



Report and Accounts 2007





# About the **Bermuda Monetary Authority**

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

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

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

## Our **Mission**

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

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# Statistical & Financial Highlights 2007

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**Total net income for 2007 was \$5.88 million, an increase over the previous year's figure of \$5.17 million. This level of income reflects lower than anticipated expenditure on supervisory consulting and that actual staffing levels did not reach budgeted target headcount. The Authority's total revenue for the year amounted to \$28.97 million, an increase of \$6.49 million on the \$22.48 million recorded in 2006. This increase reflected a combined \$8.49 million increase in licensing, supervisory and incorporation fees and investment income, offset by a \$2 million decrease in rental income.**

Expenses for the year totaled \$23.09 million, which compares to \$17.32 million in 2006, an increase of \$5.77 million. \$4 million of the increase represented growth in overall salaries and benefits as the Authority continued to build its professional team, particularly within the supervisory departments, as well as a \$1.7 million increase in professional fees and recruitment and repatriation costs.

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 2007, this amounted to \$2.94 million, a slight increase over the \$2.58 contributed in 2006.

## **Bermuda Currency Operations**

The amount of Bermuda notes and coin in circulation at the end of 2007 was \$125 million, as compared to \$121 million for 2006. 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 \$124.3 million was in circulation for Cup Match, an increase of 3.4% over the same period in 2006. The figure for Christmas week was \$124.6 million, an increase of 5.9% over Christmas 2006.

## Bermuda Money Supply

(BD\$ millions)	2007-Q4	2007-Q3	2007-Q2	2007-Q1	2006-Q4	2006-Q3	2006-Q2
Notes & Coins in Circulation*	125	110	111	107	121	106	106
Deposit Liabilities	3,634	3,666	3,597	3,411	3,499	3,480	3,481
Banks and Deposit Companies (unconsolidated)	3,759	3,776	3,709	3,518	3,620	3,586	3,588
Less: Cash at Banks and Deposit Companies	45	29	31	29	44	30	31
BD\$ Money Supply	3,714	3,747	3,677	3,489	3,575	3,557	3,557
% Growth on Previous Period	-0.88%	1.88%	5.41%	-2.43%	0.53%	-0.02%	1.84%
Growth Year on Year	3.87%	5.35%	3.38%	-0.12%	4.04%	-0.75%	-2.11%

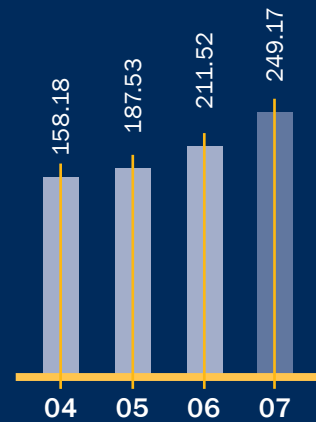
Totals may not add due to rounding.

\* 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.

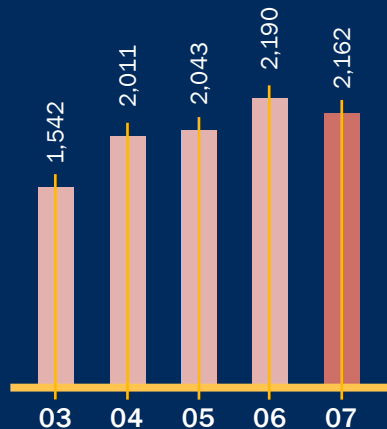
**Investment Funds  
Total Number of Funds**



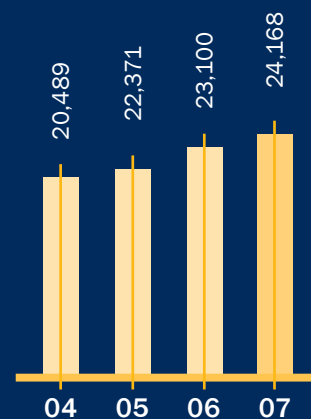
**Investment Funds  
Net Asset Value (BD\$ Billions)**



**Investment Funds  
Number of Portfolios within  
Bermuda Classified Funds**



**Bermuda Bank and Deposit Companies  
(Consolidated) Total Assets  
(BD\$ Millions)**



## Currency Notes Issued and Redeemed

Bermuda Dollar	Notes Issued			Net Issues During Month		Change	% Change
	Month	New	Re-issue	Total	Notes Redeemed		
January	40,330	1,140,000	1,180,330	15,924,800	92,171,915	(14,744,470)	-13.79%
February	828	7,485,000	7,485,828	8,329,900	91,327,843	(844,072)	-0.92%
March	844	8,452,000	8,452,844	6,544,100	93,236,587	1,908,744	2.09%
April	71,185	6,540,000	6,611,185	6,176,200	93,671,572	434,985	0.47%
May	221,980	9,830,000	10,051,980	7,205,000	96,518,552	2,846,980	3.04%
June	142,563	7,960,000	8,102,563	7,072,400	97,548,715	1,030,163	1.07%
July	11,040,411	10,060,000	21,100,411	8,707,800	109,941,326	12,392,611	12.70%
August	1,476	5,655,000	5,656,476	16,820,700	98,777,102	(11,164,224)	-10.16%
September	206,013	5,685,000	5,891,013	9,304,700	95,363,415	(3,413,687)	-3.46%
October	55,870	7,577,000	7,632,870	8,214,400	94,781,885	(581,530)	-0.61%
November	221,295	11,130,000	11,351,295	8,036,200	98,096,980	3,315,095	3.50%
December	4,430,750	12,120,000	16,550,750	4,572,000	110,075,730	11,978,750	12.21%
<i>Year</i>							
<b>2007</b>	<b>16,433,545</b>	<b>93,634,000</b>	<b>110,067,545</b>	<b>106,908,200</b>	<b>110,075,730</b>	<b>3,159,345</b>	<b>2.95%</b>
2006	10,842,914	88,882,000	99,724,914	92,934,500	106,916,385	6,790,414	6.78%

## Currency Coins Issued and Redeemed

Bermuda Dollar	Coins Issued			Net Issues During Month		
	Month	Coins Issued	Coins Redeemed	Coins Issued & O/S at End of Month	Amount Change	% Change
January	20,000	-	14,148,772	20,000	0.14%	
February	0	-	14,148,772	0	0.00%	
March	0	-	14,148,772	0	0.00%	
April	27,400	-	14,176,172	27,400	0.19%	
May	33,849	-	14,210,021	33,849	0.24%	
June	45,011	-	14,255,032	45,011	0.32%	
July	122,900	-	14,377,933	122,901	0.86%	
August	28,068	-	14,406,000	28,067	0.20%	
September	20,002	-	14,426,003	20,003	0.14%	
October	35,189	-	14,461,191	35,188	0.24%	
November	64,201	-	14,525,392	64,201	0.44%	
December	0	-	14,525,392	0	0.00%	
<i>Year</i>						
<b>2007</b>	<b>396,620</b>	<b>0</b>	<b>14,525,392</b>	<b>396,620</b>	<b>2.81%</b>	
2006	556,382	0	14,128,772	556,382	4.1%	

### Analysis of all International Insurers Registered

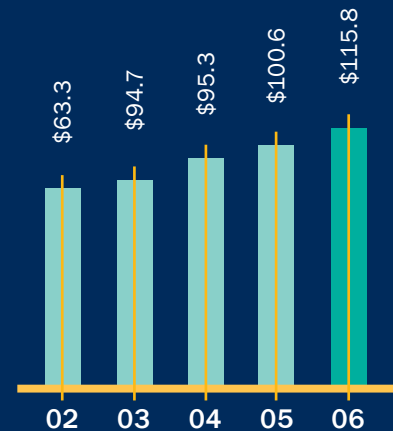
Class of Insurer	2007	%	2006	%
Class 1	353	24	356	24
Class 2	380	26	397	27
Class 3	504	34	474	32
Class 4	30	2	31	2
Long Term	103	7	99	7
Dual Licences	111	7	103	7
<b>Grand Totals:</b>	<b>1481</b>	<b>100</b>	<b>1460</b>	<b>100</b>

### Actively Writing International Insurers by Company Type (2007)



- Single Parent Captive 28%
- Association Captive 8%
- Affiliated Reinsurer 6%
- Captive Writing 3rd Party 9%
- Health Care Captive 4%
- Multi-Owner Captive 2%
- Professional Ins/Reinsurance 38%
- Rent-A-Captive 5%

### Bermuda Insurance Market Statistics Gross Premium Written (Bd\$ Billions)



## Board of Directors

**Pictured from left to right:**

**Jeremy Cox**

*Deputy Chief Executive Officer*

**Anthony Joaquin, FCA**

*Managing Partner,  
Ernst & Young (retired)*

**Brian Duperreault**

*President & Chief Executive Officer,  
Marsh & McLennan Companies*

**Ronald Simmons, CA, CPA**

*Managing Partner,  
Moore Stephens & Butterfield*

**Robert D. Steinhoff, FCA**

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

**Matthew Elderfield**

*Chief Executive Officer*

**R. Alan F. Richardson, CA, JP**

*Chairman  
Chief Executive Officer,  
Logic Communications Limited*

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

*Senior Partner,  
Milligan-Whyte & Associates*

**Darren Q. Johnston, CA, CPA, CFA**

*Partner,  
PricewaterhouseCoopers (not shown)*

**E. Barclay Simmons, MBA, LLB**

*Managing Partner,  
Attride-Stirling & Woloniecki (not shown)*

**Tracy Tepper**

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





## Chairman's Letter

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We have come to the end of another very active year at the Bermuda Monetary Authority. From the perspective of the Board of Directors, work on strategic initiatives during the year successfully built on the Authority's existing and well-established infrastructure for corporate governance, risk management and regulatory developments, while laying more groundwork for future policy enhancements.

Such enhancements and other future developments will take place under new leadership at the Authority. Matthew Elderfield was appointed as Chief Executive Officer in July 2007. Matthew quickly demonstrated a focused, visionary approach to addressing the challenges the Authority faces. His strategic

leadership and practical technical ability have already yielded significant results for the Authority.

In addition, the work of the Authority could not have been completed so effectively over the year without the exceptional efforts of our staff. My fellow Directors and I sincerely thank the BMA team for their outstanding contributions during 2007.

In line with the Authority's commitment to maintaining high standards of risk management and internal controls, the Board was pleased to oversee implementation of the Authority's Enterprise Risk Management framework. The methodology developed under this framework will enable the Authority to

systematically review and put in place any necessary enhancements to the organisation's controls moving forward. Similarly, work completed during the year with respect to updating the corporate governance framework ensures that the Authority's governance procedures and protocols remain consistent with local requirements and international best practice.

Work was also successfully conducted on refining Board committee mandates and assessing the procedural and operational effectiveness of the Board itself. Such on going internal reviews are designed to ensure that the Board continues to operate at a level that meets the needs of the organisation. As a result, the strategic developments under consideration by the

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**From risk management to financial procedures to investment policies, the committees worked diligently and at a high level throughout 2007, and we thank them for all their efforts.**

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Board can be appropriately aligned with the on going evolution of the Authority and the manner in which it conducts its business. The Board was able to provide strategic direction on enhancements to a range of key development areas for the Authority during the year, including working towards the Authority's goal to be recognised internationally as a leading risk-based financial regulator. Such direction has become even more significant, as the Authority continues to undertake expanded responsibilities under a growing regulatory and legislative agenda. There has also been a necessary expansion in the team of professionals working at the Authority in order to meet the increased demands being placed upon it as Bermuda's unitary, independent financial services regulator.

With these matters in mind, the Board established the Legislative and Policy Committee during the year, to ensure that the legislative and policy frameworks the Authority develops will support its effectiveness as Bermuda's financial services regulator, as well as being appropriate in scope and application for the markets subject to regulation. In addition, the Compensation Committee was re-focused and repositioned as the Human Capital Committee. The Authority acknowledges the fundamental importance and significant value of human capital to the organisation. We recognise that the Authority's ability to be successful depends on establishing and maintaining effective policies and actions that nurture the skills, talent and contributions of our people. Succession

planning is clearly also a matter of great significance, and will continue to receive the Board's attention. The appointment of Jeremy Cox at the start of 2008 to the new position of Deputy Chief Executive Officer was a key development in the Authority's succession planning process, which aims to ensure we nurture and maximise the talent and skills we have within the Authority to cover the organisation's needs from a management and operational perspective now and for the future. The Human Capital Committee will play a pivotal role in this area, and now oversees strategic direction within the Authority for key matters relating to our staff.

Indeed, all the Board committees continue to contribute successfully to

**R. Alan F.  
Richardson, CA, JP**  
Chairman

February 15, 2008



A handwritten signature in dark ink, appearing to read "Alan Richardson". The signature is fluid and cursive.

the overall strategic development of the organisation, to maintain sound, prudent policies that support the Authority's stability and operational effectiveness. From risk management to financial procedures to investment policies, the committees worked diligently and at a high level throughout 2007, and we thank them for all their efforts. I would also like to thank, on behalf of my fellow Directors, the members of the Board who stepped down at the end of the year. Both Charles Collis and Shaun Morris provided very valuable input and practical insight on a range of key issues during their tenure on the Board. We sincerely appreciate their hard work and contributions to the Authority's development. I would also like to take this opportunity to welcome our two new Directors, Ronald Simmons and Tracy Tepper, to the Board. We look forward to having the benefit of the depth of experience and demonstrated expertise that these two financial services professionals bring to the Authority.

Looking ahead, there is no doubt that the Authority will be operating in a regulatory and market environment that will continue to be challenging and dynamic. The organisation will itself continue to evolve and grow, appropriately and in line with the requirements of the objectives in the Business Plan published early in

2008. Strategic development at the Board level will focus on supporting that growth and evolution via organisational policy enhancements that support the Authority's operational goals.

#### **Non-Executive Directors' Committee**

##### **Alan Richardson, Chairman**

*Robert Steinhoff*

*Brian Duperreault*

*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 the year 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 (formerly the Compensation Committee) and the Audit and Risk Management Committee.

In conjunction with the Board, the Committee reviewed the implementation of the Authority's strategic plan and monitored the Authority's financial affairs, relative to the annual budget adopted by the Board.

Having in 2006 appointed a selection committee to undertake a global search for a CEO of the Authority following Cheryl-Ann Lister's decision not to renew her contract, the Non-Executive Committee approved the appointment of Mr. Matthew Elderfield as the Authority's new CEO, commencing in July 2007.

#### **Audit and Risk Management Committee**

##### **Robert Steinhoff, Chairman**

*Anthony Joaquin*

*Ronald Simmons*

The purpose of the Audit and Risk Management Committee is to:

- Monitor both the accounting and financial reporting process of the Authority, including its internal accounting and financial controls, and 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. During 2007 the Committee met as required to:

- Consider the draft audited annual financial statements and the Audit Exit Letter with the Authority's external auditors;
- Discuss the Enterprise Risk Management Assessment Report and Gap Analyses and the Authority's mitigation and monitoring plan with the external assessors and with management; and
- Discuss the planning for the audit of the Authority's accounts for 2007.

The Committee completed its deliberations on the suitability of hiring an internal auditor and concluded that the function should be outsourced to a third party specialist in 2008.

#### **Corporate Governance and Ethics Committee**

##### ***Darren Johnston, Chairman***

*Alan Richardson  
Anthony Joaquin  
Brian Duperreault  
Barclay Simmons  
Matthew Elderfield  
Jeremy Cox*

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

Among the more significant matters considered by the Committee at its meetings in 2007 were:

#### **Definition of the roles of the Chairman and CEO**

In 2007, the positions of Chairman and

CEO were separated. The Committee reviewed the functions of similar positions in other jurisdictions and established a documented allocation of duties that should assist the Chairman and CEO to harmoniously focus on the key matters that would enhance the operations of the Authority.

#### **Review of the Board committee mandates**

To ensure that the Board committees remained current with regard to governance, structural, and operational changes, the Committee reviewed the mandates of the Board committees. Revisions included expanding the mandate of the Corporate Governance and Ethics Committee to incorporate ethics and Board nominations; establishing a Legislative and Policy Committee; and refining the mandate of and renaming the Human Capital Committee (formerly the Compensation Committee).

#### **Annual Board Self-Evaluation Survey**

The inaugural Board survey, which was conducted in 2006, was used as a starting point to examine the overall performance of the Board and to make recommendations for improvement. These recommendations were largely implemented during 2007. The Committee

also administered the 2007 survey, which showed an improvement in every category of assessment compared to the prior year.

#### **Staff Personal Dealings Rules and Procedures**

The Committee developed the Personal Dealing Rules and Procedures to ensure that staff understand, eliminate and/or mitigate any real or perceived conflicts between their obligations to supervise regulated entities and their private financial interests.

The new arrangements are based on current best practice and build on the former Staff Personal Dealings Policy, which had been in place since January 1991.

#### **Human Capital Committee**

**Alan Richardson, Chairman**

*Brian Duperreault*

*Darren Johnston*

*Robert Steinhoff*

During 2007, the newly formed Human Capital Committee assumed the responsibilities of the former Compensation Committee. The Human Capital Committee has delegated

responsibility to approve the overall compensation framework for the Authority and to 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 CEO and Executive Directors, and oversees the Authority's succession planning and the development and execution of the Authority's human capital policies and programmes. The Committee met as required and discharged its responsibilities. Of particular note was the completion of the Compensation and Benefits Review for non-executive staff, the introduction of flexi-benefits and a retooling of the appraisal and bonus schemes to ensure consistency with best practice.

#### **Investment Committee**

**Barclay Simmons, Chairman**

*Lynda Milligan-Whyte*

*Ronald Simmons*

*Matthew Elderfield*

*Jeremy Cox*

The Investment Committee has responsibility for ensuring the prudent investment of the Authority's portfolio

of assets, in accordance with the requirements of the BMA Act and with the investment policy guidelines established by the Board. During 2007, the Committee met as required to keep under careful review the Authority's investment portfolio. The portfolio is invested largely in very high-quality US public sector securities and is not actively traded.

During 2007, following a request from the Authority, the Ministry of Finance gave permission for investment in specified securities (as defined under the BMA Act). The Committee undertook a review of the investment policy guidelines to ensure that they remain current and appropriate in today's market environment. The Investment Committee intends to build on this work with management in 2008, to ensure that the portfolio continues to be managed prudently and efficiently.

## Executive Team



**Pictured from left to right:**

**Matthew Elderfield**

*Chief Executive Officer*

**Jeremy Cox**

*Deputy Chief Executive Officer*

**Marcia Woolridge-Allwood, BBA, JP**

*Director,*

*Corporate & Financial Services*

**William Kattan, LLB(Hons), LLM**

*Director,*

*Legal Services & Enforcement*

**Shelby R. Weldon, CPA**

*Director,*

*Insurance Compliance*

**Graeme Dargie, MA, Dip**

*Director,*

*Banking, Trust & Investment*

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

*Director,*

*Insurance Licensing & Authorisation*

**Cynthia Currie**

*Director,*

*Human Resources*

**Rick Shaw**

*Director,*

*Actuarial Services*

**Craig Swan**

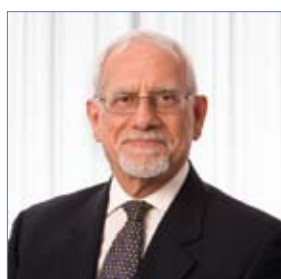
*Deputy Director,*

*Policy, Research & Risk Assessment*

**Harry Whitcher**

*Deputy Director,*

*Insurance Restoration, Run-off & Monitoring*



## CEO's Letter

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This annual report is the first to be published since I joined the Authority as Chief Executive in July of 2007. I am pleased to look back on a year of significant accomplishment by the Authority, much of which predates my arrival.

The Authority's growth, progress and effectiveness as Bermuda's independent financial regulator during this year is a testament to the dedication and commitment of its staff, past and present. My predecessor, Cheryl-Ann Lister, led this organisation through a particularly critical period, in which the Authority earned its present status as an integrated regulator. She and all the Authority team members who worked with her are to

be congratulated on this achievement. I am very pleased to have such a solid foundation on which to build the next phase of development at the Authority.

2007 was another year of change and challenges for the Authority. Such changes included major legislative and regulatory developments; further strengthening of our operational capability, with expanded supervisory programmes and increased numbers of staff; and another assessment of Bermuda's framework for financial regulation by the International Monetary Fund (IMF).

### **IMF Review**

In the first half of 2007, the IMF assessment team conducted a review of

BMA insurance, banking and securities regulation and a jurisdiction-wide survey of anti-money laundering standards. Such assessments are intensive exercises for all concerned and involved considerable time and effort on behalf of the assessors and industry, as well as the IMF team itself. We are grateful to all those in the Bermuda market who worked alongside us in this exercise. We also wish to thank the IMF assessment team for their professionalism and cooperative approach.

The IMF assessment on AML was published in January 2008 and those on banking, insurance and securities were due to be published shortly after this report went to print. Details of the

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conclusions, along with the Authority's responses, can be found on our website. It was very gratifying to note the IMF assessors' conclusion that a key strength of Bermuda's supervisory regime is the integrated nature of the Authority's supervision of the financial sector and the professionalism of our staff.

The assessments of BMA regulation for the insurance, banking and securities markets showed that the Authority is highly compliant with international standards. The level of compliance with relevant standards has further improved since the last IMF Report in 2005, with progress in all areas. Limited areas for improvement remain, but are in areas where other major jurisdictions face

challenges. The assessments have proved helpful in informing our forward work programme in our 2008 Business Plan.

In terms of anti-money laundering and combating the financing of terrorism, the recommendations in the IMF Report have assisted us, together with our colleagues from the Ministry of Finance, Ministry of Justice, the Police Service and other relevant authorities, in setting out a road map for further enhancing the AML/CFT framework. The work to make the necessary enhancements to Bermuda's Proceeds of Crime legislation, and to build the related resources to implement those enhancements, has progressed very well throughout 2007 and into 2008. At the end of this process,

the Authority's powers with respect to AML/CFT will be expanded.

### **Regulatory and Legislative Developments**

The Authority also completed work over the past year on a series of major legislative and regulatory developments to enhance Bermuda's framework for financial regulation.

In addition to amendments to the Proceeds of Crime legislation, the implementation of the licensing regime for fund administrators under the Investment Funds Act was also a significant achievement. The Act introduced a number of changes from the previous Collective Investment

**Matthew Elderfield**

CEO

February 15, 2008



*Matthew Elderfield*

Schemes Regulations, including some streamlining of the provisions for funds. The introduction of the Money Service Business Regulations early in the year brought businesses offering money transmission and similar services directly under the Authority's supervision.

In addition, further amendments to the Insurance Act facilitated provisions for introducing codes of conduct for the industry. The Authority also made considerable progress in developing a new risk-based solvency regime for the largest insurance firms. This approach uses an enhanced capital adequacy assessment tool developed in consultation with industry that will assist the Authority to implement risk-based capital standards for insurers and to make progress in the transition to the recognition of internal economic capital models. This will allow for a more risk-sensitive approach to setting solvency requirements.

#### **Insurance Incorporations**

A total of 71 new insurance and reinsurance companies were established in the Bermuda market during 2007, compared to 82 in 2006. The slight fall in registrations reflected a general trend in the global market, which saw a slowing of captive incorporations. In such conditions,

companies typically are able to purchase reinsurance coverage at competitive rates in the traditional commercial markets.

The majority of the new Bermuda market entrants for 2007 were once again Class 3 insurers, a combination of captive and commercial companies. With respect to the commercial sector, 2007 saw the formation of two Class 4 companies. This reflected the general inactivity in the property and casualty market, and the relative lack of major catastrophic events during the year, resulting in the likely record profitability of existing insurers and a sufficiency of global capital in the property/casualty sector.

The Authority continued to build on our on-site programme during the year as part of the risk assessment framework for insurers. The programme was successfully extended from the Class 4 insurance companies to the largest impact Class 3 companies. The on-sites continue to provide a highly effective risk-assessment tool for the Authority to analyse a company's regulatory compliance and overall risk profile.

#### **Sub-prime Crisis**

The Authority performed a comprehensive market survey to assess the impact of sub-prime mortgages and related structured products on the banking sector

during August 2007. A number of banks were found to have limited exposure to these instruments; however, the vast majority of assets continue to be highly rated.

The Authority also conducted two surveys of the exposure of approximately 120 Bermuda insurance companies to sub-prime and structured products through their underwriting activities and investment portfolios. Based on the data from those surveys, the Authority conducted stress tests on firms' solvency and liquidity positions to identify outlier firms for enhanced supervisory monitoring.

These surveys showed that the Bermuda insurance market as a whole had limited investment portfolio exposure. We continued to monitor closely the exposure of financial guarantee companies, as well as D&O and E&O exposures, through the end of 2007 and into 2008.

Recognising that the capacity constraints in the financial guarantee sector pose wider financial stability concerns, at the beginning of 2008 the Authority approved a financial guarantee company sponsored by an existing market participant, designed to supply additional capacity to the market. It remains too early to

tell if this is an indication of significant new licensing activity. In a related development, the Authority received requests for guidance on reserving approaches for financial guarantee products under Bermuda statutory returns. Consultation with market participants on draft guidance in that regard began early in 2008 for use with 2007 year-end filings.

#### **Currency Operations**

The Authority continued to discharge its management of Bermuda's currency efficiently during the year. We conducted a programme of public awareness and education presentations which covered a range of Bermuda's schools. Our on-site notes and coins museum was also

officially opened early in the year by the Minister of Finance. Work also began on production of a new banknote series, the first redesign of the note family since the Bermuda dollar was introduced in 1970. The Authority is preparing to launch the new note series in the first quarter of 2009.

#### **Operational Capability**

Early in 2008, the Authority announced a series of senior management promotions, led by the appointment of Jeremy Cox to the newly-created position of Deputy Chief Executive Officer. The appointment means that Jeremy, who had been the Supervisor of Insurance, is responsible for all supervisory activities conducted by the Authority. The supervision of banks, trust

companies and investment businesses now come under his responsibility, in addition to insurance supervision.

As my deputy, he will also assist in the ongoing strategic development and direction of the Authority. He will also formally deputise for me in various capacities. Jeremy brings the depth of experience, management skills and vision required for this position. I have already enjoyed working with him as part of our team at the Authority and I am very much looking forward to collaborating with him even more closely in his new role.

The Authority also further enhanced its operational capability by adding staff to support our supervisory work, in addition

**The Authority is committed to a transparent and consultative approach with industry as it develops new standards and exercises its responsibilities as a regulator.**

to boosting our regulatory departments overall. Two new units were established to support the Insurance Department: the Actuarial team brought dedicated, in-house actuarial expertise to the Authority for the first time. The team's work includes but is not limited to supporting the Assessment & Licensing Committee, on-site inspections, review of statutory financial returns, run-off company management, implementation of the Risk Based Capital Model and technical regulatory requests.

The Restoration, Run-off, Review and Monitoring team was established to further enhance the Authority's processes and procedures for addressing insurance companies that may become non-compliant within the existing regulatory framework. The team is dedicated to undertaking prudential monitoring of such companies, whether they may be in run-off or non-compliant in some form, and managing a company's return to compliance or orderly exit from the market.

This team is also conducting a project that will enhance the Authority's supervisory toolkit overall with respect to non-compliant firms and related enforcement matters. This initiative will also seek to further align the Authority's enforcement

procedures with those of other regulatory bodies.

In addition, the Policy, Research and Risk Assessment Department was established towards the end of the year. This brought together within one team dedicated resources to provide overall regulatory policy development, strategic research and risk analysis for the Authority. The Department's work identifies higher risk institutions across all sectors, allowing for supervision that is more effective and supporting a more efficient allocation of the Authority's resources. It also develops policy and discussion papers to support the goals of the supervisory areas and the overreaching mandate of the Authority as a leading risk-based financial regulator.

The Authority's new structure is set out in an organisational chart on page 63.

#### **Looking ahead**

Bermuda's continuing growth and success as an international financial centre means it now has a leading place in the wider financial system: as a result, our standards of regulation are naturally subject to increased scrutiny from regulators around the world.

At the same time, international regulatory standards themselves are in a phase of

rapid evolution, with important changes in areas such as solvency, group supervision and mutual recognition. These changes occur at a time of turbulence in the global capital markets, softening insurance markets and increasing competition from other jurisdictions.

It was against this backdrop that the Authority published its 2008 Business Plan. The Plan states the Authority's goal to be internationally recognised as a leading risk-based financial regulator. The Plan summarises our policy initiatives for the year, including projects to introduce risk-based capital standards for insurance companies; strengthen our anti-money laundering regime; implement Basel 2 for banks and investment firms; and start to develop more detailed standards for the supervision of insurance groups.

Domestically, the Authority's goal is to act as a prudent monetary authority in the discharge of its currency and investment operations. Our 2008 Plan involves upgrading our internal risk management assessment framework, as well as our policies and procedures. As noted above, we have also developed the first major redesign of Bermuda banknotes since their introduction in 1970, and have planned a full range of related consultation and public educational

programmes. We will also review the operation of our company registration activities.

### **Conclusion**

As we bring another active and productive year to an end, we have a full and challenging agenda ahead of us. The Authority is committed to meeting these challenges but does not operate in a vacuum. We are grateful for the continued support and professionalism of our colleagues within the Bermuda Government, particularly at the Ministry of Finance, and the very positive working relationship we have with the Finance Minister, Hon Paula Cox, JP MP and her team.

We are also pleased to enjoy strong working relationships with our stakeholders in the financial services sector. The Authority is committed to a transparent and consultative approach with industry as it develops new standards and exercises its responsibilities as a regulator.

I extend my renewed thanks to Mrs. Lister, on behalf of the Authority and everyone in Bermuda, for her deep sense of service, and the very real progress she achieved during her tenure at the Authority. We wish her well in her future endeavours.

I would also like to record my thanks to Alan Richardson, the Chairman of the Authority, and to the entire Board of Directors of the Authority. I am very grateful for the strong leadership and support Alan and the Board have provided to me as I have started my tenure at the Authority.

Finally, I would like to again express my thanks to the staff of the Authority for all their hard work. The record of achievement in the pages that follow are a tribute to their dedication and effort over the past year.

**Matthew Elderfield**  
**Chief Executive Officer**



# Regulation and **Supervision**

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# Banking, Trust & Investment

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

## **Banks & Deposit Companies Act 1999**

The following section (pages 20 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).

## **Developments in the Banking Sector**

As required by section 8(2) of the Act, the Authority continued to keep under review the operation of the Act, as well as developments in the field of deposit-taking which appeared relevant to the exercise of its powers and the discharge of its duties. This involved general monitoring of developments in the local marketplace and in the wider group operations of the Bermuda banks, together with international trends in the banking industry and changes in regulatory standards and approaches in other jurisdictions.

The Authority continued to fulfill its responsibilities as the home supervisory authority for Bermuda's banks and deposit companies, conducting on going reviews of their operations and capital adequacy. The Authority supervises both licensed entities and, where a bank is part of an international group with its head office in Bermuda, the consolidated worldwide groups to which they belong.

The one exception is the Bank of Bermuda where the UK Financial Services Authority has overall responsibility for the HSBC Group; the Authority supervises the Bank of Bermuda sub-group, liaising closely with the group's home regulator.

## **Developments in the Financial Markets**

The sub-prime mortgage crisis, which started in the United States during the fall of 2006, grew to cause widespread disruption to global financial markets in 2007. During the year the Authority carried out an analysis of the impact of the sub-prime crisis on the stability of the banking sector in Bermuda. Stress tests were carried out to assess the impact on individual banks with the results forming a basis for on going monitoring. While financial markets worldwide remain volatile, the impact on Bermuda's banks has to date been muted. The Authority continues to monitor developments closely.

## **Overview of the Financial Position**

Total assets of Bermuda's banking sector increased by 5% in 2007, reflecting a similar upturn in customer deposits. Within the total, there was strong growth in lending and in investments while deposits with other banks fell back slightly. Credit quality remained high. Although the combined risk asset ratio of

### Loans and Investments as a proportion of Total Assets



Bermuda's banks fell slightly during the year, the core tier 1 ratio improved and, at 17.1%, the year-end aggregate ratio remained healthy. Profitability across the sector grew strongly in 2007.

#### Assets and Liabilities

The consolidated banking sector's asset base increased by 5% in 2007 (3% in 2006), rising from BD\$ 23.1 billion at end 2006 to BD\$ 24.2 billion at end 2007.

Investments, the largest single category, grew by 8%, while loans and advances also grew by 8% during the year, fuelled by an increase in customer deposits of 5%. Deposits with other banks, however, fell slightly over the year.

Asset quality remained strong, with very low incidence of loan losses.

The proportion of performing loans to total loans remained high at more than

98% as at 31st December 2007. Total customer deposits increased by 5%, rising from BD\$ 19.9 billion to BD\$ 20.8 billion. The growth reflected significant increases in savings and time deposits, which grew by 20% and 4% respectively. The level of demand deposits, however, remained relatively stable.

#### Balance Sheet Structure

There was little change in the structure of the consolidated balance sheet for the banking sector in 2007. The proportion of assets held as deposits with other banks reduced from 32% in 2006 to 30% while the proportion of assets held as investments increased marginally from 34% to 35% during the year. Consolidated assets represented by inter-bank placements and holdings of high quality marketable securities made up 65% of total assets relative to 66% in 2006. The proportion of assets accounted for by

### Banking Sector Assets & Deposits

	2007-Q4	2007-Q3	2007-Q2	2007-Q1	2006-Q4	2006-Q3	2006-Q2	2006-Q1	2005-Q4
Total Assets (\$millions)	<b>24,168</b>	23,576	24,719	23,036	23,100	22,253	22,804	22,102	22,371
Quarterly Change(%)	<b>3</b>	-5	7	0	4	-2	3	-1	
Total Deposits (\$millions)	<b>20,807</b>	20,332	21,391	19,909	19,906	19,304	19,901	19,408	19,586
Quarterly Change(%)	<b>2</b>	-5	7	0	3	-3	3	-1	

loans and advances remained relatively stable at 30% compared with the 2006 level of 29%.

**Earnings and Profitability**

The banking sector’s financial performance remained strong. Overall, profitability remained robust, with significant growth in both net interest income and fee income. Operating expenses increased at a slower pace than income generation, reflecting to some extent staff costs lagging behind budgeted levels.

In 2007, net interest income increased by 13% while income from fees and commissions and other income increased by 8% and 20% respectively. The proportion of net interest income to total revenues increased marginally during the year from 48% in 2006 to 49%, while the proportion of other income also increased marginally from 14% to 15%. The proportion of income from fees and commission on the other hand decreased from 38% to 36%.

**Capital Adequacy**

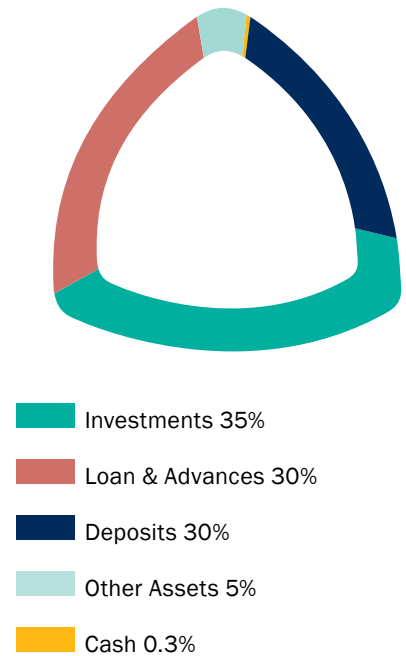
The requirement that licensed banks should have sufficient capital to support the risks inherent in their business is one of the key licensing criteria under the Act. Capital provides a cushion

against the losses to which institutions may become exposed as a result of the risks that they take on. The Authority continuously monitors the capital adequacy of individual institutions and the sector as a whole by, amongst other things, analysing the risk asset ratio (which measures the relationship between an institution’s capital base and the total of its risk-weighted assets). The aggregate risk asset ratio of Bermuda’s banks ended 2007 at 17.1%, remaining well in excess of the 10% minimum ratio based on prudential requirements.

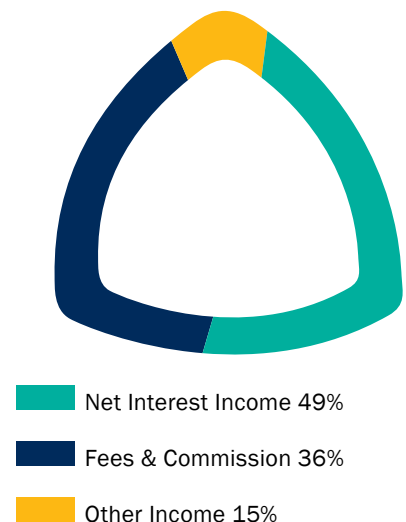
**Liquidity**

The Authority’s approach to the monitoring of liquidity has been described in previous Reports. The Authority continued to monitor the liquidity of institutions against the framework in its 2007 paper, “The Measurement and Monitoring of Liquidity,” and against the mismatch guidelines established for individual institutions. The banks generally met the established liquidity guidelines except for a few instances of non-compliance, which were quickly corrected and which the Authority felt did not pose any significant risk to the individual banks or the banking sector in general. Liquidity stress tests conducted during the year also showed a strong liquidity position for the banking sector.

**Composition of Banks’ Assets as at 31 December 2007**



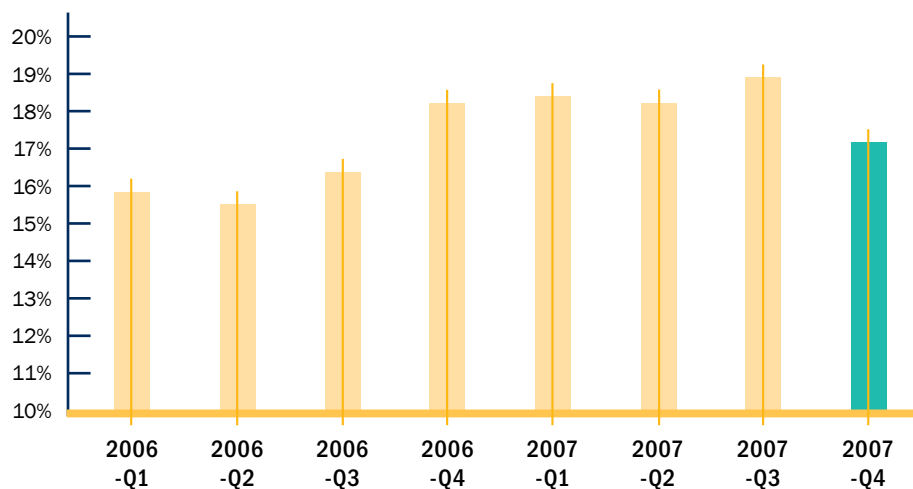
**Banks and Deposit Companies Net Income (Consolidated)**





BMA at work

## Banking Sector Consolidated Risk Asset Ratio



### Bermuda Dollar Deposit and Loans

In 2007, Bermuda dollar denominated customer deposits grew by 4%, the same rate as in 2006. Bermuda dollar lending accelerated slightly from 13% in 2006 to 14% in 2007. The difference in Bermuda dollar deposits over lending increased from 9% of customer deposits in 2006 to 20% in 2007. The Authority conducted an analysis to evaluate the possible impact of the mismatch between Bermuda dollar deposits and loans. While there appeared to be no imminent risk to individual institutions or the sector in general, the Authority continues to monitor the trend, and include the topic in its discussions about liquidity with the banks.

### Licensing

The total number of licensed institutions

remained unchanged at four banks and one deposit company. No applications for a new licence were received during the year.

### Legislative Change

No changes were made to banking legislation during the year.

### Application of the Act

Supervision continued to involve a programme of regular prudential and strategy discussions with senior management, together with off-site analysis and review of prudential data and certain on-site work, conducted both in Bermuda and in significant group operations abroad. In 2007 the on-site programme focused predominantly on credit risk management and anti-money

laundering controls. Programmes included meetings with internal audit, risk and compliance teams within banks, as well as with members of audit committees. Compliance with anti-money laundering and counter-terrorism requirements and procedures is routinely tested as part of the on-site review process.

### Policy Development

In 2007, following the normal consultative process, the Authority finalised revisions to the banking policy framework to reflect amendments made in 2006 to the Basel Core Principles for Effective Banking Supervision. Revisions were made to the Authority's existing policy framework with respect to the approach to consolidated supervision, liquidity, large exposures, interest rate risk and the relationship with auditors and reporting accountants. New policy papers were published with respect to the management of operational risk and the outsourcing of services. The Authority also published a number of papers related to its implementation of Basel II (see below).

### Capital Adequacy Policy

The Authority continued to monitor the capital adequacy of institutions against the framework outlined in its 2006 paper, The Assessment and Measurement of Capital Adequacy for Banks and



## Bermuda Money Supply

(BD\$ millions)	2007-Q4	2007-Q3	2007-Q2	2007-Q1	2006-Q4	2006-Q3	2006-Q2
Notes & Coins in Circulation*	125	110	111	107	121	106	106
Deposit Liabilities	3,634	3,666	3,597	3,411	3,499	3,480	3,481
Banks and Deposit Companies (unconsolidated)	3,759	3,776	3,709	3,518	3,620	3,586	3,588
Less: Cash at Banks and Deposit Companies	45	29	31	29	44	30	31
BD\$ Money Supply	3,714	3,747	3,677	3,489	3,575	3,557	3,557
% Growth on Previous Period	-0.88%	1.88%	5.41%	-2.43%	0.53%	-0.02%	1.84%
Growth Year on Year	3.87%	5.35%	3.38%	-0.12%	4.04%	-0.75%	-2.11%

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.

Deposit Companies. For the time being, institutions are required to meet risk asset ratios of 8% on a solo basis and 10% on a group consolidated basis. The Authority monitors capital adequacy on the basis of detailed quarterly prudential information reports submitted by the institutions. The capital adequacy framework is in the process of being extensively revised in preparation for the implementation of Basel II rules from January 2009 (see below).

### Liquidity Policy

A revised policy paper, The Measurement and Monitoring of Liquidity, was published

in May 2007, replacing the 1999 policy document. The Authority's approach to the monitoring of liquidity as described in previous Reports has not changed significantly. The Authority continued to monitor the liquidity of institutions against policy and against the mismatch guidelines established for individual institutions. In general, Bermuda's banks remain highly liquid.

### Large Exposures

Section 38 of the Act requires licensed institutions to report all exposures to a single counterparty or group of connected counterparties which pose a risk of loss

in excess of 10% of capital. In the case of proposed exposures where the risk of loss may exceed 25% of capital, the institution must seek prior consent from the Authority.

The Authority has stipulated that, other than in the case of standard inter-bank exposures of less than one year's maturity, it is prepared to grant consent only in very exceptional circumstances, demonstrated to be where the exposure can clearly be seen as extremely low-risk. During 2007, a small number of exceptions were granted, after detailed assessments, which confirmed to

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

(BD\$ millions)	2007-Q4	2007-Q3	2007-Q2	2007-Q1	2006-Q4	2006-Q3	2006-Q2
Deposit Liabilities	3,634	3,666	3,597	3,411	3,499	3,480	3,481
Less:							
Loans, Advances and Mortgages	(4,359)	(4,206)	(4,093)	(3,905)	(3,810)	(3,700)	(3,589)
Surplus Deposit	(725)	(540)	(495)	(494)	(311)	(219)	(107)
Percentage of Deposit Liabilities Lent	120.0%	114.7%	113.8%	114.5%	108.9%	106.3%	103.1%

the Authority's satisfaction that the associated level of risk in each case was acceptable. The Authority observed one breach under this section. However, appropriate remedial action was taken, and the issue was resolved promptly.

### 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 2007.

Sections 25 and 26 of the Act provide for the Authority to review the fitness of all proposed new controllers of licensed institutions. One such notification was received during the year, but subsequently lapsed. 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 2007. 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 to deal with particular systems or internal control matters in 2007. However, as before, the power was used routinely during the year for the commissioning of reports to check the accuracy, on a sample basis, of prudential data previously provided to the Authority.

The Authority had no need to make use of its powers under sections 40, 41 and 42 of the Act to require the production of documents, to obtain entry to premises or to appoint persons to investigate an institution. In addition, the Authority did not need to make use of its formal enforcement powers under sections 43 and 44 of the Act to investigate suspicions of illegal deposit taking. There were no appeals against decisions of the Authority under the Act during 2007.

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

(BD\$ Millions)	2007-Q4			2007-Q3			2007-Q2		
	Total	BD\$	Other	Total	BD\$	Other	Total	BD\$	Other
<b>Assets</b>									
Cash	80	45	35	67	33	34	65	34	31
Deposits	7,188	19	7,170	6,359	26	6,333	7,798	23	7,775
Investments	8,387	13	8,374	8,960	15	8,945	8,693	16	8,677
Loans & Advances	7,351	4,246	3,105	7,119	4,117	3,002	7,020	3,998	3,022
Premises & Equipment	449	345	105	429	339	90	414	333	81
Other Assets	713	89	624	643	81	561	729	76	653
<b>Total Assets</b>	<b>24,168</b>	<b>4,756</b>	<b>19,412</b>	<b>23,576</b>	<b>4,611</b>	<b>18,965</b>	<b>24,719</b>	<b>4,480</b>	<b>20,239</b>
<b>Liabilities</b>									
Demand Deposits	8,735	808	7,927	8,886	841	8,045	9,883	805	9,078
Savings	3,423	1,182	2,241	2,963	1,199	1,764	3,357	1,205	2,152
Time Deposits	8,650	1,649	7,000	8,483	1,630	6,853	8,151	1,584	6,567
<b>Sub Total - Deposits</b>	<b>20,807</b>	<b>3,639</b>	<b>17,169</b>	<b>20,332</b>	<b>3,670</b>	<b>16,662</b>	<b>21,391</b>	<b>3,594</b>	<b>17,798</b>
Other Liabilities	641	255	387	558	296	262	706	405	300
<b>Sub Total - Liabilities</b>	<b>21,449</b>	<b>3,893</b>	<b>17,555</b>	<b>20,890</b>	<b>3,966</b>	<b>16,925</b>	<b>22,097</b>	<b>3,999</b>	<b>18,098</b>
Equity	2,720	1,433	1,287	2,686	1,564	1,121	2,622	1,565	1,057
<b>Total Liabilities and Capital</b>	<b>24,168</b>	<b>5,326</b>	<b>18,842</b>	<b>23,576</b>	<b>5,530</b>	<b>18,046</b>	<b>24,719</b>	<b>5,564</b>	<b>19,155</b>

(BD\$ Millions)	2007-Q1			2006-Q4			2006-Q3		
	Total	BD\$	Other	Total	BD\$	Other	Total	BD\$	Other
<b>Assets</b>									
Cash	54	33	22	89	62	26	460	40	420
Deposits	7,195	23	7,172	7,324	24	7,299	7,088	11	7,077
Investments	7,766	16	7,750	7,758	-6	7,764	7,379	-6	7,385
Loans & Advances	6,958	3,862	3,096	6,806	3,763	3,044	6,358	3,656	2,702
Premises & Equipment	401	328	73	376	322	54	378	318	60
Other Assets	661	112	549	747	104	644	590	93	498
<b>Total Assets</b>	<b>23,036</b>	<b>4,375</b>	<b>18,661</b>	<b>23,100</b>	<b>4,269</b>	<b>18,831</b>	<b>22,253</b>	<b>4,113</b>	<b>18,141</b>
<b>Liabilities</b>									
Demand Deposits	9,213	668	8,545	8,755	785	7,970	9,465	777	8,688
Savings	2,988	1,210	1,778	2,845	1,216	1,628	2,037	1,243	795
Time Deposits	7,708	1,473	6,235	8,306	1,495	6,811	7,802	1,420	6,382
<b>Sub Total - Deposits</b>	<b>19,909</b>	<b>3,352</b>	<b>16,558</b>	<b>19,906</b>	<b>3,496</b>	<b>16,409</b>	<b>19,304</b>	<b>3,440</b>	<b>15,864</b>
Other Liabilities	557	391	166	748	432	315	640	253	387
<b>Sub Total - Liabilities</b>	<b>20,466</b>	<b>3,742</b>	<b>16,724</b>	<b>20,653</b>	<b>3,929</b>	<b>16,725</b>	<b>19,943</b>	<b>3,693</b>	<b>16,251</b>
Equity	2,570	1,680	889	2,447	1,436	1,011	2,310	1,352	958
<b>Total Liabilities and Capital</b>	<b>23,036</b>	<b>5,423</b>	<b>17,613</b>	<b>23,100</b>	<b>5,365</b>	<b>17,736</b>	<b>22,253</b>	<b>5,045</b>	<b>17,208</b>

Totals may not add due to rounding

## Combined Banks and Deposit Companies Foreign Currency Position (Consolidated)

(BD\$ millions)	2007-Q4	2007-Q3	2007-Q2	2007-Q1	2006-Q4	2006-Q3	2006-Q2
Total Foreign Currency Assets	19,412	18,965	20,239	18,661	18,831	18,141	18,617
Less: Other Assets	624	561	653	549	644	498	495
Less: Foreign Currency Loans to Residents	1,058	975	945	947	1,189	1,085	1,074
Net Foreign Currency Assets	17,730	17,428	18,641	17,165	16,998	16,558	17,048
Foreign Currency Liabilities	17,555	16,925	18,098	16,724	16,725	16,251	16,882
Add: BD\$ Deposits of Non-Residents	216	211	205	150	147	128	134
Net Foreign Currency Liabilities	17,771	17,136	18,304	16,874	16,872	16,379	17,016
Net Foreign Currency Position (consolidated)	(41)	292	338	291	126	179	32

### Forthcoming Supervisory Developments

During the year, the Authority continued working towards its goal of implementing Basel II on 1 January 2009. These new arrangements for assessing minimum capital requirements will apply to all Bermuda's banks and selected investment companies. Deposit-taking institutions will have the option of remaining on the current Basel I approach, reflecting the less complex nature of their business.

The Authority has been developing its approach to Basel II in consultation with industry stakeholders. A number of consultation papers were published in 2007 and the Authority remains on course to publish its final rules for Pillar 1 and Pillar 2 in the second quarter of 2008. Work on a new reporting framework

is also in hand. A consultation paper on the intended approach to Pillar 3 (market disclosure requirements) is planned for publication in June 2008. The Authority began a programme of regular discussions with the banks about their Basel II preparations towards the end of 2007 and these will continue throughout 2008.

### Sub-prime Crisis

The Authority performed a comprehensive market survey to assess the impact of sub-prime mortgages and related structured products on the banking sector during August 2007. A number of banks were found to have some exposure to these instruments. However, the Authority's initial review revealed that the great majority of investment positions in sup-prime related notes were highly rated.

There have been some downgrades since but, overall, ratings have held up well and the banks concerned continue to report no permanent impairment in value.

### International Monetary Fund

#### Factual Update

During the year, the IMF conducted a factual update of their previous assessment of Bermuda's compliance with the Basel Core Principles for Effective Banking Supervision, undertaken in 2003. The update was based on a self-assessment prepared by the Authority and interviews with Authority staff, external auditors, industry practitioners and professional associations.

The IMF also had access to legal, policy and other documents. The Factual Update, due to be published early in

2008, recognised that the Authority had addressed almost all of the recommendations made in 2003 and, in addition, had substantially improved its regulatory framework in line with the latest revisions to the Core Principles made in 2006. The assessors identified a small number of areas where improvements could be made to enhance supervision, which the Authority is addressing.

#### **Bermuda's Clearing and Settlement Arrangements**

During the year, the Authority was closely involved in the work of the Clearing and Settlement Committee, bringing together representatives of all Bermuda's banks, with a view to designing, developing and implementing new inter-bank clearing and settlement arrangements for Bermuda. The Authority sees this work as an important priority in enabling the banks to deal more effectively with the risks inherent in the daily settlement process. The project made significant progress during 2007 and remains on track for final implementation in 2008.

The work of this Committee illustrated the value of a regular forum where the banks could discuss and resolve issues of common interest. Accordingly, the Authority proposed to the banks

that they set up a Bermuda Bankers' Association for this purpose. This has now been created and meets monthly under the chairmanship of the CEO of Butterfield Bank. The Authority has a standing invitation to attend.

#### **The BIU Members' Credit Union Co-op Society (The Credit Union)**

The Authority undertakes certain supervisory functions delegated to it by the Minister of Finance under the Credit Unions Act 1982. As is normal practice, the Authority held regular meetings with the Board and Management of the Credit Union. An on-site inspection of the Credit Union's operations was also conducted during the year. The Authority continued to participate in discussions with the Ministry and the Board of the Credit Union during 2007 with a view to finalising proposals for a number of important amendments to the present legislative and regulatory framework and supervisory approach.

## **TRUST**

#### **Trusts (Regulation of Trust Business) Act 2001**

The following section (pages 28 to 29) comprises the report required to be made annually by the Authority 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 another positive year, with continued growth being achieved in both the number of trusts and total assets under administration. In aggregate, licensed undertakings once again generated increases in revenues and in net income during 2007. Many firms continued to face challenges in recruiting budgeted numbers of professional staff because of competition both within the local marketplace and within the global trust industry. However, the total number of staff employed in the industry in Bermuda increased slightly from the 2006 level. The Authority continued to evaluate developments in the sector through its on going supervision of each licensed undertaking and via routine liaison with industry bodies, such as the Society of Trust and Estate Practitioners (Bermuda) Branch, the Bermuda Association of Licensed Trustees and the Association of Bermuda Compliance Officers.

#### **On Going Supervision**

The Authority's supervisory approach with regard to licensed undertakings was unchanged from that described in last year's Report. The IMF endorsed our programme in its assessment of the jurisdiction. In its Report, the IMF



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stated that the Authority had a well-structured, well-documented programme for supervising trust service providers. It also said that Bermuda's trust sector appeared to be strong, with companies placing a high priority on establishing and maintaining a reputation for competence and integrity.

### Licensing

The Authority received no new applications during the year, while one licence was surrendered. Accordingly, there were 32 licences in operation at the end of the year. One licence application remained outstanding from the previous year.

### Private Trust Companies

The Authority reviewed and recommended 32 private trust companies for incorporation during 2007, a significant increase over the previous year's total of 22. In each case, the Authority conducted the relevant checks to satisfy itself that the business to be conducted was strictly limited and appropriate for exemption from licensing under the Act. The Authority continued to monitor the timely receipt of the required trust exemption certifications from newly incorporated private trust companies. The Authority's advice was sought by the Minister of Finance in a few cases in connection with requests to amend the objects and to add

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

### 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 two licensed undertakings during 2007. In each case, the Authority was able to give a non-objection after a detailed review of the proposals. 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

### Investment Business Act 2003

The following section (pages 29 to 35) comprises the report that the Authority is required to provide annually to the Minister of Finance regarding the execution of its functions under the Investment Business Act 2003, pursuant to section 8(3) of the Act.

### Developments in the Investment Sector

Aggregate total assets of licensed investment providers (excluding banks and overseas entities) amounted to approximately \$180 billion\* at year-end 2007. The aggregate capital of the licensed sector increased to \$1.1 billion at year-end 2007, compared with \$900 million at end 2006.

### Legislative changes

No changes were made to the Act during the year.

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



### **On Going Supervision**

Throughout the year, the Authority continued to supervise licensed firms in accordance with the framework established under the Act. Supervision includes a review of quarterly financial reporting, audited financial reports, other periodic reports and scheduled prudential and on-site meetings. Prudential meetings are held with investment providers' senior management to discuss the development of the companies' business, encompassing past performance and future strategy. On-site visits assess the effectiveness of policies, procedures and internal controls, as well as compliance with the requirements of the Act, Regulations and Codes.

The Authority conducted 23 prudential and strategy meetings with institutions or regulated groups and 11 on-site reviews in 2007. 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 provided written

feedback 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, a number of strategy or ad hoc meetings were held with institutions to discuss specific issues or concerns.

### **Licensing**

There were 57 licences in issue at the end of 2006. One application remained outstanding and was subsequently approved. During the course of the year, the Authority received a further three applications for licences, two of which remained outstanding at the end of 2007. A further two licences were surrendered during the year. As a result, a total of 57 licences were in issue at the end of 2007.

### **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. The Authority had no cause to use this power in 2007.

Under Sections 20, 21 and 23, the Authority may restrict or revoke a licence. These powers were not used during 2007.

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. Such notice was given to the Authority in three cases during the year. Following reviews of the proposal, the Authority issued its non-objection in each case. There was no need to use the power contained in Section 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, a number of investment providers gave notice to the Authority of changes in controllers and officers, as required by Section 43 of the Act. 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 delineated in Sections 45, 46 and 47 of the Act to obtain information and reports, to require the production of documents, or to gain entry to premises. Similarly, there was no need to have recourse to the powers in Section 49 to investigate an investment provider.

The Authority was not required to make use of its powers 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 powers contained in Chapter 6 of the Act to publish a statement of public censure or in Chapter 7 to take protective measures were not exercised during 2007. There was no exercise 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

The Money Service Business Regulations 2007 came into force on 16 January 2007. The Regulations provide for a licensing regime for any company (unless otherwise exempted) engaging in money service business as defined by the Bermuda Monetary Authority Act 1969, either in or from Bermuda. A company carrying on money service business at the date of commencement of the regulations was allowed a period not exceeding 12 months from that date to submit an application.

The Regulations require 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 travellers' 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 exempted from the Regulations.

### Supervision

Supervision of this sector is intended to assist the Authority in its assessment of the on going financial viability of a money service provider, the fitness and propriety of its management, the prudent conduct of its business and its compliance with the Regulations.

The Authority's supervision of money service businesses will involve 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. The businesses will also be required to submit a quarterly Statistical Report and an annual Statement of Compliance. In

addition, a review of compliance with "Know Your Customer" and record-keeping requirements, in relation to the Proceeds of Crime (Money Laundering) Regulations 1998, will form part of all of the Authority's visits.

### Licensing

During 2007, two money service business licence applications were received. One was approved and one remains under review. In addition, the Authority either made contact with or held meetings with several individuals and local entities with respect to the scope of the new regulations.

## INVESTMENT FUNDS

A total of 95 new investment funds were classified during 2007. As in the past, these were overwhelmingly targeted towards institutional or sophisticated investors. At the end of the year, 2,162 different investment portfolios operated within Bermuda's 1,303 classified funds.

The aggregate net asset value of Bermuda's classified funds continued to grow strongly in 2007, reaching \$249.2 billion at the end of 2007, 18% above the level a year earlier. Much of this growth was driven by the continued popularity of hedge fund-related products. A full list of regulated investment funds can be

found on the Authority's website, www.bma.bm. The Authority dealt with 760 requests for amendments to approved service providers or for material changes to scheme offering documents during the year, compared to 1,043 requests processed in 2006.

### Legislation

The Investment Funds Act 2006 came into effect on 7 March 2007. The new Act, which repealed the 1998 Collective Investment Scheme Classification Regulations, makes provision for the authorisation and regulation of mutual funds and other pooled investment vehicles. It also introduced a licensing requirement for persons carrying on the business of a fund administrator in or from Bermuda, thereby making such companies subject to on going supervision by the Authority.

The Act introduced a number of changes from the earlier Regulations, including some streamlining of the provisions for funds. The new legislation provides for three classes of funds: Standard, Institutional and Administered. Institutional and Administered Funds are targeted at sophisticated investors, with the latter required to appoint a Bermuda-licensed fund administrator. Standard Funds are open to a wider spectrum of

investors. Funds existing at the date of commencement of the new Act were able to apply to be reclassified without additional fee during the period of six months from commencement. Under the transitional provisions of the Act, schemes previously classified under the repealed Regulations were, upon commencement of the legislation, deemed authorised under the Act. Similarly, every fund exempted under regulation 3A of the earlier Regulations was deemed exempted from authorisation under the Act.

The Act also provides for funds that are private in nature and have not more than 20 investors to be excluded from the Act. Such funds must serve written notice on the Authority confirming that they qualify for exclusion. All persons conducting the business of a fund administrator in or from Bermuda are prohibited from conducting business unless licensed. Fund administrators operating in the jurisdiction at the date of commencement had until 7 March 2008 in which to make an application for a licence. In total, including applications from new fund administrators, the Authority has received 47 applications under the Act. Generally, the objective remains for the Authority to regulate funds having proper regard to the nature of their investor base, in particular to the degree of sophistication

or investment expertise that investors can be expected to apply. To a large extent, Bermuda's fund industry remains exclusively targeted at sophisticated investors.

### Supervision

Within the Authority's risk-based system, regulation of investment funds continues to place considerable weight on ensuring full disclosure of material information to investors through the prospectus or offering documentation, together with the requirement that the Authority approve the professional service firms which provide on going checks and balances in the funds' daily operations. Under the Act, therefore, the Authority continues to review very carefully the contents of fund prospectuses and the quality and suitability of their promoters and service providers.

So far as fund administrators are concerned, the focus in 2007 was on dealing with applications for licensing, and this will continue through the early months of 2008. Thereafter, the emphasis will shift to on going supervision of the newly licensed entities. To this end, the Authority will begin implementing a programme of on-site visits to fund administrators in the second half of 2008. This will assist the Authority's

## Investment Fund Statistics

	2007-Q4	2007-Q3	2007-Q2	2007-Q1	2006-Q4	2006-Q3	2006-Q2
Mutual Funds	881	879	887	887	906	878	869
Umbrella Funds	77	71	68	68	67	63	62
Sub-Funds	253	261	269	270	283	279	284
Segregated Account Companies	77	78	77	75	69	67	64
Segregated Accounts	391	396	397	399	390	393	394
<b>Total</b>	<b>1,679</b>	<b>1,685</b>	<b>1,698</b>	<b>1,699</b>	<b>1,715</b>	<b>1,680</b>	<b>1,673</b>
Unit Trusts	106	106	106	108	109	108	108
Umbrella Trusts	162	153	138	134	151	151	139
Sub-Trusts	215	215	215	215	215	222	232
<b>Total</b>	<b>483</b>	<b>474</b>	<b>459</b>	<b>457</b>	<b>475</b>	<b>481</b>	<b>479</b>
<b>Total Portfolios</b>	<b>2,162</b>	<b>2,159</b>	<b>2,157</b>	<b>2,156</b>	<b>2,190</b>	<b>2,161</b>	<b>2,152</b>
<b>Total Number of Funds</b>	<b>1,303</b>	<b>1,287</b>	<b>1,276</b>	<b>1,272</b>	<b>1,302</b>	<b>1,267</b>	<b>1,242</b>
<b>Total Net Asset Value (In Billions)</b>	<b>\$249.17</b>	<b>\$230.54</b>	<b>\$223.14</b>	<b>\$212.80</b>	<b>\$211.52</b>	<b>\$210.95</b>	<b>\$207.52</b>

Note: Data reported for the periods after Q4 2005 include funds that have been granted exemption under section 7 of the Investment Funds Act 2006.

review of fund administrators' financial viability, adequacy of controls and general compliance with the Act.

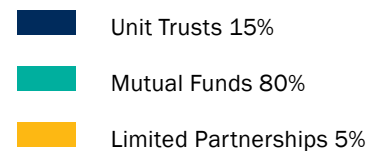
## BERMUDA STOCK EXCHANGE

The main developments in 2007 were a further increase in the number of international issuers and companies listing their securities on the Bermuda Stock Exchange (the BSX), record domestic trading volume and the designation of the BSX by the United Kingdom's HM Revenue and Customs as a Recognised Exchange.

Domestic trading volumes increased from 3.9 million shares in 2006 to 5.3 million shares in 2007, with a corresponding value of over \$165 million, the second-highest value turnover level in the Exchange's history. The total market capitalisation of the BSX as at 31 December 2007 stood at more than \$350 billion, of which approximately \$2.7 billion represented the domestic market. As at 31 December 2007, 543 issuers were listed on the BSX, an increase of 26% over the previous year. The Exchange also listed 110 international derivatives warrants during the year, 20 new collective investment vehicles and 10 secondary issuers. The Authority continued to supervise the BSX and to oversee its 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.

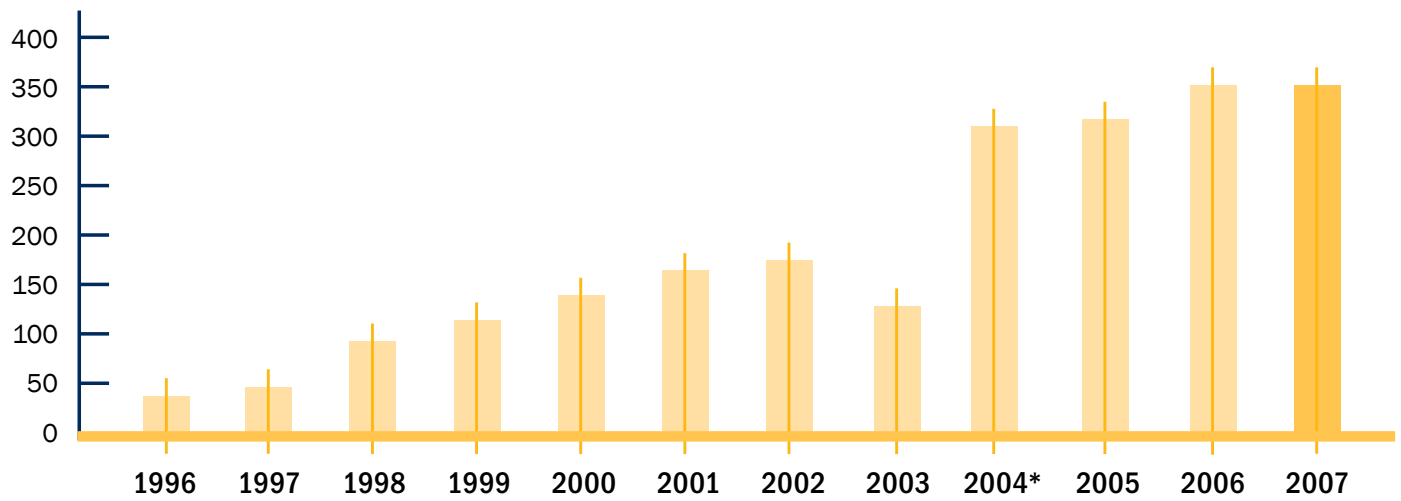
## Investment Funds Applications Reviewed 2007





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### 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 insurance brokers, agents, managers and salesmen. The Insurance Act 1978 provides the Authority with full licensing and intervention powers. The Act provides the Insurance Department with powers to obtain information and reports and to require the production of documents from licensed insurers, insurance managers and intermediaries.**

## **Developments in the Insurance Sector**

The Bermuda insurance market recorded another year of growth for the reporting period. Aggregate total assets at the end of 2006 were \$440.4 billion, compared to \$329.9 billion at the end of 2005, an increase of 33%. Much of this growth was organic, following a relatively benign Atlantic Hurricane season in 2006. Property catastrophe reinsurance remains a major element of the Bermuda market.

Captive companies remained a significant proportion of Bermuda's licensed insurance entities, in keeping with the jurisdiction's continued position as the leading captive domicile globally. The captive sector recorded a total of \$21.5 billion in gross premiums written in 2006, an increase of almost 11% over the previous year. Underwriting results for Bermuda's commercial (re)insurance sector also remained strong and showed continued growth. Total gross premiums written for the commercial market amounted to \$94.3 billion in 2006, a year-on-year increase of 16%. Overall, commercial insurers and (re)insurers accounted for 81% of the total gross premium results for 2006.\*

A total of 71 new (re)insurers were established in the Bermuda market during 2007, as compared to 82 in 2006. This

change reflected to some degree the effects of a softening market globally, which typically enables companies to purchase reinsurance coverage at competitive rates in the traditional commercial markets thereby slowing the rate of incorporations. Most of the new market entrants for 2007 were Class 3 insurers, a combination of captive and commercial companies. With respect to the commercial sector in particular, 2007 saw the formation of two Class 4 companies. This reflected the general inactivity in the property and casualty market, as mentioned above, and the lack of any major catastrophic events during the year.

The greatest proportion of business came from the US during 2007, with respect to both the captive and commercial markets. European (re)insurers also continued to show interest in Bermuda, building on momentum established from a series of new incorporations the previous year originating from the UK.

Bermuda continued to see considerable interest from the healthcare market in establishing captives in the jurisdiction.

On the commercial side, the most significant trend of the year related to capital management. Many of the

*\*Underwriting results are compiled from Statutory Financial Returns filed with the Authority.*

larger Bermuda companies instituted or extended share repurchase programmes, while others chose to declare extraordinary dividends as a means of reducing their capital nearer to the economic level. This focus on capital management has been part of a greater concentration in the market globally on enterprise risk management (ERM), to assess the overall performance of companies and the manner in which they handle the risks they face.

#### **Approach to Insurance Supervision**

During 2007, the Authority conducted a number of initiatives to further develop its supervisory framework, as part of its continuing review and enhancement of insurance regulation in Bermuda. The Authority's objective for such developments is to maintain the existing balance between effective regulation and the innovative business environment for which the Bermuda market is renowned. In terms of significant legislative changes, the Authority is moving closer to complying with the International Association of Insurance Supervisors' Insurance Core Principle 26, by proposing that Class 4 (re)insurers file audited GAAP financial statements to be publicly published.

The Insurance Amendment Act 2006

provided for the Authority to issue codes of conduct for (re)insurance entities, which are currently being developed in consultation with industry.

#### **ON-SITE PROGRAMMES**

During 2007 the Authority completed the inspection of all Class 4 companies registered prior to 31st December 2006 and expanded its on-site programme to include high profile Class 3 commercial (re)insurers. The on-site programme was also expanded further during the year to include insurance managers and newly registered commercial insurers and/or reinsurers.

#### **Insurance Manager On-site Review Programme**

The Authority developed and implemented the Insurance Manager On-site Review Programme during 2007. The programme provides an efficient means of supervising Bermuda's captive market by evaluating the effectiveness and compliance of the corporate governance and internal controls systems of a key group of service providers to the industry – captive managers. The review includes on-site visits, filing of required documentation and prudential meetings with senior management. The programme is in line with international standards of risk assessment and

management. The industry received the programme positively, recognising the appropriateness of establishing such a programme within the context of Bermuda's position as a leading financial jurisdiction. It was also well received by the International Monetary Fund in its review of Bermuda's regulatory framework for insurance during the year.

#### **Start-up Audit Programme**

The start-up on-site programme reviewed high profile and high impact commercial (re)insurers within 6-12 months of a company receiving its licence. The reviews included assessments of the entity's success in establishing daily business operations that ensured the company's on going regulatory compliance, and implementation of business practices that are in accordance with accepted international best practice. The programme complements the Authority's existing on-site programme by detecting any areas of concern prior to a company undergoing an on-site review, which typically occurs 12-18 months after a licence has been issued. In keeping with the Authority's risk-based approach to regulation, the effectiveness of which has been recognised by international reviews of the Bermuda framework, the programme is geared towards Class 3 and 4 insurers.

**Market Statistics by Company Type** For the Year ended 31st December, 2006

Company Type	No. of Co's	Gross Premiums	Net Premiums	Total Assets	Capital and Surplus
<b>Captives</b>					
Association Captive	106	4,293,293,464	4,000,846,458	18,436,825,739	6,153,290,830
Captive writing 3rd party	182	8,101,602,991	6,873,779,609	28,162,897,019	11,620,012,887
Group Captive	115	1,752,713,588	1,599,914,755	4,459,236,733	1,510,981,120
Health Care Captive	58	595,123,469	517,092,153	2,759,462,773	780,732,263
Rent-A-Captive	62	2,089,457,682	621,458,638	2,342,965,767	631,162,550
Single-Parent Captive	317	4,676,108,377	3,666,953,060	15,940,032,418	8,669,673,682
<b>Sub-Totals:</b>	<b>840</b>	<b>21,508,299,571</b>	<b>17,280,044,673</b>	<b>72,101,420,449</b>	<b>29,365,853,332</b>
<b>Professional Ins./Reinsurers</b>					
Affiliated Reinsurer	63	5,670,148,528	3,289,594,188	36,652,324,642	18,941,615,083
Class 4 Ins./Reinsurer	38	32,216,627,481	28,608,102,943	135,164,514,497	57,173,776,362
Professional Ins./Reinsurers	364	56,388,525,635	51,182,712,894	196,478,736,703	52,329,479,253
<b>Sub-Totals:</b>	<b>465</b>	<b>94,275,301,644</b>	<b>83,080,410,025</b>	<b>368,295,575,842</b>	<b>128,444,870,698</b>
<b>Totals:</b>	<b>1,305</b>	<b>115,783,601,215</b>	<b>100,360,454,698</b>	<b>440,396,996,291</b>	<b>157,810,724,030</b>



*BMA at work*

### **Operational Developments**

The number of staff within the Department increased significantly again during the year, enhancing both the technical skills and resources applied in the Authority's work for the licensing and on going supervision of Bermuda's (re)insurance companies. At year-end 2007, a total of 45 professionals were employed in the Department. Two new teams were established during the year to focus on providing support and developing further initiatives with respect to actuarial services and matters related to non-compliance of regulated entities. The Actuarial team brought dedicated, in-house actuarial expertise to the Authority's supervisory function. The team supports supervisory units from an actuarial standpoint where such analysis is required in carrying out the Insurance Department's responsibilities. This includes but is not limited to supporting the Assessment & Licensing Committee, on-site inspections, review of statutory financial returns, run-off company management, implementation of the Risk Based Capital (RBC) Model and technical regulatory requests.

The Restoration, Run-off, Review and Monitoring team provides a dedicated resource that enhances the Authority's processes and procedures for addressing

non-compliant insurance companies. The team focuses on conducting the prudential monitoring of such companies, with a view to either managing a company's return to compliance or its timely and orderly exit from the Bermuda market. This team is also reviewing the Authority's existing supervisory toolkit in relation to non-compliant firms and related enforcement matters. The Authority also effectively used outsourcing partners during the year, supplementing supervisory staffing levels with support from professional service firms.

### **Licensing**

During 2007, the Authority received a total of 90 new insurance-related applications for incorporation. The Authority approved 88 of these applications, and 2 were withdrawn. 77 of the successful applications were for insurers ranging from Class 1 to Class 4 including Long-Term insurers. (A total of 6 of these applications were registered early in 2008). 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.

### **Assessment and Licensing Committee**

The Authority also leveraged the considerable in-house expertise that exists within the organisation and established the Assessment and Licensing Committee (ALC) during 2007. The ALC reviews and makes recommendations on all licensing applications for financial services in Bermuda. For the insurance sector this Committee replaces the earlier Insurance Admissions Committee process. The ALC comprises senior management staff from the Authority's regulatory units (Banking, Trust & Investment and Insurance), in addition to members of the Legal Services and Enforcement Department and Policy Unit. With regard to insurance applications, the ALC continues to consult with industry via a Technical Advisory Group (TAG), taking any opinions given by TAG regarding applications under advisement when making its final recommendation. The ALC enables the Authority to bring together the review process for all licensing applications across each segment of Bermuda's financial services sector, and to use its in-house technical expertise in a centralised process.

### **Application of the Act**

#### **a) Timeliness of Reporting**

The obligation placed on companies to file



## Market Statistics by Domicile of Beneficial Owner/s For the Year ended 31st December, 2006

Domicile of Owners	No. of Co's	Gross Premiums	Net Premiums	Total Assets	Capital and Surplus
<b>Captives</b>					
Africa/Middle East	5	16,639,694	10,825,582	107,738,688	35,305,336
Asia	27	207,739,096	143,793,319	744,169,751	877,498,744
Australia/New Zealand	7	45,311,606	36,741,155	86,854,095	30,992,306
Bermuda	52	830,739,635	694,122,881	2,035,650,343	813,885,987
Caribbean/Latin America	28	300,374,537	194,264,828	702,502,771	360,480,620
Europe	117	3,545,453,811	2,751,546,833	13,453,545,559	7,244,948,729
North America	604	16,562,041,192	13,448,750,075	54,970,959,242	20,002,741,611
<b>Sub-Totals:</b>	<b>840</b>	<b>21,508,299,571</b>	<b>17,280,044,673</b>	<b>72,101,420,449</b>	<b>29,365,853,333</b>
<b>Professional Ins./Reinsurers</b>					
Africa/Middle East	7	1,394,123,596	1,338,258,614	2,914,588,146	132,062,388
Asia	17	341,237,122	312,491,800	1,476,053,652	870,113,690
Australia/New Zealand	3	717,369,000	602,681,186	1,443,090,866	499,723,673
Bermuda	88	27,385,031,298	24,098,589,647	130,908,600,558	46,835,181,627
Caribbean/Latin America	21	753,817,954	741,002,014	7,831,473,002	3,338,158,310
Europe	73	5,269,264,313	3,762,591,440	23,827,376,046	9,988,219,525
North America	255	58,413,783,576	52,224,120,539	199,892,678,496	66,779,880,979
Worldwide	1	674,785	674,785	1,715,076	1,530,506
<b>Sub-Totals:</b>	<b>465</b>	<b>94,275,301,644</b>	<b>83,080,410,025</b>	<b>368,295,575,842</b>	<b>128,444,870,698</b>
<b>Totals:</b>	<b>1,305</b>	<b>115,783,601,215</b>	<b>100,360,454,698</b>	<b>440,396,996,291</b>	<b>157,810,724,031</b>

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: rigorous review of new incorporations and early intervention by the Authority in the event of potential solvency issues. Based on this framework, cases of insolvency in the Bermuda market remain very low.

#### **On Going Supervision**

The Authority conducted regular prudential meetings with the management of (re)insurance companies throughout 2007, as part of its usual supervisory responsibilities. The Authority continued to use these meetings, along with the assessments it conducted in the expanded on-site programme and

continuous off-site analysis of financial returns, to closely monitor any corporate issues, as well as general industry developments, that may have arisen during the year.

There were no instances where the Authority employed the use of statutory powers to intervene with licensed entities formally under the Act. There was one incident of an unauthorised entity claiming to conduct regulated business in Bermuda during 2007. With the strengthening of its Restoration, Run-off, Review and Monitoring team the Authority is ensuring that any emerging issues in this regard are dealt with in an expeditious manner.

#### **International Developments**

The Authority has been increasing its involvement in the fora developing international guidelines for the regulation of insurance. The Authority is an active member on a number of IAIS committees. There is an on going programme to ensure and maintain consistency with international regulatory standards, and in particular the IAIS's 28 Insurance Core Principles, which are currently under review. The IAIS is also developing guidelines on mutual recognition between regulators, and procedures for considering solvency and other issues at

a group level. The Authority is contributing to the development of these guidelines. Similarly, the Authority is monitoring developments in IAIS guidelines on ERM and capital requirements with the aim, if necessary, of reviewing practices to ensure consistency with international standards. The Authority is also monitoring the development of Europe's Solvency II regime, and in particular the third country provisions. In addition, the Authority is keeping abreast of the progress of convergence of international (IFRS) and U.S. accounting standards.

The International Monetary Fund reviewed the insurance activities of the Authority in 2007. The IMF's report was generally favourable, and concluded that the Authority has achieved a very high level of observance with the Insurance Core Principles.

**Market Statistics by Class of Insurer** For the Year ended 31st December, 2006

Class of Insurer	No. of Co's	Gross Premiums	Net Premiums	Total Assets	Capital and Surplus
Class 1	343	4,767,932,617	3,736,912,017	16,372,746,394	8,826,534,502
Class 2	353	9,029,304,772	7,996,529,146	38,771,246,705	15,026,866,687
Class 3	490	42,302,251,871	32,551,426,118	194,506,490,036	66,797,893,772
Class 4	38	32,216,627,481	28,608,102,943	135,164,514,497	57,173,776,362
Long-Term	81	27,467,484,474	27,467,484,474	55,581,998,659	9,985,652,707
<b>Totals:</b>	<b>1,305</b>	<b>115,783,601,215</b>	<b>100,360,454,698</b>	<b>440,396,996,291</b>	<b>157,810,724,030</b>

**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.



BMA at work

### Class of Insurer Incorporated

Class of Insurer	2007	%	2006	%
Class 1	9	13	13	16
Class 2	2	3	4	5
Class 3	45	63	50	61
Class 3 & Long Term	3	4	3	4
Class 4	2	3	3	4
Long Term	10	14	9	11
<b>Grand Totals:</b>	<b>71</b>	<b>100</b>	<b>82</b>	<b>100</b>

### Analysis of all International Insurers Registered

Class of Insurer	2007	%	2006	%
Class 1	353	24	356	24
Class 2	380	26	397	27
Class 3	504	34	474	32
Class 4	30	2	31	2
Long Term	103	7	99	7
Dual Licences	111	7	103	7
<b>Grand Totals:</b>	<b>1481</b>	<b>100</b>	<b>1460</b>	<b>100</b>

# Policy, Research & Risk Assessment

**The Policy, Research & Risk Assessment Department (PRRAD) provides dedicated resources within one unit to address overall regulatory policy development, strategic research and risk analysis for the Authority. The Department was formed from merging the previously separate risk teams of the Banking, Trust and Investment and Insurance Departments in November 2007, bringing support to the Authority's implementation of its risk-based supervisory framework.**

The Department applies a range of standardised analysis and assessment tools in order to identify higher risk institutions, supporting both effective supervision and a more efficient allocation of the Authority's resources. These functions are conducted in conjunction with all the supervisory units, which are supported (and represented) within the resources centralised in the new Department. The Department also brings together the expertise from the former Policy and Research Units, with a view to creating policy and discussion papers that underpin the goals of the supervisory areas and support the overarching mandate of the Authority as a leading risk-based financial regulator.

## **Risk Assessment**

PRRAD'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 involves an assessment of the likely occurrence of risks 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 base 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 level 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 the overall lowest risk scores.

## **Bermuda Solvency Capital Requirement**

The latter part of 2007 saw the production of draft legislation that will underpin the implementation for 2008 year-end filings of the Bermuda Solvency Capital Requirement ('BSCR'). The BSCR enhances the Authority's existing solvency requirements for Bermuda's Class 4 insurers. By using this risk-based capital model the Authority's solvency regime will take into account the varying risks

related to the different lines of business written by an institution, and thereby assist in setting appropriate capital adequacy requirements. A “trial run” is scheduled for the 2007 year-end filing. Under the “trial run”, the Statutory filings from the Class 4 sector will be analysed against the parameters set by the BSCR model, and the results will initiate a new consultative phase in June 2008 with a view to having the model further recalibrated where necessary, in advance of the official launch of the model at the 2008 financial year-end.

### **Credit Crisis**

The issues that have arisen out of the sub-prime credit crisis continue to escalate and have been monitored by the Department and supervisory units. The Authority had conducted two surveys in 2007, the first in August with a follow-up survey in November in order to gauge the financial condition of the companies with exposure in this area, and to more effectively position the Authority to determine a course of action in advance of any potential further adverse developments in the wider markets.

Results indicated that for Bermuda’s property and casualty market, investment in sub-prime securities appeared to be minimal. Some survey respondents also

indicated that they had exposure through D&O and/or E&O lines. In addition, some of Bermuda’s small number of financial guaranty companies received media and rating agency attention as a result of sub-prime underwriting exposure. The Authority continued monitoring this development into 2008 and will identify companies deemed to require an enhanced level of supervision.

### **Research**

Working closely with the Authority’s supervisory departments, the Research Unit generates and disseminates knowledge that assists the Authority in fulfilling its mandate. It also contributes to helping local and international audiences better understand current issues affecting the regulation and supervision of financial services in Bermuda. Preparation for the International Monetary Fund (IMF) Review of Bermuda’s insurance sector was the largest undertaking by the Research Unit during 2007. The information produced, which was in part incorporated in the IMF Review Report (available from the IMF website [www.imf.org](http://www.imf.org)), focuses largely on financial data trends of domestic and international insurance licence-holders. It also includes information on loss and expense ratios, market share and ownership structures.

With respect to international research initiatives, during 2007 the Research Unit participated in a variety of undertakings. These included:

#### **IAIS Global Reinsurance Market Report 2007**

Led by the Reinsurance Transparency Group of the IAIS, this project looks at trends in global reinsurance markets, drawing on data from carriers in seven countries: Bermuda, France, Germany, Japan, Switzerland, UK and USA.

#### **IMF Coordinated Portfolio Investment Survey**

An annual survey led by the IMF that measures cross-border investment in equities and debt securities by participating jurisdictions (see page 46 for details).

#### **Quarterly Report to the Bank for International Settlements**

The locational statistics gather quarterly data on the gross international financial claims and liabilities of banks (see page 47 for details).

#### **IMF Information Framework study (under IMF Offshore Financial Centres Initiative)**

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.

#### **Financial Stability Institute Survey on Institutional Arrangements for Financial Sector Regulation and Supervision**

This initiative, led by the Basel-based Financial Stability Institute, looked at current arrangements in place among regulators with respect to banking supervision.

In relation to Bermuda's international financial services sector, the Research Unit concluded a range of studies focusing mostly on those niches that are distinct to the Island. Among the most significant undertakings in this area were:

- An article on reinsurance 'sidecars' for the July 2007 issue of *The Geneva Papers on Risk and Insurance – Issues and Practice* journal, edited by the International Association for the Study of Insurance Economics, known as The Geneva Association (co-authored with the Association of Bermuda Insurers and Reinsurers).
- A study on the Bermuda captive insurance sector, looking at financial

data, market segments and geographical distribution or risks assumed (carried out in partnership with the Bermuda Insurance Management Association). The findings of the study are available at the Authority's website ([www.bma.bm](http://www.bma.bm)).

The Unit also conducted a variety of internal studies for the Authority's regulatory and supervisory departments including, among others, major reviews of comparative data with respect to:

- Policy and practice developments in the monitoring and supervision of Basel II implementation by banks
- Legislation, regulation and guidance on Anti-Money Laundering & Counter-Terrorist Financing
- Legislation and regulation of fee structures for insurance licence-holders
- Analysis of financial ratios of authorities with competence in the issuing of notes and coins
- Statements of Principles and Codes of Conduct for insurance licence-holders
- Risk Based Capital model for large insurers
- New developments on consolidated supervision
- Statements of Principles under Banks and Deposit Companies Act

Finally, during 2007 the Research Unit was very actively involved in representing the Authority in many of the international fora that deal with the regulation and supervision of the financial sector, for example, triennial meetings of the International Association of Insurance Supervisors, IMF roundtables, captive insurance conferences, and risk management events.

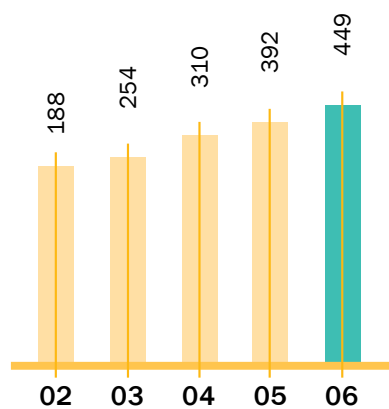
#### **The Coordinated Portfolio Investment Survey**

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

Data for 2006 show that total cross-border investments held by Bermuda entities totalled \$448.7 billion, up by 14% from the figure of \$392.1 billion for 2005. Investments include equities and long-term and short-term debt. Full results of the survey are posted on the IMF website [www.imf.org](http://www.imf.org). Data for the period 2002 to 2006 is reported in the following chart.

*BMA at work*

### CPIS: Bermuda Cross-Border Portfolio Investments, 2002-2006 (US\$ Billion)



### The International Locational Banking Statistics

Originally introduced by the Bank for International Settlements 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 2007 show that at the end of the year Bermuda's banks had aggregate cross-border claims of US \$12.6 billion (2006: US\$12.0 billion) and total cross-border liabilities of US \$11.8 billion (2006: US \$12.3 billion). Comprehensive coverage of locational statistics dating back to 1977 is available from the BIS website [www.bis.org](http://www.bis.org).



# A Prudent **Monetary Authority**

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# International Supervisory Cooperation

## **The Authority has an active programme of International Supervisory Cooperation across all financial sectors.**

The Authority has a long-standing commitment to meeting international standards with regard to regulatory cooperation with foreign regulators and to liaising, when required, with overseas agencies in relation to the supervision of individual licensed institutions.

During 2007 the Authority maintained a series of formal bilateral Memoranda of Understanding with foreign regulators. In addition, the Authority completed its application to be a signatory to the International Organisation of Securities Commissions (IOSCO) multilateral MOU, and received approval from IOSCO. The Authority continues to choose to put such arrangements in place in addition to having the ability to exchange information with foreign regulators under the legal gateways that exist within Bermuda's regulatory framework.

The Authority continued to liaise closely with relevant foreign regulatory authorities in conducting its supervisory responsibilities during the year. Such co-operation and liaison is a regular and routine part of the Authority's operations. Regulator-to-regulator cooperation is based on agreed international standards that require agencies to be able to assist each other in relation to regulatory enquiries and to share information.

During 2007, the Authority received requests for assistance in 10 cases from regulatory bodies in eight countries. The comparable number of requests for assistance received in 2006 was nine.

### **The International Association of Insurance Supervisors (IAIS)**

The Authority increased its presence and participation within the IAIS generally, to ensure that Bermuda could continue to make an active and useful contribution to the on going development of standards for insurance regulation internationally. By the end of 2007, in addition to representation on the Technical Committee, Reinsurance Transparency Group, Reinsurance and Other Forms of Risk Transfer Sub-Committee, the Governance and Compliance Task Force and the Captive Guidance Working Group, the Authority had representatives on the Solvency and Actuarial Issues Sub-Committee. The Authority also began working on its application to become a signatory to the IAIS multilateral MOU.

### **IAIS Captive Guidance Working Group**

The Group met through 2007 and the Authority continued to participate and represent Bermuda at its deliberations. The Group is composed of representatives from a number of jurisdictions that cover Europe, North America and the Caribbean,

as well as Bermuda. By the end of the year, the drafting of the IAIS Guidance Paper in relation to the supervision of captives had reached the final stages. The intention was to submit the paper to the IAIS Technical Committee – the main standard-setting committee of the organisation, which is key to the approval process for new or revised standards – for review early in 2008.

Subject to approval by that Committee and agreement by the IAIS Executive Committee, the Guidance Paper will be tabled at the Annual General Meeting of the IAIS in October 2008. The Guidance will subsequently be issued to the membership, which comprises insurance regulators from around the world. The Authority does not anticipate any changes to captive regulation in Bermuda as a result of the introduction of this Guidance.

**Bermuda Chairmanship of IAIS Reinsurance Transparency Group (RTG)**

Jeremy Cox, Deputy Chief Executive Officer of the Authority, was appointed Chairman of the RTG at the IAIS Annual General Meeting towards the end of 2007. He serves in this capacity in addition to representing the Authority and Bermuda on the IAIS Technical Committee. Mr. Cox is also one of the Vice Chairmen of the Reinsurance and Other Forms of Risk

Transfer Sub-Committee, which develops standards and principles on reinsurance, both from the perspective of evaluating the reinsurance cover of primary insurers and that of supervising insurers.

**Banking and Investments/Securities**

The Authority continued its participation in the activities and meetings of the major groups of supervisors of the banking and investment sectors during the year. Authority representatives took part in meetings of the Offshore Group of Banking Supervisors, where, among other matters, discussion focused on issues related to the implementation of Basel II.

Authority staff attended meetings and engaged in dialogue with fellow members of the Council of Securities Regulators of the Americas, IOSCO, the Offshore Group of Banking Supervisors and the Offshore Group of Collective Investment Scheme Supervisors. The Authority also attended meetings of the Caribbean Group of Banking Supervisors and the Caribbean Securities Regulators.

These activities enabled the Authority to remain very much involved in discussions about developments in supervisory policy and practice affecting banks and investment business on a global level.

## 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, document management and information technology. The Department also has responsibility for coordinating the Authority's disaster recovery and business continuity planning and its enterprise risk management functions.**

### **Financial Operations**

In a busy 2007, the Financial Operations Unit completed a number of initiatives aimed at streamlining the Authority's operations. The team was reorganised, and additional staff hired, for the processing of the Authority's payables and receivables. The system for processing the annual business fees of investment fund administrators was upgraded. The Unit installed a secure online banking system and instructed the relevant Authority staff in its use.

### **Currency Operations**

In April 2007, the Minister of Finance officially opened the Authority's Note and Coin Exhibit in BMA House. The Exhibit, which is open to the public during office hours, graphically demonstrates the development of Bermudian currency, from the days of the Pound Sterling to the most modern Bermuda dollars and cents. Various educational presentations and tours of the Note and Coin Exhibit were made to local schools and groups during the year.

Six new designs were introduced during 2007 to the Bermuda shipwreck coin series. The triangle coin series, launched the previous year in conjunction with the Royal Mint, now numbers 12, in addition to the one-kilo gold shipwreck coin that

continued to prove popular with European collectors as the value of gold rose during the year.

The Authority is preparing to launch in the first quarter of 2009 a new banknote currency series, the first complete redesign in decades. Much work was carried out in 2007 in preparation for the launch, including facilitating the necessary legislative approval from the Minister of Finance for the issue of the new note series.

A number of external presentations were made during 2007 on various aspects of the Unit's work. Internally, the team was trained on the newly installed COBRA note counting, sorting and destruction equipment, as well as the ISA currency warehousing software.

### **Facilities and Document Management**

The second phase of the Authority's move to BMA House was completed during the first quarter of 2007, allowing all the Authority's operations to be housed under one roof for first time. Training and conference room facilities were created in lower ground floor premises at BMA House to enable training sessions and other conferences to be held on-site. Security and Disaster Recovery Process (DRP) documentation was updated

to reflect the changed locations and operations necessitated by the move. Two successful DRP tests were held during the year to confirm crisis management team preparedness and DRP site functionality.

During the third quarter of the year, part of the facilities management operations were outsourced to a third party to ensure that the facilities systems – including air quality, water quality, fire suppression, etc. – are maintained in accordance with legal and best practice requirements. A document management review was initiated and a decision made to issue a request for proposal in 2008 to consider recommendations and solutions to the growing document management needs of the Authority.

### **Information Technology**

In early 2007, the Information Technology Department completed the move to BMA House, encompassing all employees and systems. All IT services and hardware were migrated to the new building with minimal disruption to business operations. Through a coordinated effort with our IT vendors, all machines and ancillary IT equipment were transferred to the Authority's new location with near-complete continuity in the IT service offering.

To manage and monitor desktop systems more effectively, all the Authority's desktop operating systems were upgraded to Windows XP during the year. All servers were upgraded to Windows 2003, allowing for greater stability and reliability. As a requirement of those upgrades, all system hardware was upgraded to meet current software requirements and future system needs.

With modern operating systems in place, an upgrade to Microsoft Office 2003 was also performed on all user desktops. This upgrade has led to greater productivity and adherence to modern document formats.

Throughout 2007, projects were undertaken to upgrade our existing regulatory systems. These projects are an on going exercise to continuously improve our ability to regulate effectively and efficiently. Currently, an upgrade to our Insurance system is in development and testing, whilst the requirements for our Banking, Investment and Trust systems are being gathered. Off-the-shelf systems are also under review that would perform intensive actuarial and statistical analysis.

As a result of these aggregate upgrades and initiatives, the IT department is poised to offer better service and a broader range of potential solutions to its customers.

### **Enterprise Risk Management**

During the year the Authority's Departments provided feedback in connection with the Enterprise Risk Assessment of the Authority's operations that was completed in the latter part of 2006. During 2007 a gap analysis report and action plan was prepared to ensure that the risks identified during the assessment are reviewed and monitored and that the Authority's internal controls are strengthened and/or updated to ensure that the risks are effectively mitigated within the risk appetite of the Authority.

# Corporate Communications

**The strategic focus of the corporate communications programme remained on generating greater understanding about Bermuda's regulatory framework and the role of the Authority, both locally and internationally.**

This effort was enhanced with the development and implementation of a new advocacy initiative during the year. The objective of the advocacy programme, which rolled into 2008, is to extend awareness internationally of the nature and effectiveness of Bermuda's regulatory framework for financial services among key stakeholders.

Under this programme the Authority conducted a variety of presentations and held meetings with representatives of regulators and standard setting bodies overseas, primarily in Europe and the US. Such events provided the opportunity to both present key facts about Bermuda's regulatory approach and standards, and the Authority's effective operational capability, as well as to gain information about on going or potential regulatory reform in markets that are of importance to Bermuda. A range of topics were covered in the schedule of meetings and presentations, including progress on development of new regimes such as Solvency II and the proposed new IAIS solvency standards, and related matters of equivalency among jurisdictions under such regimes.

The Authority's increased interaction and involvement with representatives from other regulatory agencies and

standard setting bodies under the programme yielded successful results. The programme supported further enhancements in relationships with peer supervisors; generated a deeper understanding among such groups – as well as those that set international standards – about Bermuda's risk-based approach to regulation; and provided the opportunity for Bermuda to make contributions to on going discussions about international regulatory reforms.

Building on the momentum of communications initiatives from the previous year, the Authority conducted an expanded programme of speaking events and conference participation during 2007. The Authority's representatives made presentations and speeches at various industry events internationally, including the Cambridge International Symposium on Economic Crime; the International Bar Association Globalisation of Investment Funds Conference; the National Association of Insurance Commissioners President's Symposium; and the Captive Insurance Companies Association (CICA) Conference. The Authority also had greater visibility in key international fora in relation to its expanded participation in committees of standard setting bodies, most notably within the International Association of Insurance Supervisors.

All of these activities entailed production and delivery of numerous keynote speeches and presentations.

Proactive media outreach activities, as well as on going media relations support, also continued throughout the year. Of particular note was the production towards the end of the year and subsequent launch of the Authority's 2008 Business Plan. This marked the first-ever publication and international distribution of the Authority's proposed programme of regulatory initiatives for a given year. The Plan was well received by public and private sector stakeholders alike, and generated media interest both locally and overseas.

The Authority also provided strategic support and participation for major initiatives, events, meetings and on going outreach activities undertaken by various representative bodies from Bermuda's financial services market. Such groups included the Insurance Development Council; the Bermuda International Business Association; the Association of Bermuda Insurers and Reinsurers; the Association of Bermuda International Companies and the Society of Trust and Estate Practitioners (Bermuda). The Authority's involvement in the activities of these and other similar bodies contributed

to educating market participants globally about Bermuda's overall attractiveness as a leading financial centre and the effective, practical nature of its regulatory framework.

A project to completely review and upgrade the Authority's website also began during the latter part of the year, with the goal of enhancing both the presentation and content of the site significantly over a three-year period, using a phased approach. The upgrade will ultimately make information on the site more easily accessible and based on user needs. The intention is also to establish the website as an efficient vehicle for regulated entities to conduct regulatory transactions with the Authority in the long-term, as well as to support industry consultation. The upgrading process will also ensure that content on the site supports the Authority's strategic goals with respect to transparency and establishing its position as a leading risk-based financial services regulator. The first phase of the upgrade, which involved revising the site structure, making comprehensive content enhancements and developing a new graphical design, was completed for the official launch of the new site in March 2008.

# Legal Services & Enforcement

**The Legal Services & Enforcement Department supports the Authority by advising on the performance of the Authority's statutory functions and by advising on a wide range of other matters relating to the administration of the Authority. The Department also participates in the development of financial legislation by advising on legislative proposals and by drafting legislative instruments giving effect to such proposals.**

The Department is also responsible for ensuring that unlicensed persons do not operate as financial institutions in or from Bermuda, a process colloquially known as 'policing the perimeter'. The Department investigates any cases of unlicensed activity falling within the scope of its authority that come to its notice. 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 Insurance Act 1978, to require information from licensed entities. The Department's Authorisations Unit vets as the agent of the Minister of Finance applications for company incorporation and applications for the establishment of partnerships. The Department also deals with applications made under the Exchange Control Act for share transfers.

## **New Legislation**

The Department was directly involved throughout 2007 in the drafting of amendments to existing statutes and in the development of new legislation that served to enhance both the powers of the Authority and Bermuda's overall

framework for financial regulation. The Proceeds of Crime Amendment Act 2007 made a number of changes to the law, including widening the scope of production orders and search warrants to include money laundering investigations. The Act introduced provisions for the making of customer information orders, for the avoidance of agreements in furtherance of money laundering, for a defence to money laundering where overseas conduct is legal and for the freezing of funds.

A new body, the Financial Intelligence Agency (FIA) has been created pursuant to the Financial Intelligence Agency Act 2007. The FIA is an independent statutory corporation overseen by a Board of Directors appointed by the Minister of Justice. The functions of the FIA are to receive, gather, store, analyse and disseminate information relating to suspected proceeds of crime and the potential financing of terrorism. The FIA has limited summary powers of freezing funds and of obtaining information.

The Fund Prospectus Rules 2007 were also introduced during the year and apply to all funds authorised under the Investment Funds Act 2006. Every fund is required to prepare a prospectus that must comply with the Rules, which

require all operators of a fund to publish a prospectus or to provide copies of the prospectus to proposed investors. The Rules also set out the requirements for the contents of a prospectus, which is in addition to the requirement of any other law.

### **Committees**

Members of the Department represent the Authority on various external committees on an on going basis throughout the year, to discuss a range of issues and to develop legislative initiatives relating to the financial services industry and its regulation.

#### **Joint Select Committee on Private Bills**

During the year, legal staff from the Department continued to participate as part of a team of technical officers to the Joint Select Committee on Private Bills. The technical officers of the Committee include representatives from the Ministry of Finance, the Attorney General's Chambers, the Registrar of Companies and the Authority, and advise the Joint Select Committee on matters related to private bills. The Deputy Speaker of the House of Assembly traditionally chairs the Committee, which includes representatives of both Houses of the Bermuda legislature – the House of Assembly and the Senate. The Committee

considers applications to form companies by way of a Private Act or those seeking amendments to, or the consolidation of, existing private legislation. The Authority takes the lead in reviewing applications for financial institutions and reviewed proposed uses of Private Acts in the insurance field in 2007.

#### **Bermuda International Business Association (BIBA) Mutual Funds Sub-Committee**

During the year, members of the Department were involved in discussions with BIBA's Mutual Funds Sub-Committee to identify issues to be addressed in future amendments to the Investment Funds Act 2006.

#### **Enforcement and Perimeter Policing**

The Authority's responsibilities with respect to enforcement and perimeter policing as prescribed under various regulatory provisions continued to grow in 2007.

Accordingly, during the year the Authority dedicated increased resources and time to this area and added a new Anti-Money Laundering Officer. With this addition, the Department will carry out on-site inspections of regulated financial institutions to ensure that institutions are compliant with anti-

money laundering measures provided for under Proceeds of Crime legislation. This new position provides additional support to the Authority with respect to its responsibilities for enforcement and policing the perimeter.

The Department continues to advise and assist line supervisors with enforcement matters. The Department remains vigilant to ensure that unauthorised business is not conducted in or from Bermuda. In 2007 it carried out a number of enquiries into possible breaches of Bermuda's regulatory provisions. These enquiries were typically triggered by initial information provided by overseas regulatory bodies.

The Department continues to liaise closely with the Bermuda Police Service and with overseas regulators in order to minimise risks to the public when false Bermuda company names are used to promote investment products on the Internet. The Authority maintains a Warning List of such suspect names on its website at [www.bma.bm](http://www.bma.bm).

Regarding requests from overseas regulators for assistance, the Authority served notices on licensed institutions in nine cases in 2007, and passed the information obtained to the requesting

authority. These cases involved suspected insider dealing and/or market manipulation. In one case, the former Bermuda licensee had been discontinued out of Bermuda in 2005 and the requesting authority was directed to the new jurisdiction. In two other cases, the Bermuda companies were not licensees; the team was able to provide relevant information in one case and, in the other, liaised with the Ministry of Finance to ensure that the requesting authority received an appropriate response.

### **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 transfers made under the Exchange Control Act.

During 2007, the Authority received 1,778 applications for the incorporation of new companies and partnerships, as well as permits for overseas companies. The Authority gave consents for a total of 1,760 applications during the year. Consents were granted for 1,436 exempted undertakings (i.e. exempted companies, exempted partnerships, overseas companies, overseas partnerships and continuation

companies). In addition, 218 local companies and 56 unit trusts were consented. As in previous years, most of the consents granted for 2007 were for corporate and investment holding companies, mutual funds and insurance undertaking businesses.



BMA at work

## Companies Partnerships and Permits Statistics - Applications Approved

	2007-Q4	2007-Q3	2007-Q2	2007-Q1	2006-Q4	2006-Q3
<b>Exempted Companies</b> (Bermuda companies exempted from the 60% Bermudian ownership requirement)	310	304	330	236	306	230
<b>Exempted Partnerships</b> (partnerships established in Bermuda to carry on business in or from within Bermuda)	106	39	32	39	57	16
<b>Overseas Partnerships</b> (overseas partnerships applying for permits to carry on business in or from within Bermuda)	2	1	0	2	12	0
<b>Overseas Permit Companies</b> (overseas companies applying for permits to carry on business in or from within Bermuda)	11	7	6	7	14	4
<b>Unit Trusts</b>	8	18	6	24	4	7
<b>Continuation Companies</b> (companies from other jurisdictions continuing into Bermuda as exempted companies)	15	7	5	8	3	9
<b>Unlimited Liability Companies</b>	11	2	6	0	0	6
<b>Local Companies</b>	52	40	62	64	49	56
<b>Total Applications Approved *</b>	<b>515</b>	<b>418</b>	<b>447</b>	<b>380</b>	<b>445</b>	<b>328</b>

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



# A Professional **Team**

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# Human Resources

## **Many significant changes occurred in 2007 that had a direct effect on the Authority's staff and the Human Resources team.**

A successful recruitment campaign yielded our largest intake of staff in a year. The need for an infrastructure to support this intake effectively was critical. Accordingly, a core training programme was established to support the new hires with acclimatising more quickly, to create a platform to support our supervisory and regulatory functions more effectively. The Human Resources team also implemented a core training programme for the Authority's supervisory teams that addressed an important learning and development need, and which was well received. The arrival of our new CEO, Matthew Elderfield, brought a new focus within the Authority, specifically in the areas of communications, project management and cross-functional teaming. This had a direct impact on the Human Resources team in terms of meeting the imperative to set up processes that were aligned with that new focus and the changes that would result from it. Consequently, a Director of Human Resources was brought in at the beginning of the fourth quarter of 2007 to support the Authority's new 'change agenda'.

## **Compensation Review**

The Authority completed a full compensation review of all staff roles during the year, in order to ensure the organisation remains appropriately competitive in this regard within the marketplace. Working with external consultants, the Authority was able to use market compensation surveys as comparison tools and to use the data from the surveys to complete an extensive analysis of existing compensation structures within the organisation. The exercise was completed by the end of 2007 and supported the Authority in ensuring it continues to provide its skilled and valuable employees with the most equitable and competitive compensation levels possible across the organisation.

## **Learning and Development**

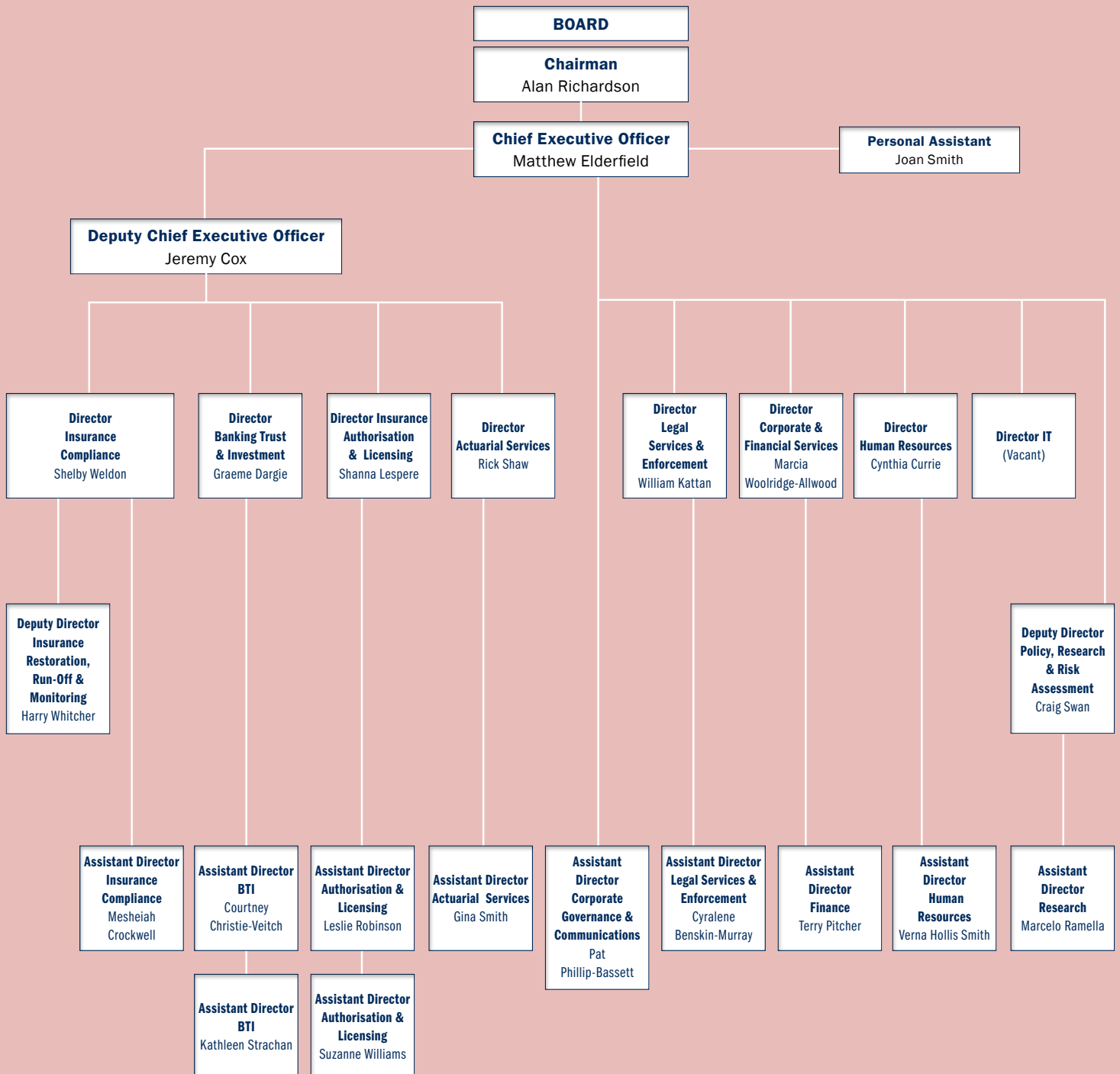
Learning and development activities were expanded during the year and provided staff with a range of enhanced training opportunities. This was achieved in particular via the piloting and launch of the Authority's core curriculum programme. The programme provides participants with comprehensive, foundational knowledge of the various aspects of the Authority's work, including supervision, legal and enforcement and currency processes. In an effort to ensure employees are supported appropriately as they continue to build their technical and

professional credentials, the Authority also enhanced its Sponsorship Policy during the year. Overall, throughout 2007 considerable attention was placed on building up both the content and infrastructure for a range of learning and development initiatives, including employee orientation, anti-money laundering awareness training, refining staff development plans and introducing 360 feedback tools in relation to the core curriculum.

## **Recruitment**

The Human Resources team increased its recruitment efforts with the help of several local and overseas recruitment agencies. There was a significant amount of recruitment activity focused at the beginning of 2007, driven to a large degree by the regulatory agenda for the year. All departments were keen to attract applicants with the appropriate skill sets and experience and in particular to support the varied needs of the supervisory units. This approach proved very useful in building well balanced teams that blended existing expertise and knowledge with the skills and new perspective of the professionals recruited during the year.

# BMA Organisational Chart



Senior Management team as at December 2007







30 April, 2008

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: info@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 2007 together with the annual statement of accounts and the opinion of the Auditor.

This document also contains the reports for the year 2007 which the Authority is required to make to you pursuant to:

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

Yours sincerely,

A handwritten signature in black ink that reads 'Matthew Elderfield'. The signature is written in a cursive, slightly slanted style.

Matthew Elderfield  
Chief Executive Officer

30 April, 2008



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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 Committee of the Board reviews the annual financial statements and recommends their approval to the Board of Directors. In conducting its review, the Audit 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



Office of the Auditor General  
Victoria Hall  
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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, 2007 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 principals 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, 2007 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 5, 2008

Larry T. Dennis, CA  
Auditor General

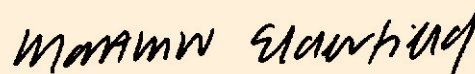
## BERMUDA MONETARY AUTHORITY

Balance Sheet as at December 31, 2007

(In thousands of dollars)	2007	2006
<b>ASSETS</b>		
<b>Investment Income Earning Assets</b>		
Cash and cash equivalents	59,996	51,354
Term deposits (Note 4)	15,975	15,000
Investments (Note 5)	60,784	64,690
	136,755	131,044
<b>Other Assets</b>		
Accounts receivable and accrued interest	1,947	1,850
Stock of notes and coins for circulation	1,135	1,172
Stock of numismatic items	1,013	558
Prepaid expenses	219	143
Capital assets (Note 6)	30,338	30,506
	34,652	34,229
	171,407	165,273
<b>LIABILITIES, CAPITAL AND RESERVE</b>		
<b>Liabilities</b>		
Notes and coins in circulation	124,601	121,045
Accounts payable and accrued liabilities	2,217	2,939
Due to the Consolidated Fund of the Government of Bermuda (Note 7)	2,941	2,582
	129,759	126,566
<b>Capital and Reserve</b>		
Capital		
Authorised: \$30,000,000		
Subscribed and fully paid (Note 8)	20,000	20,000
General Reserve (Note 9)	21,648	18,707
	41,648	38,707
	171,407	165,273



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 December 31, 2007

(In thousands of dollars)	2007	2006
<b>REVENUES</b>		
Supervisory & licensing fees (Note 10)	21,437	13,635
Investment income (Note 11)	5,912	5,397
Incorporation fees, vault commission and other income	915	800
Rental income	443	2,412
Net sales of special coins	264	239
	<b>28,971</b>	<b>22,483</b>
<b>EXPENSES</b>		
Salaries and employee benefits	14,568	10,519
General expenses (Note 12)	4,237	3,863
Professional fees	2,435	1,330
Amortisation of capital assets	1,382	1,271
Circulation note and coin expenses	467	335
	<b>23,089</b>	<b>17,318</b>
<b>NET EARNINGS FOR THE YEAR</b>	<b>5,882</b>	<b>5,165</b>

## BERMUDA MONETARY AUTHORITY

### Statement of General Reserve for the year ended December 31, 2007

(In thousands of dollars)	2007	2006
<b>BALANCE, BEGINNING OF YEAR</b>	<b>18,707</b>	<b>25,524</b>
Net earnings for the year	5,882	5,165
Transfer to capital (Note 9)	-	(9,400)
Distribution payable to the Consolidated Fund (Note 7)	(2,941)	(2,582)
<b>BALANCE, END OF YEAR</b>	<b>21,648</b>	<b>18,707</b>

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

## BERMUDA MONETARY AUTHORITY

## Statement of Cash Flows for the year ended December 31, 2007

<b>(In thousands of dollars)</b>	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings for the year	5,882	5,165
<b>Adjustments to convert earnings to a cash basis:</b>		
Amortisation of capital assets	1,382	1,271
Amortisation of discounts on investments	(21)	(18)
Gain on disposal of capital assets	(60)	–
	<b>7,183</b>	<b>6,418</b>
<b>Changes in non-cash working capital:</b>		
Accounts receivable and accrued interest	(97)	(229)
Stock of notes and coins for circulation	37	64
Stock of numismatic items	(455)	11
Prepaid expenses	(76)	(18)
Notes and coins in circulation	3,556	7,347
Accounts payable and accrued liabilities	(722)	1,514
	<b>9,426</b>	<b>15,107</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of capital assets	(1,252)	(3,224)
Purchase of investments and term deposits	(15,847)	(15,164)
Proceeds from sale of capital assets	99	–
Proceeds from sale and maturity of investments	18,798	25,847
	<b>1,798</b>	<b>7,459</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Distribution to the Consolidated Fund of the Government of Bermuda	(2,582)	(1,721)
Proceeds on issuance of capital	–	9,400
Distribution from General Reserve to capital	–	(9,400)
	<b>(2,582)</b>	<b>(1,721)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>8,642</b>	<b>20,845</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>51,354</b>	<b>30,509</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>59,996</b>	<b>51,354</b>

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 December 31, 2007

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### 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Cash & Cash Equivalents

Cash and deposits, including repurchase agreements and demand deposits with maturity of ninety days or less, are considered equivalent to cash.

### (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.

The fair values of other financial assets and liabilities approximate their carrying amounts as they are generally due on demand or otherwise earn interest at market interest rates.

### 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 benefit 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 \$462,409 (2006 - \$329,675).

The Public Service Superannuation Fund administered by the Government of Bermuda covers the remainder of the Authority's employees. Contributions of 7% (2006 - 6%) 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 \$106,443 (2006 - \$56,115).

#### (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 31 December 2007 is \$ 244,166 (2006 - \$175,416) 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 (2006 - \$27,542). The liability as at December 31, 2007 is \$227,727 (2006 - \$194,146) 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)			2007	2006
	Less Than 1 Year	1 to 5 Years	Total	Total
Bermuda Dollar Term Deposits	-	15,975	15,975	15,000
Average effective yield	-	5.27%	5.27%	3.92%

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

## 5. INVESTMENTS

The investment portfolio includes fixed income securities denominated in U.S. dollars. The market value of the portfolio of fixed income securities is \$61.1 million (2006 - \$63.2 million).

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

(In thousands of dollars)			2007	2006
	1 to 5 Years	> 5 Years	Total	Total
US Government Agencies	30,441	20,451	50,892	59,672
Supranational Bank	5,015	4,877	9,892	5,018
Total Investments	35,456	25,328	60,784	64,690
Weighted average effective yield	4.67%	4.72%	4.69%	4.64%

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 79.7% (2006 - 83.9%) of its income earning assets are in US Government and US Government Agency securities.

## 6. CAPITAL ASSETS

(In thousands of dollars)			2007	2006
	Cost	Accumulated Amortisation	Net Book Value	Net Book Value
Land	4,000	-	4,000	4,000
Building	25,780	2,171	23,609	23,681
Computer equipment & software	2,682	1,304	1,378	1,075
Furniture & fixtures	2,212	861	1,351	1,750
	34,674	4,336	30,338	30,506

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

	2007	2006
Building	-	\$574,000
Computer equipment	\$366,262	\$238,000
Furniture & fixtures	\$14,187	\$987,000

## 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 \$2,941,000 (2006 - \$2,582,000) will be payable to the Consolidated Fund of the Government of Bermuda. This amount is non-interest bearing and payable by May 31, 2008.

## 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 \$21,648,000 (2006 - \$18,707,000) has been established in accordance with Section 8 of the Bermuda Monetary Authority Act 1969.

The Minister of Finance granted approval for \$2,941,000 (2006 - \$2,582,000) of net earnings to be transferred to the general reserve account.

During 2006, the Minister of Finance granted approval of \$9,400,000 to be transferred from the general reserve to capital.

## 10. SUPERVISORY & LICENSING FEES

(In thousands of dollars)	2007	2006
Insurance fees	15,337	9,013
Bank and deposit company fees	5,255	4,078
Trust company fees	558	340
Investment business licence fees	287	204
	21,437	13,635

## 11. INVESTMENT INCOME

(In thousands of dollars)	2007	2006
Interest on investments	2,951	3,006
Interest on cash and cash equivalents	2,292	1,433
Interest on term deposits	730	1,014
Foreign exchange loss	(61)	(56)
	5,912	5,397

## 12. GENERAL EXPENSES

(In thousands of dollars)	2007	2006
Premises and general office expenses	3,280	2,942
Conferences, seminars, education and training	672	519
Communication and computer expenses	285	402
	4,237	3,863

## 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 assumed the operating leases of these tenants and they either expired on December 31, 2006 or will expire on September 30, 2008. The minimum annual lease receipts pursuant to the leases that will expire on September 30th, 2008 are \$291,000.

## 14. COMPARATIVE FIGURES

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

# Contact Information

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### **For general information regarding:**

Incorporation of companies, establishment of partnerships or the issue of permits to overseas companies and overseas partnerships, transfer of ownership and confidential enquiries, contact:

**Cyralene Benskin-Murray**

*Assistant Director, Legal Services  
& Enforcement*  
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Trust companies and investment services, contact:

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Information on Bermuda notes and coins, contact:

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BERMUDA MONETARY AUTHORITY

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