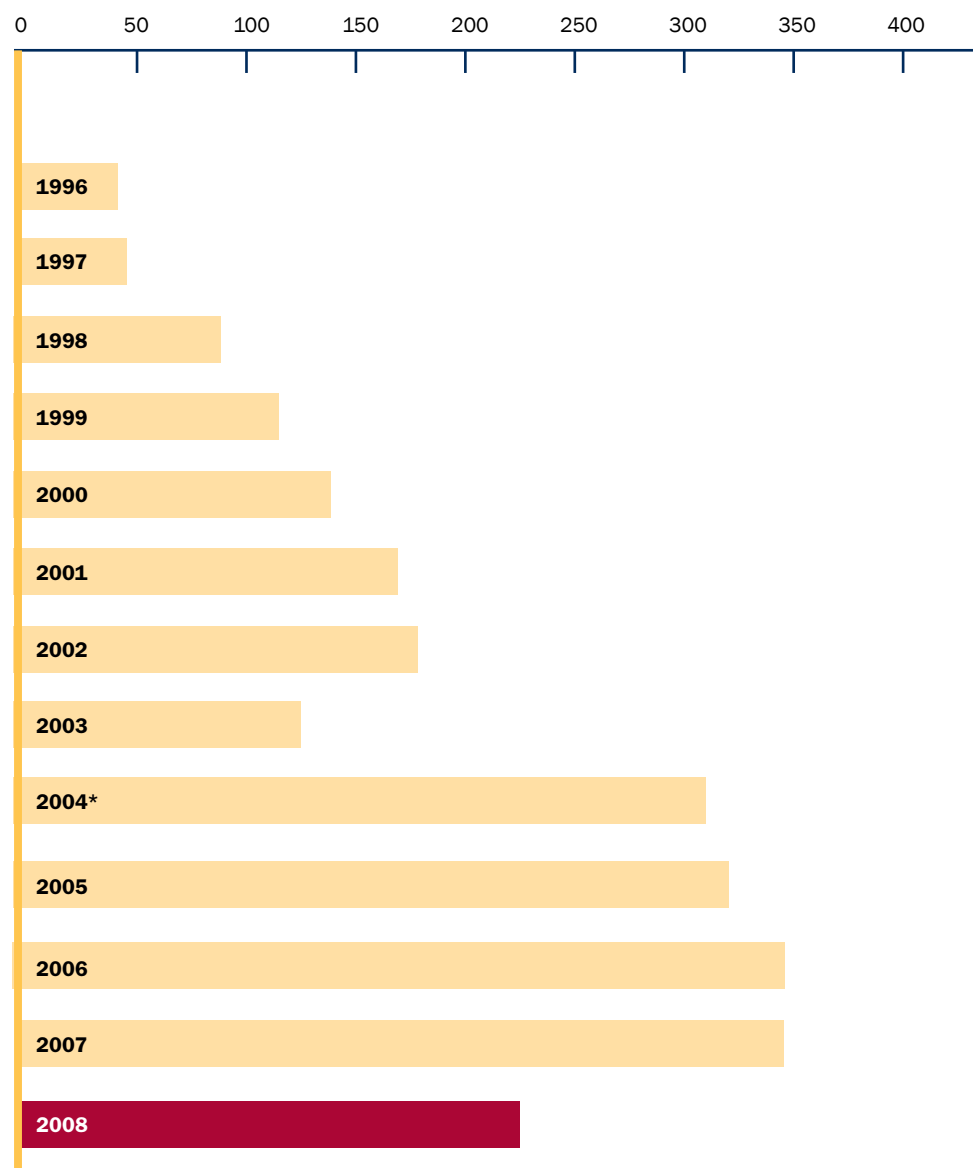
BERMUDA STOCK EXCHANGE

During 2008, the Bermuda Stock Exchange (BSX) experienced further increases in the number of international issuers and companies listing their securities on the BSX. The exchange also registered record domestic trading volumes during the year and was granted membership in both the America's Central Securities Depository Association (ACSDA) and the European Securitisation Forum.

The total market capitalisation of the BSX at 31st December 2008 (excluding fund listings) stood at over \$226 billion, of which approximately \$1.9 billion represented the domestic market. As at 31st December 2008, 599 issuers were listed on the BSX, an increase of 10% over the previous year. The Exchange also listed a further 55 international derivative warrants during the year, nine new collective investment vehicles along with nine secondary issues. Domestic trading volumes increased from 5.3 million shares in 2007 to 6.8 million shares in 2008, with corresponding values of \$165 million and \$99 million respectively.

The Authority continued its supervision and oversight of BSX activities, with particular regard to the status of the BSX as a recognised investment exchange under Part IV of the Act. The Authority conducted regular prudential meetings with BSX senior management, focusing on operational, performance and strategic issues, in addition to matters regarding the surveillance of trading activity.

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



* includes secondary listing of HSBC Holdings in 2004.

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 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 and the Financial Crisis

The global financial crisis and the soft markets of 2007 and 2008 were the main factors impacting the performance of Bermuda's insurance market. In common with insurance centres worldwide, Bermuda's insurance market reported marginal growth for the reporting period. Total assets for the sector at the end of 2007 were \$441.3 billion, compared to \$440.4 billion the previous year.

The overall underwriting results* for the Bermuda market remained strong, indicating ongoing confidence in Bermuda's leadership position as a global insurance centre. Based on Statutory Financial Returns filed with the Authority for 2007, the Bermuda market reported gross premiums written amounting to \$124.3 billion for the year, surpassing the \$115.8 billion written the prior year.

Bermuda's position as a leading domicile for captive registrations remained intact notwithstanding the challenging economic conditions. Captive companies remained a significant proportion of Bermuda's licensed insurance entities recording a total of \$19.5 billion in gross premiums written in 2007. Bermuda's commercial (re)insurance sector also remained strong, writing total gross premiums of \$104 billion, a year-on-year increase of 11%.

From a licensing perspective, a total of 40 new (re)insurers were approved by the Authority, as compared to 71 in 2007. This change is indicative of the general incorporation trends in the industry worldwide. The majority of the new market entrants for 2008 were once again Class 3 insurers, comprising a combination of captive and commercial companies. There were two new Class 4 companies approved in 2008. The greatest proportion of business came from the US during 2008, with respect to both the captive and commercial markets.

Overall the Bermuda market has proven to be resilient in the face of the financial storm that dominated 2008. Firms most directly impacted included financial guaranty reinsurers, which experienced some challenges with exposures to sub prime-related underwriting. The Authority worked very closely with these particular companies, and international regulators, and assisted in arranging acceptable commutation agreements that would help them meet their financial commitments as far as possible. Additional surveys and stress tests were conducted during the year as part of the Authority's continued monitoring of the crisis on the Bermuda market. As the crisis deepened to affect the markets generally, insurers experienced pressures on their investment portfolios, as a result of the volatility in

* Underwriting results are compiled from Statutory Financial Returns (SFRs) filed with the Authority. Companies submit SFRs on a staggered basis throughout the year following the financial year end. Due to this staggered schedule complete year-end figures for this report are from 2007.

the global financial markets, particularly during the latter quarters of 2008. This overall downturn generally affected firms and resulted in insurance sector losses equivalent to those derived from a major hurricane event.

Approach to Supervision

During 2008, the Authority completed a number of initiatives to further develop its supervisory framework, as part of its ongoing review and enhancement of insurance regulation in Bermuda. These most recent developments were made in preparation for the Authority to meet its mid-term objective of achieving mutual recognition under Europe's forthcoming Solvency II Directive. They also support the long-standing balance between effective regulation and the progressive business environment that is a main feature of the Bermuda market.

In terms of significant legislative changes, the Insurance Amendment Act 2008 introduced, among other matters, provisions to establish an enhanced solvency regime for Bermuda's commercial (re)insurers which includes: the introduction of the Bermuda Solvency Capital Requirement, the Authority's risk-based capital adequacy model; standardised stress testing information on market and underwriting risk; a provision to impose capital add-ons

where deemed appropriate; and the requirement to file audited GAAP financial statements as a further step to increasing financial disclosure within the sector. All of these enhancements apply to Class 4 companies. The Authority intends to extend them to Class 3B companies over time.

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

The Insurance Accounts Amendment Regulations 2008 and the Insurance Returns and Solvency Amendment Regulations 2008 (collectively, the Insurance Regulations) were also passed by Parliament and came into force at the

end of 2008. The Insurance Regulations formally make insurers who re-registered under the Authority's revised classification for Class 3 companies (i.e. Class 3, Class 3A, Class 3B, or Special Purpose Insurer) subject to similar provisions as existing classes of insurers, including filing of statutory financial returns and minimum solvency requirements.

As an initial step to the implementation of a group supervision framework, the Authority successfully hosted its first series of supervisory colleges for three of Bermuda's Class 4 (re)insurers. The supervisory colleges bring together foreign regulators with responsibility for subsidiaries or affiliates of Bermuda-based insurance groups to discuss supervisory or regulatory issues of common interest arising from supervising each entity. They also assist the Authority in developing stronger relationships with international regulators, as well as with developing a more global and cooperative approach to the day-to-day supervision of these large international financial groups.

The Authority also began work on a Discussion Paper entitled "Implementing Group-wide Supervision" as a next step in the development of its group supervision framework. The Discussion Paper, which is expected to be published at the end of the first quarter 2009, highlights critical

Market Statistics by Company Type For the year ended 31st December 2007

Company Type	No. of Co's	Gross Premiums	Net Premiums	Total Assets	Capital and Surplus
Captives					
Association Captive	112	3,859,302,373	3,283,727,311	20,555,182,192	7,022,378,551
Captive writing 3rd party	172	7,071,892,067	6,084,875,677	39,881,494,237	14,142,879,431
Group Captive	101	2,098,945,462	1,713,244,044	5,020,033,275	1,643,550,442
Health Care Captive	56	687,178,878	625,197,529	3,364,584,666	894,042,912
Rent-A-Captive	75	1,488,595,004	723,605,512	3,431,766,165	1,015,295,355
Single-Parent Captive	304	4,226,894,343	3,343,288,947	16,522,880,539	11,096,419,852
Sub-Totals:	820	19,432,808,127	15,773,939,020	88,775,941,074	35,814,566,543
Professional Ins./Reinsurers					
Affiliated Reinsurer	59	16,015,219,737	13,443,256,487	34,515,649,792	11,243,004,276
Class 4 Ins./Reinsurer	39	33,514,042,109	29,902,148,588	151,366,619,511	68,392,745,775
Professional Ins./Reinsurers	403	55,447,958,117	51,638,598,502	167,577,231,963	51,784,207,320
Sub-Totals:	501	104,977,219,963	94,984,003,577	353,459,501,266	131,419,957,371
Totals:	1,321	124,410,028,090	110,757,942,597	442,235,442,340	167,234,523,914

issues the Authority would be considering for inclusion in its proposals such as the determination of group solvency, the treatment of intra-group transactions, eligible capital, reporting requirements, group corporate governance and risk management.

Licensing

Out of the 57 insurance-related applications received during 2008, 52 of these were approved, three remain outstanding with deferred status and two were declined. Of the successful applications, 36 were for insurers ranging from Class 1 to Class 4. There were four applications for Long-Term insurers and one for a Dual License, which was a Class 3 and Long-Term insurer. The remaining 11 applications were for insurance agents, insurance brokers and insurance managers. As required by the Act, the Authority maintains a register giving details of each licensed insurer. This register can be made available for inspection by members of the public at the Authority's offices.

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.

b) Solvency Margin Maintenance

Bermuda's existing strict minimum solvency margin requirements continue to support the overall stability of the insurance sector. These 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.

Ongoing Supervision

The Authority's on-site programme continued to be a key element of its supervisory approach for Bermuda's insurance sector. During the year the Authority conducted on-sites for all Class 4 companies registered prior to 31st December 2007. The Authority also conducted inspections of five insurance managers and one start up company, as part of its Insurance Manager On-site and Start-up Audit programmes.

Regular prudential meetings took place with the management of (re) insurance companies throughout 2008, as part of the Authority's supervisory responsibilities. These meetings continued to provide opportunities to maintain close monitoring of corporate issues and general industry developments. The visits were supplemented with assessment from on-site visits and continuous analysis of financial returns.

Market Statistics by Domicile of Beneficial Owner/s For the year ended 31st December 2007

Domicile of Owners	No. of Co's	Gross Premiums	Net Premiums	Total Assets	Capital and Surplus
Captives					
Africa/Middle East	5	67,145,029	15,474,960	123,809,646	45,584,813
Asia	23	681,106,628	621,576,855	1,255,895,021	519,125,621
Australia/New Zealand	9	33,026,536	20,528,499	324,700,409	252,711,568
Bermuda	52	772,880,950	612,963,762	2,695,157,671	1,059,648,654
Caribbean/Latin America	30	774,109,282	478,632,618	1,743,783,514	785,582,941
Europe	119	3,672,355,448	2,989,989,585	14,200,677,063	8,658,365,319
North America	581	13,431,508,594	11,034,097,081	68,429,572,419	24,491,384,587
Worldwide	1	675,660	675,660	2,345,331	2,163,040
Sub-Totals:	820	19,432,808,127	15,773,939,020	88,775,941,074	35,814,566,543
Professional Ins./Reinsurers					
Africa/Middle East	6	2,703,346,407	2,687,663,624	6,543,634,069	203,408,541
Asia	17	417,645,967	360,230,216	1,813,510,107	1,133,958,360
Australia/New Zealand	1	1,990,811,959	1,813,547,167	2,636,600,860	748,423,285
Bermuda	100	22,787,672,006	20,209,266,758	123,229,598,497	50,608,011,551
Caribbean/Latin America	23	1,341,839,793	1,250,553,138	9,636,408,091	4,138,064,874
Europe	78	14,111,353,527	13,077,975,797	34,767,075,017	11,452,888,789
North America	275	61,377,196,680	55,337,413,253	174,187,156,670	62,667,315,332
Worldwide	1	247,353,624	247,353,624	645,517,955	467,886,639
Sub-Totals:	501	104,977,219,963	94,984,003,577	353,459,501,266	131,419,957,371
Totals:	1,321	124,410,028,090	110,757,942,597	442,235,442,340	167,234,523,914

The Authority had occasion to use its statutory powers to intervene with licensed entities formally under the Act, including powers under Sections 18A (2) (a), 18A (2) (b), and 31A (1), S31B(4); S32(1)(a); S32(2)(f); S41(1)(b)(iii) and S41(1)(b)(iv). The events causing the use of these powers were in relation to breaches of solvency margins, incorrect capital extraction from companies, liquidity ratios, insolvencies and failure to submit statutory returns.

International Developments

The Authority has an ongoing programme to ensure and maintain consistency with international standards for insurance regulation. The Authority keeps abreast of relevant issues in insurance regulation

through its participation in the various fora at which developing international standards are discussed, in particular the IAIS. During the year the Authority increased its membership in IAIS committees, including holding leadership positions of Chairman in the Reinsurance Subgroup, Co-Vice Chairman in the Reinsurance Sub-committee and Vice Chairman in the Insurance Groups and Cross-sectoral Sub-committee. This participation allowed the Authority to contribute to the development of standards, such as IAIS's 28 Insurance Core Principles, which are currently under review. The Authority was also actively involved with the development of IAIS guidelines on mutual recognition between regulators, and procedures for considering

solvency and other issues at a group level. The Authority also maintained an active dialogue with its supervisory counterparts and key standard setters in Europe, with particular focus on progress towards Solvency II implementation. In terms of other key markets, the Authority built closer working relationships with the National Association of Insurance Supervisors (NAIC) and US state insurance commissioners, and kept abreast of development in the NAIC's solvency modernisation port of entry proposals. The Authority also worked with relevant insurance commissioners with respect to insurance groups impacted by the economic downturn.

Market Statistics by Class of Insurer For the year ended 31st December 2007

Class of Insurer	No. of Co's	Gross Premiums	Net Premiums	Total Assets	Capital and Surplus
Class 1	329	4,409,633,164	3,511,438,579	17,287,445,278	11,251,323,788
Class 2	338	8,079,791,323	6,602,871,657	45,100,308,944	15,856,168,713
Class 3	522	49,453,313,002	41,788,235,281	151,348,598,371	58,073,949,548
Class 4	39	33,514,042,109	29,902,148,588	151,366,619,511	68,392,745,775
Long-Term	93	28,953,248,492	28,953,248,492	77,132,470,236	13,660,336,090
Totals:	1,321	124,410,028,090	110,757,942,597	442,235,442,340	167,234,523,914

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;
 (b) a single parent and multi-owner captive: (i) insuring the risks related to or arising out of the business or operations of the owners and affiliates, and/or (ii) deriving up to 20 percent of its net premiums from unrelated risks.
- c) Class 3 - Insurers and reinsurers not included in Class 1, 2 or 4, such as:
 - i) Reinsurers writing 3rd party business;
 - ii) Insurers writing direct policies with 3rd party individuals;
 - iii) Single parent, group, association, or joint venture captives where more than 20% of net premiums written arises from risks which are unrelated to the business of the owners;
 - iv) Finite reinsurers and rent-a-captives.
- d) Class 4 - Insurers and reinsurers capitalised at a minimum of \$100 million underwriting excess liability and/or property catastrophe reinsurance risk.
- e) Long-Term Insurers - Insurers writing long-term (or life) business.

Class of Insurer Incorporated

Class of Insurer	2008	%	2007	%
Class 1	6	15	9	13
Class 2	6	15	2	3
Class 3	22	53	45	63
Class 3 & Long-Term	2	5	3	4
Class 4	4	10	2	3
Long-Term	1	2	10	14
Grand Totals:	41	100	71	100

Analysis of all International Insurers Registered

Class of Insurer	2008	%	2007	%
Class 1	333	24	353	24
Class 2	356	26	380	26
Class 3	459	34	504	34
Class 4	32	2	30	2
Long-Term	92	7	103	7
Dual Licences	100	7	111	7
Grand Totals:	1372	100	1481	100

Actuarial Services

The Actuarial Services Unit supports the Authority in a wide range of areas including: the carrying out of supervisory functions; the development of policy; and representation at industry and international fora. The Unit brings extensive technical and market experience to the Authority, enabling less of a reliance on external expertise in this area. Some of the work the unit was involved with during 2008 includes:

Internal Capital Models

Consistent with international regulatory best practice, the Authority is developing a framework to allow companies to use internal capital models for the determination of regulatory capital and the Actuarial Unit is leading this process. In 2008 the Actuarial Unit carried out extensive consultation with industry, which included a survey and related report on capital modelling practices. This report was well received by the Bermuda market and attracted considerable international attention. It encapsulates the technical sophistication of the Bermuda market and the intellectual rigour being applied by the Authority in a very difficult area. Reviews were also carried out in 2008 on several companies' capital models.

Financial Guaranty Sector

In consultation with industry, the Actuarial Unit developed guidelines on liability and capital estimation for financial guaranty firms. The Authority's work in this area is widely recognised as setting the benchmark for international best practice. The Unit drafted a paper entitled "Policy Response to Financial Guaranty/Monoline Solvency" for the International Association of Insurance Supervisors' input to the Financial Stability Forum's deliberations on the global financial crisis.

Assessment and Licensing

The Actuarial Unit provides support to the Assessment and Licensing Committee on the review of business applications and has developed guidelines setting out criteria for the Authority's staff to use in assessing these applications.

Ongoing Supervision

The Actuarial Unit has enabled the Authority to increase the depth and rigour of the company review process. In 2008 the Unit supervised the review of a number of financial guaranty insurers, and supported the Authority's review of a number of insurers, particularly focusing on reserving, underwriting, risk aggregation and capital management.

During the year the Unit provided support on a range of issues, including requests that required regulatory approval. These requests included capital extraction, mergers and acquisitions and the analysis and application of developments in accounting, actuarial science and other practices, including the interpretation of fair value reporting standards.

The Actuarial Unit also developed guidelines for dealing with potential conflicts of interest and procedures for assessing the suitability of each applicant for the statutory positions of Loss Reserve Specialist and Approved Actuary.

Ongoing Policy Development

The Unit was also responsible for leading projects to review Bermuda's life insurance solvency and capital framework and liability determination for non-life insurers.

Assessment and Licensing Committee

During 2008, the Authority received a total of 96 applications that went before its Assessment and Licensing Committee (ALC). Out of the 96 applications, 57 were Insurance-related and 39 were Banking, Trust and Investment (BTI)-related.

Insurance Applications

Out of the 57 insurance applications received, 52 of these were approved, three remain outstanding with deferred status and two were declined. Of the successful applications, 36 were for insurers ranging from Class 1 to Class 4. There were four applications for Long-Term insurers and one for a Dual Licence, which was a Class 3 and Long-Term insurer. The remaining 11 applications were for insurance agents, insurance brokers and insurance managers. As required by the Act, the Authority maintains a register giving details of each licenced insurer. This register can be made available for inspection by members of the public at the Authority's offices.

Banking, Trust & Investment Applications

All 39 of the BTI applications reviewed by the ALC were approved; 32 of these were for fund administrators. The remaining seven included six investment business applications and one money service business application.

The large number of fund administrator applications during 2008 was driven by the Investment Funds Act 2006 (the Act) coming into effect on 7th March 2007. The Act replaced The Bermuda Monetary Authority (Collective Investment Scheme Classification) Regulations 1998. It introduced the requirement for any fund administrator carrying on business in Bermuda to apply for a licence. Entities had up to 12 months to comply with this new requirement. All current fund administrators could continue to conduct business as long as their application was pending approval. Any new start-up fund administrators are required to obtain a licence prior to setting up business.

In summary, the 2008 breakdown of applications approved by the ALC are as follows:

Class 1	6
Class 2	6
Class 3	22
Class 4	2
Long-Term	4
Dual Licence	1
Agent	2
Manager	3
Broker	6
Investment Business	6
Fund Administrator	32
Money Service Business	1
Total	91

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 effectively execute the Authority's risk-based supervisory programme.

During the year the department worked in conjunction with the supervisory departments to successfully complete various initiatives in accordance with the Authority's work plan as outlined in the 2008 Business Plan.

As a preliminary step in the development of its group supervision framework, the Authority hosted the first in a series of supervisory colleges with peer regulators. PRRAD collaborated with the Banking, Trust and Investment department (BTI) and the Insurance department to host two colleges during the year.

PRRAD also assisted BTI with the publication of the Authority's 'Revised Framework for Regulatory Capital Assessment', the policy Handbook that outlines the Authority's rules for implementing Pillars 1, 2 and 3 of the Basel II Capital Accord for banking supervision. The department also participated in the design of the revised Basel II compliant reporting framework, and in the drafting of related guidance notes. The guidance notes provide a standardised approach to preparing the prudential information return, which banks are required to submit to the Authority on a quarterly basis.

PRRAD assisted BTI with the development of a revised supervisory framework for Bermuda's credit union. The purpose of this initiative is to ensure that the Authority's

framework remains consistent with current international standards with regard to credit union regulation. The first phase, which involved preliminary research of standards and international best practice, was completed during the year. A draft Consultation Paper, which outlines the Authority's proposals for enhancements to the Credit Union regulatory regime, including transferring the responsibility for regulation from the Ministry of Finance to the Authority, is currently in development and will be issued to stakeholders for consultation later in 2009.

Risk Assessment

The Authority's risk-based assessment framework facilitates a deeper understanding of the risk profile of regulated financial institutions and how the risks related to them evolve. The framework has increased the consistency of risk assessment procedures applied to institutions, and hence comparability between them, together with establishing an early warning methodology which focuses on emerging risks.

The process was applied in evaluation of institutions throughout 2008 and involves an assessment of the likely occurrence of risk and identification of the potential impact of difficulties occurring with particular entities. The impact analysis includes a review of factors such as the scale of business, the customer bases and

the likely impact on Bermuda's economy of any problems that might arise. The evaluation of the individual institution's risk profile is performed by applying numerical ratings based on a number of relevant core criteria, including factors such as financial condition, overall business conduct, risk management processes and internal controls. The assessment includes, but is not limited to, quantification of both absolute and relative levels of institution specific risk and includes a review of environmental and industry risks. The supervisory programmes are then tailored more directly to those entities with overall qualifying risk scores.

Stress Testing Initiative

The department spearheaded a series of stress tests applied to both the banking and insurance sectors during the year. This activity supported the Authority's ongoing monitoring and management of the impact of the global financial crisis on Bermuda's market.

The legislative framework for insurance regulation was amended to provide for the implementation of the elements of the new solvency regime. These included the introduction of the Bermuda Solvency Capital Requirement (BSCR), the Authority's risk-based capital adequacy model; the development of an internal models framework to assess and approve internal capital models for the determination

of required regulatory capital; both standardised and company specific stress testing on market and underwriting risk; the ability to impose capital add-ons as necessary; and enhanced financial disclosure requirements.

During the year the Authority issued the Insurance (Prudential Standards) (Class 4 Solvency Requirement) Order 2008. The Order sets the prudential standards for the enhanced capital requirement and capital and solvency returns with which (re) insurers must comply. It also establishes the BSCR and related schedules, discusses the approval of internal capital models and elaborates on the capital and solvency return requirements. The Order also details the Enhanced Capital Requirement (ECR), which is the greater of the Minimum Solvency Margin (the calculation of minimum solvency under the existing regime) or the BSCR/approved internal model.

In support of the BSCR Model, the Insurance Accounts Regulations 1980 (the Regulations) were amended to upgrade the reporting requirements of Class 4 insurers, replacing the existing financial statement forms and instructions with expanded and more detailed versions. The Regulations were updated to reflect enhancements to the statutory balance sheet, statutory statement of income and notes to the statutory financial statements

for Class 4 companies. Class 4 (re)insurers are required to file on or before the filing deadline, the audited statutory financial return and the unaudited ECR, including its schedules, as noted above. Audited general purpose public financial statements are now also required as part of an insurer's filing. The department also carried out a trial run of the BSCR Model for the Class 4 sector during the year. In support of this initiative, the Authority continued its consultation with the market, which assisted in refining the BSCR Model prior to it being fully implemented.

After in-depth consultation with industry, the Commercial Insurer Risk Assessment (CIRA) tool was incorporated into the BSCR Model. The CIRA is a tool that enhances the Authority's risk-based supervisory framework by determining the operational risk charge to be assigned to an insurer for the purposes of calculating its ECR. The Authority issued Guidance Note 17 to assist industry in populating the tool. The operational risk charge can range between 1% and 10%, depending on the effectiveness of a firm's risk management processes, and is applied to the BSCR after the co-variance adjustment.

Group Supervision

The Authority continued its planning for the introduction of group supervision for Bermuda insurers. PRAAD completed an internal position paper that outlines the

scenarios under which the Authority would assume the role of lead supervisor in the context of group supervision. This paper provided the basis for the discussion paper on group supervision which the Authority finalised in the first quarter of 2009. The Authority will continue developing its proposals in this regard during 2009.

Financial Crisis

The Authority continued to actively monitor the impact of the global financial crisis on the Bermuda market throughout 2008. A review of the credit quality of our local banking sector was carried out during the year with a special focus on provisioning practices, to assist in understanding the inherent credit risk in the sector. An analysis of exposure to mortgage backed securities was also carried out during the year to assess the likely impact of the sub prime crisis on Bermuda's banking sector.

Two additional market impact studies were carried out with the insurance sector as part of ongoing monitoring of their exposure to the crisis during 2008. The survey responses provided the Authority with an update of the ongoing developments in relation to the crisis and assisted in identifying any contagion that existed within the Bermuda financial sector as a whole. The results of the studies showed that, while the insurance sector had exposure to sub prime, the exposure did not cause or result in any

systemic challenges to the industry or to the Bermuda jurisdiction as a whole. The Authority closely monitored the insurance sector and worked with those institutions to reduce their exposure. The insurance market, despite the challenges it faces with the ongoing financial crisis and the competitive nature of the insurance sector, has continued to demonstrate resilience. The latest financial crisis study was issued to the high profile (re)insurers, long-term (re)insurers and the dual licensed (re)insurers in December 2008. The Long-Term insurers in particular will receive heightened monitoring given the nature of their business. The results of this most recent study are pending.

Research

Report on the Annual Market Survey on Captives

The Authority concluded its annual study on the Bermuda captive insurance sector in partnership with the Bermuda Insurance Management Association. The study, which includes five years of data from 2003-2007, focuses on financial data, market segments and geographical distribution of risks assumed. The results of the survey were presented during the Bermuda Captive Conference in June 2008. Further, the results were also presented at the 10th Latin American Conference on Risk Management and Insurance, which took place in Buenos Aires, Argentina in November 2008. The survey results are available on the Authority's website: www.bma.bm. The final report from the survey was published during the first quarter of 2009.

Survey of External Stakeholders' Views

PRRAD conducted the Authority's first External Stakeholders' Views Survey which involved soliciting the opinions of 317 Bermuda based businesses that interact with the Authority. This process included

banks, trust companies, investment businesses, insurers, law and accounting firms and financial service providers, among others. Of the 317 surveys that were mailed, 146 (46%) questionnaires were completed and returned. The results of the survey showed strong support for the Authority's performance against its strategic goals and objectives, in particular, its ability to protect Bermuda's reputation and competitive position. Respondents, who made submissions anonymously, also gave high ratings for key areas such as: transparency in business objectives and processes; inclusiveness (for industry consultation); delivering on commitments (in particular progress on the Authority's Business Plan projects); knowledge and professionalism of staff; responsiveness and communicating effectively. The full results are available on the Authority's website: www.bma.bm.

International Association of Insurance Supervisors (IAIS) Global Reinsurance Market Report 2008

Led by the Reinsurance Transparency Group of the IAIS, this Report focuses on the trends and performance of global reinsurance markets, drawing on data from carriers in eight countries: Bermuda, France, Germany, Japan, Switzerland, UK, USA and Spain. This year, PRRAD assisted with enhancing the Report by contributing to the analytical content and editorial flow, in addition to compiling data from the market to develop Bermuda's submission. A copy of the Report is available on the IAIS website: www.iaisweb.org.

International Monetary Fund (IMF) Information Framework study (under IMF Offshore Financial Centres' Initiatives)

This undertaking collates data on financial sectors from a variety of jurisdictions, such as data on structural and activity indicators covering the banking and insurance

industries and collective investment schemes; information on the number of company and trust service providers; and statistical indicators of financial sector contributions to the economy. Since its inception in 2005, the Authority has contributed to this Framework. In 2008, the Authority provided aggregate data as at year end 2007 on the following items regarding Bermuda banks: the number of banks, total asset, loan and deposit figures for on-balance sheet items; off-balance sheet activity relating to guarantees, commitments and other credit substitutes; fees and commissions as a percentage of gross income; assets under management; the value of derivative contracts held by banks; and evaluating banks by financial soundness ratios. For the insurance sector, the Authority provided data on the number of active insurance companies along with gross and net premiums written, as well as total assets. Statistics for the total net asset values for collective investment schemes; the number of trust service providers and financial sector contributions to the economy were also provided.

IAIS Participation

The department spearheaded the Authority's active involvement and participation in various IAIS initiatives throughout the year, including the following:

Insurance Groups and Cross-sectoral Issues Subcommittee

The Authority is a member of this Subcommittee and contributed to the successful adoption of two papers by the IAIS on the increasingly important issue of group supervision: Principles on Group-Wide Supervision and the Guidance Paper on the Role and Responsibilities of a Group-Wide Supervisor. Both papers were approved at the IAIS tri-annual meeting in Budapest in October 2008 and can be found on the IAIS website: www.iaisweb.org.

The Authority also is a member of the drafting team for the IAIS Guidance Paper on the use of supervisory colleges in group-wide supervision. This paper will provide guidance to be considered by regulators when hosting or participating in supervisory colleges for internationally active insurers.

IAIS Captive Guidance Paper

The Authority was a member of the Captive Guidance Paper Drafting Subgroup within the Reinsurance Subcommittee. Members of PRRAD participated in finalising the Guidance Paper on the Regulation and Supervision of Captive Insurers. This guidance paper was approved at the IAIS tri-annual meeting in Budapest in October.

Mutual Recognition Guidance Paper

The Authority is a member of the Reinsurance Mutual Recognition Subgroup within the Reinsurance Subcommittee and participated in finalising the Guidance Paper on the Mutual Recognition of Reinsurance Supervision. This guidance paper was also approved at the IAIS tri-annual meeting in Budapest in October.

IAIS Glossary Project

PRRAD assisted with the IAIS Glossary project and delivered a draft to the IAIS Solvency and Actuarial Issues Subcommittee in April. The purpose of the Glossary is to assist in creating consistency on a global level with regard to insurance terms. The existing IAIS insurance terms were assessed then compared with terms of major jurisdictions and a determination was made as to whether the terms needed to be updated, or where necessary if new definitions had to be developed.

Insurance Core Principles Review Task Force

In September 2008 members of the department represented Bermuda on the Insurance Core Principles (ICP) Review Task Force and contributed to the redrafting of Insurance Core Principles 11-17. These Core Principles include: ICP market analysis; reporting to supervisors and off-site monitoring; on-site inspection; preventive and corrective measures; enforcement of sanctions; winding up and exit from the market; and group-wide supervision.

IAIS Meetings in Bermuda

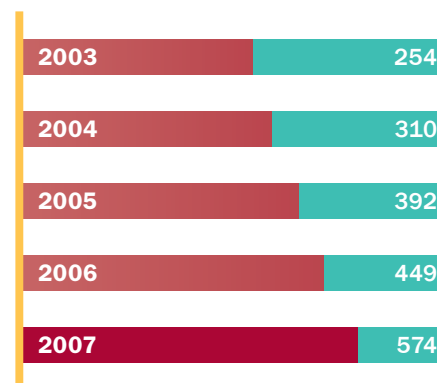
The Authority hosted the meetings of the Reinsurance Transparency Group in Bermuda during second quarter 2008 and the IAIS Solvency and Actuarial Subcommittee meetings in April 2008.

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 2007 show that total cross border investments held by Bermuda entities totaled \$573.7 billion, up by 28% from the figure of \$448.7 billion for 2006. Investments include equities and long-term and short-term debt. Full results of the survey are posted on the IMF website www.imf.org. Data for the period 2003 to 2007 is reported in the following chart:

CPIS: Bermuda Cross-Border Portfolio Investments, 2003-2007 (US\$ billion)



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 2008 show that at the end of the year Bermuda's banks had aggregate cross-border claims of US \$11.4 billion (2007: US \$ 12.6 billion) and total cross-border liabilities of US \$11.1 billion (2007: US \$11.8 billion). Comprehensive coverage of locational statistics dating back to 1977 is available from the BIS website: www.bis.org.



A Prudent Monetary Authority

International Supervisory Cooperation

The challenging financial environment that dominated 2008 emphasised the importance of supervisory cooperation among regulators with responsibility for financial markets with international scope. The deepening global financial crisis evoked increased debate on the issue of regulatory reform within all sectors of the financial industry. The Authority actively monitored and contributed to this debate through its ongoing participation with international standard setting bodies and regulatory agencies.

With regard to peer-to-peer interaction, the Authority maintained its tradition of mutual assistance with overseas regulators in relation to supervisory matters of individual firms, in line with international standards on regulatory cooperation. The Authority also continued its programme of establishing formal bilateral Memoranda of Understanding (MOU) with overseas counterparties. The Authority applied to become a signatory of the International Association of Insurance Supervisors Multilateral MOU in 2007, and the application was approved in principle by the end of 2008. The Authority also established a MOU with the New York State Insurance Department during the year. This agreement formalises coordination and cooperation between both regulators on matters involving insurance firms of mutual interest to each jurisdiction, including the exchange, handling, protection and return of information for regulatory purposes. The agreement comes as a result of ongoing cooperative work, which in 2008 primarily involved collaborating on firms within the financial guaranty sector impacted by sub prime, and matters related to the process

of selling assets of AIG. The evolving nature of the global financial market, and in particular the current global financial crisis, underscores the need for regulators to act quickly and effectively to ensure proper oversight of firms with international scope. The Authority continues to pursue further formal arrangements with foreign regulators, in addition to the existing information exchange provisions which are currently allowed under Bermuda's regulatory framework by way of statute, as a demonstration of its commitment to supervisory cooperation and effective regulation.

During the year the Authority received requests for assistance from regulatory bodies in 10 countries.

International Association of Insurance Supervisors (IAIS)

The Authority increased its involvement with the IAIS by expanding its membership in key IAIS committees and sub-committees and by actively participating in committee and working group meetings throughout the year covering critical topics such as solvency, mutual recognition, and the

impact of the financial crisis on the insurance market, among others. Senior members of staff now currently represent the Authority and Bermuda on 11 IAIS committees and/or sub-committees, including the Technical Committee, Mutual Recognition Sub-committee, Solvency Committee, Actuarial Sub-committee, Corporate Governance Committee, Compliance Committee, Accounting Committee, Core Principles Review Task Force and Captives Working Group. The Authority also holds the Chairman and Vice Chairman positions for the Reinsurance Transparency Group and Groups Sub-committee respectively.

Through its participation with the IAIS, the Authority seeks to contribute actively to the ongoing debates on critical matters that are currently under consideration with regard to insurance regulation, and which will directly impact the Bermuda market. By playing such an active role, the Authority is able to provide a prudent, balanced perspective to these debates based on its success regulating a significant and sophisticated insurance market. It also allows the Authority to

influence, to some degree, the direction of global regulatory changes.

Banking, Investment/Securities

The Authority continued its participation with a range of international regulatory bodies related to the banking and securities industries. 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, the Caribbean Group of Banking Services and the Caribbean Group of Securities Regulators.

Authority representatives also attended the International Conference of Banking Supervisors where discussion focused on the global credit crisis and the Basel Committee's recent policy response to this situation. The response involves amendments to Pillars 1 and 2 of the recently adopted Basel II Accord addressing such matters as capital and liquidity requirements and increased stress testing.

This activity allowed the Authority to remain involved in global discussions concerning issues relating to new policy and practices currently in development within the banking and securities industries.

Corporate & Financial Services

The Corporate & Financial Services Department is composed of 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 disaster recovery and business continuity planning and its enterprise risk management (ERM) functions.

Financial Operations

During the year the Finance team continued with initiatives to strengthen the Authority's internal controls and mitigate the risks identified in the 2007 ERM report. This effort was supported by the upgrade of financial systems in early 2008 and the subsequent commencement of dialogue with the Authority's Information Technology team and external vendors on the identification and introduction of online budgeting, commitments and requisitions systems in early 2009.

Currency Operations

In 2008 the Authority issued the Hawksbill Turtle coin observing Bermuda's critically endangered Hawksbill turtle. The coin was well received by local and overseas collectors and provided an excellent addition to the Authority's range of numismatic products.

The New Banknote Working Group was established during the year with representatives from all financial

institutions engaged in retail service in Bermuda. The group met frequently throughout the year to collaborate on the technical requirements and logistics for the new banknote series launch. The Authority would like to publicly thank the Working Group for its contributions to the discussions and their continued support to ensure that the new note series is recognised and well accepted by the community.

On 24th November 2008 the Authority revealed the 2009 Banknote series design to the public of Bermuda. The formal reveal by the Authority's Chairman was followed by a series of media appearances, presentations to bank personnel and retail associations, firms, the police, schools and seniors groups on the design and security features incorporated in the new series. Following the successful calibration of all bank equipment in early 2009, the series was officially launched into circulation on 9th March 2009.

Facilities and Document Management

The Facilities team devoted most of its time in 2008 to the following activities:

- managing and maintaining the BMA House facility;
- preparing for the move, at year end, of the Authority's one remaining tenant;
- the relocation in early 2009 of a number of the Authority's teams within the BMA House facility;
- major external repair work to the building.

During the latter part of 2008 the Authority's Document Management team worked with the Office of the Government Archives to review the historical information that they retain on behalf of the Authority, and to determine the future disposition of the information for historical and/or future business purposes.

ERM

During the year all departments worked on an Authority-wide action plan to mitigate the high risk areas identified in the Authority's ERM Assessment. In addition, a number of internal control policies were reviewed, updated and introduced in accordance with best practice and the recommendations provided by external consultants appointed by the Authority. Of the 30 risks that were revisited in 2008 by departmental risk champions and teams, only three remained outstanding and partially completed at year end.

Corporate Communications

The Communications Unit's primary focus for the year involved managing the Authority's expanded advocacy, industry relations and media relations programmes, in support of the organisation's overall goal of being recognised as a leading risk-based financial services regulator.

Positioning the Authority as a leading risk-based financial services regulator is an important component of the organisation's preparedness strategy for regulatory equivalence. The Communications Unit provided strategic communications support for various activities relating to this strategy, which improved awareness of the nature and effectiveness of Bermuda's regulatory framework among key stakeholders, both internationally and locally.

During the year the advocacy programme made progress in expanding contacts among key international bodies to generate greater understanding of Bermuda's framework and its suitability for equivalence. Elements of the programme consisted of a schedule of meetings, presentations and speaking engagements with key regulators, representatives from international standard setting bodies, and well positioned international contacts. These activities provided a platform to build relationships with overseas counterparties and to showcase Bermuda's standards and regulatory approach. They also provided an additional opportunity for the Authority to participate in ongoing discussions on topical issues relating to international regulatory reform.

Representatives of the Authority made presentations and speeches at a number of significant industry events 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 the Committee of European Insurance and Occupational Pensions Supervisors. In support of these activities the Communications Unit assisted with the production and delivery of numerous keynote speeches and presentations, covering a wide range of issues relating to the regulation of all financial sectors.

The Authority also successfully hosted a number of meetings at BMA House with representatives from overseas regulatory bodies including; the Overseas Territories Regulators meeting; the President and Secretary General of the IAIS; and members of the German and Chinese regulatory authorities. The meetings of the IAIS Solvency and Actuarial Issues Committee and the IAIS Reinsurance Transparency Group that the Authority hosted during the year, spearheaded by the Policy, Research and Risk Assessment department, were held in Bermuda for the first time. These meetings provided

the opportunity to showcase the Authority in terms of staff and resources and to demonstrate the tangible and substantive nature of the Bermuda insurance market, thereby complementing the advocacy programme.

The Communications Unit augmented its existing media relations programme by continuing to build relationships with local and international media contacts, and by conducting more proactive media outreach activities, with positive effect. In addition to drafting articles relating to a range of aspects of Bermuda's regulatory approach and framework for various industry publications, the Communications Unit arranged a number of briefings and individual interviews with international and local media throughout the year. This activity resulted in favourable coverage of the Authority 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 drive the development of key publications for the Authority. In collaboration with

the supervisory, policy, research and risk assessment, and legal teams, the Unit developed an enhanced Regulatory Update, the quarterly publication regarding Bermuda's regulatory and legislative changes that is distributed both to the local market and internationally. The enhanced Regulatory Update seeks to provide more timely data on Bermuda's financial services industry, and for the first time incorporates additional market analysis and supporting commentary. In late 2008 the Authority also developed for the second consecutive year its Business Plan, which has become a key element of its external communications programme. The Business Plan outlines the organisation's regulatory agenda and areas of focus for 2009. This Plan was subsequently published and introduced at the Authority's inaugural Annual Meeting held at BMA House. This meeting provided stakeholders from industry and government with the opportunity to discuss the Authority's regulatory initiatives with executive management. Both the Business Plan and the Annual Meeting support the Authority's ongoing commitment to promoting transparency in its operational and regulatory activities.

In addition to managing the Authority's advocacy, industry and media relations

programmes, the Communications Unit provided strategic communications support to a number of other initiatives undertaken by the Authority during the year. These included supporting the launch of Bermuda's new banknote series with the development of a comprehensive pre-launch educational campaign targeted to the Bermuda public; developing a plan to commemorate the 40th Anniversary of Authority with coordinated activities to occur throughout 2009; ongoing content management of the Authority's website; and support for the Authority's internal communications programme which involved quarterly publication of the Authority's employee newsletter and managing updates on the organisation's employee intranet.

The Communications Unit completed the review and upgrade of the Authority's website. The new website incorporates easily accessible information regarding the Authority's regulation and its supervisory programmes. The new format also incorporates a subscription service that allows users to register for e-alerts regarding news and information about regulatory developments. The website is accessible at www.bma.bm.

Legal Services & Enforcement

The department supports the Authority by advising on the performance of the Authority's statutory functions and by advising on a wide range of matters relating to the administration of the Authority. The department also 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 ensuring 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. It 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 and the supervisory legislation, to require information from licensed entities.

New Legislation

The department was directly involved throughout 2008 in drafting amendments to existing statutes, and developing new legislation in consultation with various government ministries and other bodies, that served to enhance both the powers of the Authority and Bermuda's overall framework for financial regulation.

In relation to the insurance sector, a series of legislative changes passed during the year for implementation in 2009 supported the Authority's reclassification initiative for Class 3 insurers, by formally applying prescribed fees as well as solvency and statutory

reporting requirements for firms within each new category – that is, Class 3, 3A and 3B companies. The amended provisions also set similar requirements for the new Special Purpose Insurer category established during the year. The amendments also established enhanced capital requirements and reporting standards for capital and solvency returns for Class 4 companies. The specific pieces of legislation in this regard included: the Insurance Amendment Act 2008; the Insurance (Prudential Standards) Class 4 Solvency Requirement Order 2008; the Insurance Accounts Amendment Regulations 2008; and the Insurance Returns and Solvency Amendment Regulations 2008. The provisions within both sets of Regulations also cover existing classes of insurer.

The Bermuda Monetary Authority Amendment No. 2 Act 2008 was also passed during the year and introduced, among other matters, new fees to be paid by various financial institutions to cover the cost of increased supervision in line with the Authority's expanded responsibilities. The provisions cover fees to be paid by companies for approvals to applications not previously charged by the Authority; application fees for the approval of an internal model as part of the Authority's new internal models framework; and annual business fees for the new Class 3A and 3B insurers carrying

out only general business or general and long-term business in accordance with the Insurance Amendment Act 2008.

Drafting and enactment of a suite of updated legislation enhancing Bermuda's regime for anti-money laundering and anti-terrorism financing (AML/ATF) was also completed during the year. The Proceeds of Crime Regulations (Supervision and Enforcement) Act 2008 came into force on 1st January 2009 and, among other provisions, expanded the Authority's supervisory responsibilities and powers for AML/ATF regulated financial institutions. The Act enables the Authority to establish, maintain and publish a register of all AML/ATF regulated financial institutions, which comprises both licensed and non-licensed entities. The Authority also has the power to impose civil penalties on AML/ATF regulated financial institutions that breach the provisions of the Regulations, up to a maximum of \$500,000 for specified breaches. The Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing) Regulations 2008 were also introduced, and define the classes of entities falling within the scope of the Regulations. In order to enable those entities that fall within scope of the regime to ensure they are aware of the requirements that apply to them in this regard, the Authority also published AML/ATF Guidance Notes. Details of the new AML/ATF supervisory framework, along

with the relevant Guidance Notes, are available on the Authority's website www.bma.bm.

The Proceeds of Crime Act 2007 was amended to make provision for the following matters: criminalising the possession of a person's own proceeds of crime and the laundering of such proceeds by such person; clarifying that a disclosure made under the relevant section is protected and would not breach any duty on confidentiality however imposed; enabling the courts to forfeit the proceeds of a money laundering offence; appointing a chairman of the National Anti-Money Laundering Committee (NAMLC) and other persons as members of NAMLC; widening the functions of NAMLC by tasking it with advising the Minister of Justice on the development of a national plan of action that would include recommendations on effective mechanisms on coordination between the various competent authorities in Bermuda; and for clarifying certain provisions and connected matters.

The Financial Intelligence Agency (FIA), which had been established by the Financial Intelligence Agency Act 2007, became fully operational at the end of 2008. All suspicious activity reports must now be filed with the FIA. The functions of the FIA under the FIA Act are to receive, collate, analyse and disseminate information relating to suspected

proceeds of crime and the potential financing of terrorism.

Enforcement

The department continues to advise and assist line supervisors with enforcement matters, and remains vigilant to ensure that unauthorised business is not conducted in or from Bermuda. In 2008 the department carried out a number of enquiries into possible breaches of Bermuda's regulatory provisions.

International Regulatory Cooperation

The Bermuda Monetary Authority Amendment Act 2008, which became operative on 25th March 2008, introduced an amendment that broadened the Authority's compulsory powers to obtain information for the purposes of assisting foreign regulators. Previously, the Authority was restricted to requiring such information from licensed institutions only.

Following passage of this amendment, the Authority may now require information for such purposes from any person in Bermuda where it is satisfied that person has the relevant information. During 2008, the Authority did not have occasion to serve notice on any unlicensed person; however 12 Section 30B notices were served on licensed institutions following requests from 10 foreign jurisdictions. In every case the licensed institution concerned provided the information

required and this was transmitted to the requesting regulator.

Memoranda of Understanding (MOU)

The Authority had several requests from overseas regulators to enter into MOUs to provide a formal basis for cooperation and coordination between authorities. This cooperation would include the exchange, handling, and protection of information and, where appropriate, investigative assistance with respect to regulated entities in Bermuda and the relevant overseas regulatory jurisdiction. During 2008, the Authority entered into MOUs with the following overseas supervisory authorities: the Malta Financial Services Authority, the New York State Insurance Department, the Office of the Superintendent of Financial Institutions Canada and the Luxembourg Commissariat aux Assurances. Two MOU requests were outstanding at the end of the year but were agreed in January 2009. Further MOUs are in various stages of discussion and review and are expected to be finalised between the Authority and the relevant overseas supervisory authorities in 2009.

The Authority has also applied to be a signatory to the IAIS Multilateral Memorandum of Understanding (MMoU), and expects that the application will be approved by the second quarter of 2009. The Director of the department participates on a number of IAIS Initial Signatories Working Group matters in relation to the MMoU.

Committees

Members of the department continued to represent the Authority on various external committees on an ongoing basis throughout the year, to discuss a range of issues and to develop legislative initiatives relating to the financial services industry and its regulation. During the year, legal staff from the department maintained their participation as part of a team of technical officers to the Joint Select Committee on Private Bills. The Authority continued to take the lead in reviewing petitions for the tabling of Private Bills in the House relating to financial institutions in 2008.

Enhancement to Corporate Registration Process

On 19th December 2008 the Authority published a consultation paper regarding proposed enhancement to the current corporate registration and share transfer processes. The paper outlined the Authority's primary objective, which was to identify and propose courses of action to improve Bermuda's corporate registration system. An underlying and very important aim was to support and maintain Bermuda's position as a domicile of choice for corporate registration, while preserving its reputation as a quality financial centre. Persons were invited to comment on the proposed initiatives by 31st January 2009. The Authority is currently reviewing all comments received and where appropriate, shall respond accordingly.

Authorisations

The Authorisations Unit within the department vets applications for company incorporations and for the establishment of partnerships as the agent for the Minister of Finance. The Unit also processes applications for share issuances and transfer applications made under the Exchange Control Act 1972 (and related regulations). During 2008, the Authority received 1,390 applications for the incorporation of new companies and partnerships, as well as permits for overseas companies. The Authority gave consents for a total of 1,343 applications during the year, which comprised consents granted for exempted undertakings (i.e. exempted companies, exempted partnerships, overseas companies, overseas partnerships and continuations).

Further to the consents granted by the Authority, the Registrar of Companies has reported that 1,384 exempted and local new undertakings were registered for the year. This comprised 1,030 exempted and 182 local companies; 133 exempted partnerships, six overseas partnerships and 33 overseas companies.

Companies Partnerships and Permits Statistics - Applications Approved

	2008-Q4	2008-Q3	2008-Q2	2008-Q1	2007-Q4	2007-Q3
Exempted Companies (Bermuda companies exempted from the 60% Bermudian ownership requirement)	206	233	267	243	310	305
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	33	23	25	21	106	39
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	0	2	1	5	2	1
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	9	12	11	6	11	7
Unit Trusts	1	12	1	8	8	18
Continuation Companies (companies from other jurisdictions continuing into Bermuda as exempted companies)	9	5	4	11	15	7
Unlimited Liability Companies	2	1	2	1	11	1
Local Companies	35	42	60	52	52	40
Total Applications Approved *	295	330	371	347	515	418

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



A Professional Team

Human Resources

During 2008 the Human Resources Department focused on managing of 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 2008, the Authority continued to increase the depth of technical skills and resources throughout the organisation via an aggressive recruitment effort; successfully retaining experienced existing staff; and the practical use of outsourcing services. The Authority remains strongly committed to ensuring its staff are provided with the professional development, tools and support they require to effectively deliver on their responsibilities and the objectives of the organisation.

Recruitment

The Authority successfully reached its target headcount goal for the year, bringing the total number of employees to 130. This represented a 20% increase over the previous year. This increase in staff and corresponding enhancement in technical experience ensures that the Authority has the required skilled

resources within its teams to execute its mandate effectively. The recruitment strategy was further enhanced during the year with the introduction of the Hiring and Promotions Committee. This Committee offers a level of scrutiny around the appropriateness of potential candidates and, in cases of promotions, determines whether an effective evaluation for role/job changes has occurred. This process has been effective in ensuring consistency and impartiality in the Authority's hiring and promotion process and has assisted the organisation in developing talented and knowledgeable teams throughout the organisation.

Building Professional Regulators

The learning and development framework was reorganised and expanded during the year. This included an increased use of in-house subject matter experts to deliver core training on topics related to the Authority's supervisory framework and operational functions. There was also focus on expanding technical skills training on such topics as solvency and economic capital modeling, and supervisory skills training with particular emphasis on

investigative procedures in the on-site process. There were also a number of learning events focused on managerial effectiveness and leadership conducted with management staff. The Authority also provided support to in-house subject matter experts in their role as trainers by providing 'train the trainer' workshops, which took them through the adult learning theory with various instructional and retention techniques. E-learning opportunities were also expanded during the year via the introduction of external and in-house online training programmes.

The Authority also established the Learning and Development Committee (L&D) with representatives from each business area. The Committee in effect provides centralised decision-making with regard to training and provides for an effective use of the allotted training budget. This revised approach has allowed the Authority to provide more L&D opportunities of relevance to staff across the organisation in a consistent and cost effective manner. During the year requests for sponsorship were reviewed by the L&D Committee and a number of

centralised training events ensued as a result. Sponsorship was continued for individuals who are pursuing professional designations or academic study towards their career development.

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 the organisation going forward. During the year senior managers underwent leadership assessments as part of this strategy. These assessments of skills, potential, aspirations and learning and development needs of senior managers will form the basis of aligning management development with the long-term needs of the organisation. The Authority intends to continue with leadership assessments with the Principal level staff as part of its ongoing audit of existing leadership capability.

Consistent with the organisation's strategic goals as regards succession planning, the Authority successfully launched its Graduate Training Programme

in 2008. The Authority welcomed two trainees in the fall of 2008, who will complete the programme in 2011. The three-year programme is aimed at attracting young Bermudian professionals to a career in regulation. It is designed to steer trainees through a cycle of learning experiences, which include rotations throughout the Authority's various business units, industry secondments in Bermuda, and regulatory secondments overseas. The programme is also supplemented with mentoring and guidance from the Authority's management team, as well as sponsorship for gaining professional qualifications.

BMA Management Team

Actuarial Services

Rick Shaw	Director
Brant Kizer	Assistant Director
Gina Smith	Assistant Director

Banking, Trust & Investment

Graeme Dargie	Director
Courtney Christie-Veitch	Assistant Director, BTI Financial Groups
James McCulloch	Assistant Director, BTI Financial Institutions

Chief Executive Officer's Office

Matthew Elderfield	Chief Executive Officer
Jeremy Cox	Deputy Chief Executive Officer
Pat Phillip-Bassett	Assistant Director, Corporate Governance & Communications

Corporate & Financial Services

Marcia Woolridge-Allwood	Director
Terry Pitcher	Assistant Director, Corporate & Financial Services

Human Resources

Cynthia Currie	Director
Elizabeth Amyony	Assistant Director, Learning & Development
Mesheiah Crockwell	Assistant Director, Programme Implementation
Verna Hollis Smith	Assistant Director, Organisation Management

Information Technology

John Dill	Director
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Insurance, Restoration, Run-off & Monitoring

Harry Whitcher	Deputy Director, Insurance Restoration, Run-off & Monitoring
Roderick Gray	Assistant Director, Insurance Restoration, Run-off & Monitoring

Insurance, Licensing & Authorisation

Shelby Weldon	Director
Leslie Robinson	Assistant Director, Insurance, Licensing & Authorisation

Insurance Supervision, Complex Institutions

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

Legal Services & Enforcement

William Kattan	Director
Cyralene Benskin-Murray	Assistant Director, Legal Services & Enforcement
Thomas Galloway	Senior Legal Counsel

Policy, Research & Risk Assessment

Craig Swan	Director
Christina Nguyen	Assistant Director, Policy, Research & Risk Assessment, Insurance Analytics
Yvette Pierre	Assistant Director, Policy, Research & Risk Assessment, Risk
Marcelo Ramella	Assistant Director, Policy, Research & Risk Assessment, Research
Fadwa Sahly	Assistant Director, Policy, Research & Risk Assessment, BTI Analytics

Information Technology

The Information Technology (IT) Department manages the development, implementation and operation of IT facilities designed to support and enhance the Authority's operational effectiveness.

The goal of the department is to establish a first-class IT environment which aligns applications and infrastructure with leading industry best practices and technologies. This alignment supports increased efficiency throughout the organisation.

Subsequent to the hiring of the Director of Information Technology, a comprehensive review of the organisation's IT development needs was undertaken during the year. As a result of the review the Authority adopted the Strategic Information Technology Roadmap – a three-year strategic plan designed to put in place best practices for the Authority's IT framework.

The Roadmap is built on three separate waves of activity: "containment"; "positioning"; and "advancement". Each wave of activity acts as a building block to the next, starting from basic technology (containment) through improved information capturing (positioning), to streamlined business processes with enriched information content (advancement) that are supported by world-class technology.

During the year the department completed initiatives in the first phase of the Plan, which involved upgrading the organisation's technical infrastructure, and establishing a minimum set of controls to ensure sustainability and conformity with best practice.

The department implemented a state-of-the-art self-healing network, which

uses redundant technology to ensure the continuous availability of the Authority's systems. This work, included implementing redundant dual storage area networks (SANs), Bladed Server Technologies, a robust clustered Microsoft Exchange electronic mail environment, and the use of server virtualisation technology. This work has resulted in the improved speed and performance of the Authority's systems.

Included in the "containment" phase, the department has completed the Authority's business continuity site. The site, which mirrors the Authority's IT infrastructure, is designed to avoid business interruption in the event of any unforeseen catastrophes.

The successful implementation of phase one of the IT strategic plan has established a foundation on which the Authority will build over the next few years. The department is currently working on initiatives designed to further support and enhance supervisory capability and service to the market, such as collective reporting systems that will increase the Authority's ability to gather and analyse data; and e-filing, which will improve efficiency in the corporate registration process.



Financials

30th April 2009

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 2008 together with the annual statement of accounts and the opinion of the Auditor.

This document also contains the reports for the year 2008 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,

Matthew Elderfield
Chief Executive Officer

30th April 2009



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 his report is presented herein.

R. Alan F. Richardson, CA, JP
 Chairman

Matthew Elderfield
 Chief Executive Officer



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AUDITOR'S REPORT

To the Board of Directors

I have audited the balance sheet of the Bermuda Monetary Authority as at December 31, 2008 and the statements of earnings, general 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, 2008 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.

A handwritten signature in black ink, appearing to read 'L. T. Dennis'.

Hamilton, Bermuda
March 19, 2009

Larry T. Dennis, C.A.
Auditor General

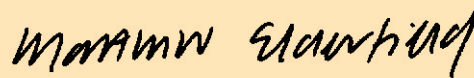
BERMUDA MONETARY AUTHORITY

Balance Sheet as at 31st December 2008

(In thousands of dollars)	2008	2007
ASSETS		
Investment Income Earning Assets		
Cash and cash equivalents	55,606	59,996
Term deposits (Note 4)	35,475	15,975
Investments (Note 5)	59,250	60,784
	150,331	136,755
Other Assets		
Accounts receivable and accrued interest	2,461	1,947
Stock of notes and coins for circulation	3,784	1,135
Stock of numismatic items	676	1,013
Prepaid expenses	353	219
Capital assets (Note 6)	30,501	30,338
	37,775	34,652
	188,106	171,407
LIABILITIES, CAPITAL AND RESERVE		
Liabilities		
Notes and coins in circulation	141,066	124,601
Accounts payable and accrued liabilities	3,762	2,217
Due to the Consolidated Fund of the Government of Bermuda (Note 7)	815	2,941
	145,643	129,759
Capital and Reserve		
Capital		
Authorised: \$30,000,000		
Subscribed and fully paid (Note 8)	20,000	20,000
General Reserve (Note 9)	22,463	21,648
	42,463	41,648
	188,106	171,407



R. Alan F. Richardson, CA, JP
Chairman



Matthew Elderfield
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 2008

(In thousands of dollars)	2008	2007
REVENUES		
Supervisory & licensing fees (Note 10)	23,498	21,437
Investment income (Note 11)	4,694	5,912
Incorporation fees, vault commission and other income	777	915
Rental income	481	443
Net sales of special coins	(200)	264
	29,250	28,971
EXPENSES		
Salaries and employee benefits	19,676	14,568
General expenses (Note 12)	4,156	4,237
Amortisation of capital assets	1,656	1,382
Professional fees	1,555	2,435
Circulation note and coin expenses	577	467
	27,620	23,089
NET EARNINGS FOR THE YEAR	1,630	5,882

BERMUDA MONETARY AUTHORITY

Statement of General Reserve for the year ended 31st December 2008

(In thousands of dollars)	2008	2007
BALANCE, BEGINNING OF YEAR	21,648	18,707
Net earnings for the year	1,630	5,882
Distribution payable to the Consolidated Fund (Note 7)	(815)	(2,941)
BALANCE, END OF YEAR	22,463	21,648

BERMUDA MONETARY AUTHORITY

Statement of Cash Flows for the year ended 31st December 2008

(In thousands of dollars)	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings for the year	1,630	5,882
Adjustments to convert earnings to a cash basis:		
Amortisation of capital assets	1,656	1,382
Amortisation of discounts on investments	62	(21)
Gain on sale of investments	(57)	-
Gain on disposal of capital assets	-	(60)
	3,291	7,183
Changes in non-cash working capital:		
Accounts receivable and accrued interest	(514)	(97)
Stock of notes and coins for circulation	(2,649)	37
Stock of numismatic items	337	(455)
Prepaid expenses	(134)	(76)
Notes and coins in circulation	16,465	3,556
Accounts payable and accrued liabilities	1,545	(722)
FUNDS PROVIDED BY OPERATING ACTIVITIES	18,341	9,426
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets	(1,820)	(1,252)
Purchase of investments and term deposits	(67,321)	(15,847)
Proceeds from sale of capital assets	-	99
Proceeds from sale and maturity of investments	49,351	18,798
FUNDS (USED IN) PROVIDED BY INVESTING ACTIVITIES	(19,790)	1,798
CASH FLOWS FROM FINANCING ACTIVITIES		
Distribution to the Consolidated Fund of the Government of Bermuda	(2,941)	(2,582)
FUNDS USED IN FINANCING ACTIVITIES	(2,941)	(2,582)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,390)	8,642
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	59,996	51,354
CASH AND CASH EQUIVALENTS, END OF YEAR	55,606	59,996

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 2008

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, 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 year-end exchange rates. 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) 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.

(c) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Stock of Notes and Coins for Circulation

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

(e) 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.

(f) 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 amortisation is taken.

(g) 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.

(h) Museum Items

Museum items have been capitalised at a nominal amount of \$1,000 and are included in the stock of numismatic items. All new additions to museum items are expensed during the year of purchase.

(i) Revenue Recognition

The Authority recognises revenue as it is earned.

(j) Financial Instruments

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

Under Section 3855, 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 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 impairment. The fair value of these financial instruments approximate their carrying values due to their relative short-term nature.

(k) 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 \$570,125 (2007 - \$462,409).

The Public Service Superannuation Fund administered by the Government of Bermuda covers the remainder of the Authority's employees. Contributions of 8% (2007 - 7%) 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 \$212,740 (2007 - \$106,443).

(b) Other Benefits

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

Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation liability as of 31st December 2008 is \$323,039 (2007 - \$244,166) and is included in accounts payable and accrued liabilities.

Employees under the Public Service Superannuation Fund are entitled to pre-retirement leave based upon their years of service at the time of retirement. The pre-retirement leave accumulates and vests and a liability is accrued each year. During the year, no pre-retirement leave benefits were paid. The liability as at 31st December 2008 is \$236,374 (2007 - \$227,727) and is included within accounts payable and accrued liabilities.

4. TERM DEPOSITS

Maturities and effective yields of term deposits are as follows:

(In thousands of dollars)			2008	2007
	Less Than 1 Year	1 to 5 Years	Total	Total
Bermuda Dollar Term Deposits	-	15,975	15,975	15,975
USD Term Deposits	19,500	-	19,500	-
Total Deposits	19,500	15,975	35,475	15,975
Weighted average effective yield	3.09%	5.27%	4.07%	5.27%

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

5. INVESTMENTS

The investment portfolio includes fixed income securities denominated in US dollars. The market value of the portfolio of fixed income securities is \$63,141,000 (2007 - \$61,076,000).

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

(In thousands of dollars)			2008	2007
	1 to 5 Years	> 5 Years	Total	Total
US Government Agencies	16,000	28,301	44,301	50,892
Supranational Bank	5,012	9,937	14,949	9,892
Total Investments	21,012	38,238	59,250	60,784
Weighted average effective yield	4.47%	4.91%	4.76%	4.69%

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

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

The Authority is exposed to a concentration of credit risk as 65.5% (2007 - 79.7%) 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.

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 and coins in circulation.

6. CAPITAL ASSETS

(In thousands of dollars)			2008	2007
	Cost	Accumulated Amortisation	Net Book Value	Net Book Value
Land	4,000	-	4,000	4,000
Building	26,036	2,820	23,216	23,609
Computer equipment & software	3,663	1,824	1,839	1,378
Furniture & fixtures	2,787	1,341	1,446	1,351
	36,486	5,985	30,501	30,338

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

	2008	2007
Computer equipment	111,544	366,262
Furniture & fixtures	427,112	14,187

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

In accordance with Section 8 (3) of the Bermuda Monetary Authority Act 1969, earnings in the amount of \$815,000 (2007- \$2,941,000) will be payable to the Consolidated Fund of the Government of Bermuda. This amount is non-interest bearing and payable by 31st May 2009.

8. SUBSCRIBED AND FULLY PAID CAPITAL

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

9. GENERAL RESERVE

A general reserve of \$22,463,000 (2007 - \$21,648,000) has been established in accordance with Section 8 of the Bermuda Monetary Authority Act 1969.

The Minister of Finance granted approval for \$815,000 (2007 - \$2,941,000) of net earnings to be transferred to the general reserve account.

10. SUPERVISORY & LICENSING FEES

(In thousands of dollars)	2008	2007
Insurance fees	17,224	15,337
Bank and deposit company fees	5,329	5,255
Trust company fees	547	558
Investment business licence fees	398	287
	23,498	21,437

11. INVESTMENT INCOME

(In thousands of dollars)	2008	2007
Interest on investments	2,790	2,931
Interest on term deposits	1,128	730
Interest on cash and cash equivalents	876	2,292
Gain on sale of quoted securities	57	-
Amortisation premium/discount on investments	(62)	20
Foreign exchange loss	(95)	(61)
	4,694	5,912

12. GENERAL EXPENSES

(In thousands of dollars)	2008	2007
Premises and general office expenses	2,579	3,280
Conferences, seminars, education and training	1,040	672
Communication and computer expenses	537	285
	4,156	4,237

13. LEASE COMMITMENTS

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 fiscal 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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