

Report and Accounts 2006



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Mission Statement

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

Vision Statement

Committed to integrity and excellence.



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Board of Directors

Pictured from bottom to top:

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

Robert D. Steinhoff, FCA *Deputy Chairman, Senior Partner, KPMG (retired)*

Cheryl-Ann Lister, MBA, CFA *Chief Executive Officer*

E. Barclay Simmons, MA(Econ), LLB *Managing Partner, Attride-Stirling & Woloniecki*

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

D. Munro Sutherland, MA, DipFS *Superintendent of Banking, Trust & Investment*

Jeremy Cox, BSc, CPA *Supervisor of Insurance*

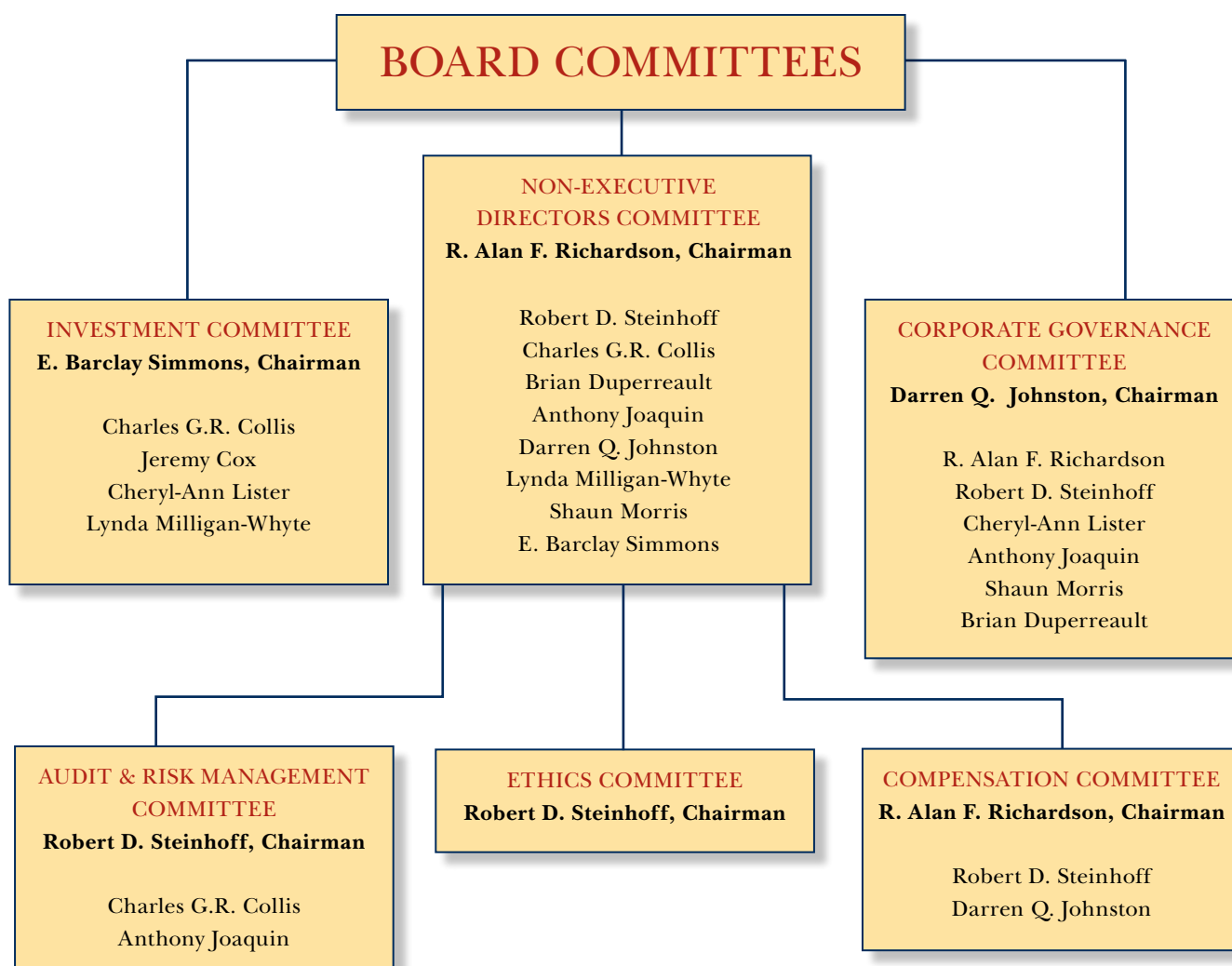
Lynda Milligan-Whyte, BA, BEd, MPA, LLB *Senior Partner, Milligan-Whyte & Associates*

A. Shaun Morris, MA(Econ), LLB *Partner, Appleby Spurling Bailhache*

Charles G.R. Collis, BA(Hons), LLB *Partner, Conyers Dill & Pearman*

Darren Q. Johnston, CA, CPA, CFA *Partner, PricewaterhouseCoopers (not shown)*

Brian Duperreault *Chairman, ACE Limited (not shown)*



Non-Executive Directors Committee

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

- Keeping under review the question whether the Authority is discharging its functions in accordance with the Board objectives and strategy determined by the Board;
- Keeping under review the question 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 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. The Committee also appointed a selection committee to undertake a global search for a CEO of the Authority following Cheryl-Ann Lister's decision to not renew her contract. The Non-Executive Committee Directors approved the appointment of Mr. Matthew Elderfield as the Authority's new CEO commencing in July 2007.

Compensation Committee

During the year the Compensation Committee was comprised of three non-executive directors of the Board being Mr. Robert D. Steinhoff, FCA, as Chairman, Mr. Anthony D. Whaley BA (Hons) (Law), and Mr. Darren Q. Johnston, CA, CPA, CFA. The Committee met as required and kept under close review the effectiveness of the Executive Directors and other senior management. It also reviewed the compensation package of the Executive Directors and approved proposals for remuneration of the Authority's other senior management staff. The Committee further reviewed the terms and extensions of employment contracts of Executive Directors.



In the coming year the Committee will continue to review the matters with which it is charged and will review the Authority's performance management and remuneration system.

Audit and Risk Management Committee

The Audit Committee comprised three non-executive directors of the Board who are charged with ensuring that the financial affairs of the Authority are monitored and reported in accordance with Generally Accepted Accounting Principles (GAAP). During the year the Committee – Mr. Robert D. Steinhoff, FCA, as Chairman, Mr. Charles G.R. Collis BA(Hons), LLB, and Mr. Anthony Joaquin, FCA – met as required to plan the annual audit with the Auditor General and to review the annual financial statements, auditor's report and the appropriateness of the Authority's accounting principles. The Committee continued its practice of reviewing key risks and controls of the Authority's major business processes; reviewing controls over fund transfers, payroll, cash, vault and purchasing during the year. The Committee made recommendations to the Board on a new Business Continuity Plan, which was approved and implemented in the year. The Committee is pleased to note that for the second consecutive year the external auditors made no improvement recommendations to the Authority's internal controls.

Further, the Committee reviewed its charter adding risk management to its oversight responsibilities and amending its name to reflect this. The Committee commenced a project to implement an Enterprise Risk Management Process within the Authority and completed its initial risk assessment of the

Authority's strategic, operational, financial and information technology environments. In the coming year the Committee will continue to focus on implementing a risk management process which identifies and mitigates the Authority's risks. The Committee has commenced the process to hire an internal auditor.

Corporate Governance Committee

The Corporate Governance Committee (CGC) has responsibility for developing, implementing, and monitoring governance protocols and procedures in a manner that is consistent, to the extent appropriate, with Bermuda's statutory requirements, international regulatory standards and general best practice.

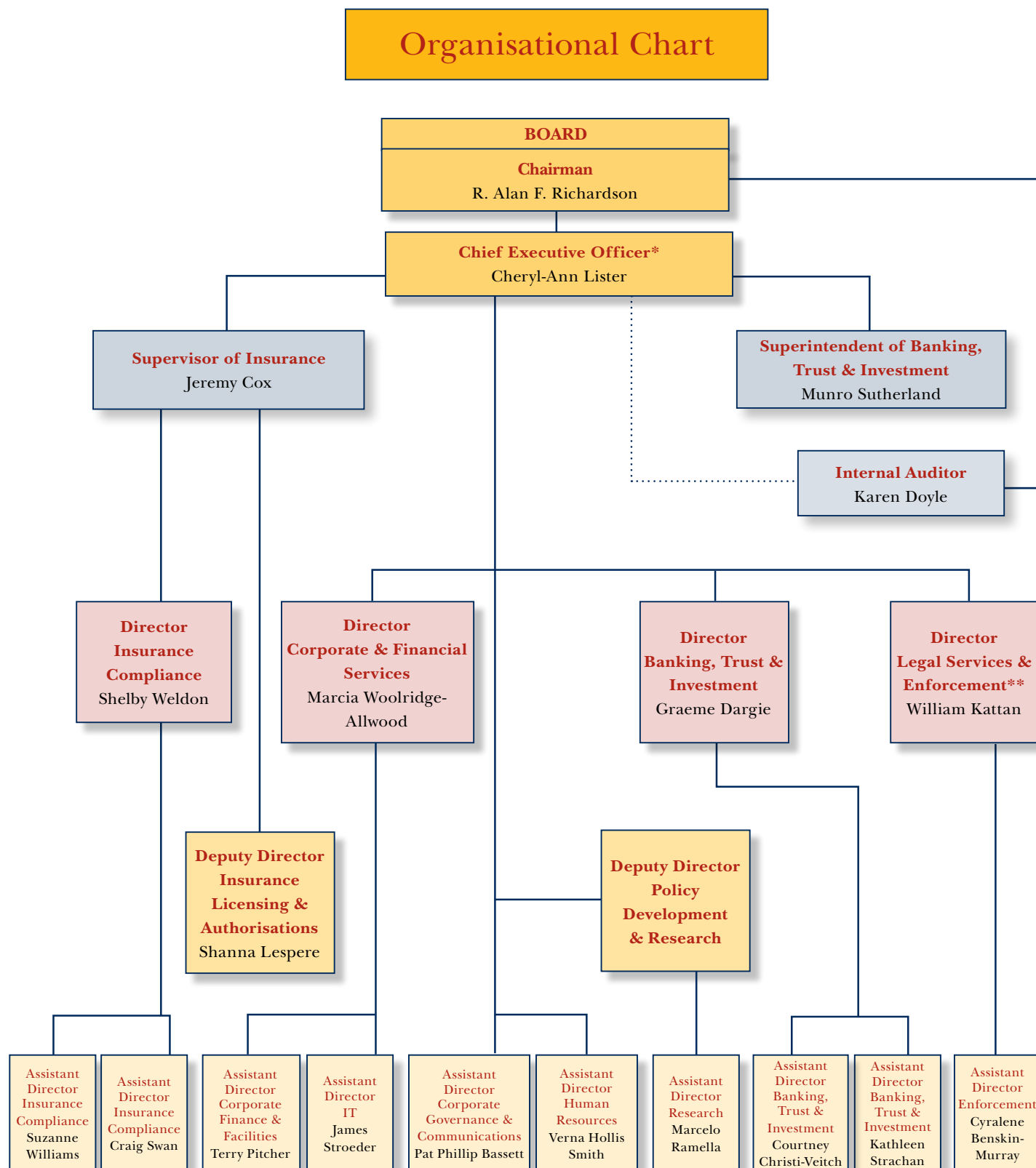
During 2006, the CGC met monthly to review and enhance the governance arrangements of the Authority. The four key areas that were addressed this year were the following:

- Board Code of Conduct;
- Board Conflict of Interest Policy;
- New Board delegations; and
- The first Board self-evaluation

The Board Code of Conduct and Board Conflict of Interest Code provide guidance on a range of ethical issues that may affect Board members during their deliberations of the Bermuda Monetary Authority's business. These policies were produced after reviewing the Codes of regulators in other jurisdictions, corporate examples, and OECD guidelines. The policies build on the principles adopted by the Board of accountability, independence, integrity, and transparency.

The new Board delegations address the delegation of decision taking powers, which under the Acts are currently vested in the Authority, and therefore can be delegated as the Board deems appropriate. The new delegations grant decision-making power to the CEO, Supervisor of Insurance and Superintendent of Banking Trust and Investment who can then onward delegate to their staff. Most importantly, the delegations preserve the "four-eyes" principle, which ensures that no critical decisions are made unless more than one person has been involved in the process. The delegations also make provision for the appointment of internal committees for certain critical matters.

A Board self-evaluation was conducted for the first time during 2006. This provided the Board with a structured approach for assessing its role, capabilities, objectives, and performance. The results of the evaluation will be used to enhance the functions and progress of the Board and its committees going forward. As a matter of best practice, self evaluations will be conducted annually.



This organisational chart shows the Senior Management Team of the Bermuda Monetary Authority.

* Controller of Foreign Exchange

** Secretary to the Board



Objects of the Authority

- ■ To issue and redeem notes and coins
- ■ To supervise, regulate and inspect any financial institution which operates in and from within Bermuda
- ■ To promote the financial stability and soundness of financial institutions
- ■ To supervise, regulate or approve the issue of financial instruments by financial institutions or by residents
- ■ To assist with the detection and prevention of financial crime
- ■ To foster close relations between financial institutions themselves and between the financial institutions and the Government
- ■ To manage exchange control and regulate transactions in foreign currency or gold on behalf of the Government
- ■ To advise and assist the Government and public bodies on banking and other financial and monetary matters
- ■ To perform such functions as may be necessary to fulfil the said objects

Executive Team

Pictured from front to back:

Cheryl-Ann Lister, MBA, CFA *Chief Executive Officer*

William Kattan, LLB(Hons), LL.M *Director, Legal Services & Enforcement*

Shanna D.R. Lespere, BSc.H, CMA *Deputy Director (Insurance), Licensing & Authorisation*

Jeremy Cox, BSc, CPA *Supervisor of Insurance*

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

D. Munro Sutherland, MA, DipFS *Superintendent of Banking, Trust & Investment*

Shelby R. Weldon, CPA *Director (Insurance), Compliance*

Graeme Dargie, MA, Dip *Director, Banking, Trust & Investment (not shown)*

Chairman's Statement

In taking up this new appointment with the Authority, I have been struck by the high level of commitment, dedication and professionalism of everyone with whom I have come into contact within the organisation, at all levels. Clearly, the Authority has benefited greatly from this as it has moved through a period of rapid and sometimes intense evolution in recent years. I commend our staff, as well as Board members past and present, on successfully bringing the Authority to its current status as Bermuda's highly effective unitary financial services regulator.



I would also like to take this opportunity to thank Mrs. Cheryl-Ann Lister for her admirable service in leading the Authority through that process over the past eight years. Her deep sense of service, and her effectiveness and dedication to the task of navigating the organisation's successful transition to become a fully-fledged regulator, have been remarkable. She can be proud of the results of her tenure, and I would like to express, on behalf of the Board and staff of the Authority, our sincere appreciation of her outstanding contribution to the organisation's process of growth and development.

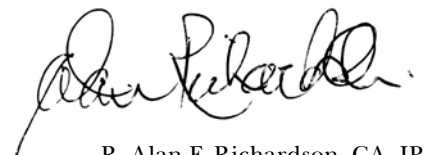
It has not been an easy journey, and yet the Authority has ensured that Bermuda's regulatory framework, and the organisation itself, continue to operate at a high level that is consistent with international standards. The excellent work that has been conducted to date in terms of the on going enhancement of the Authority's corporate governance processes has provided a solid foundation for building on our goals related to accountability, transparency, independence and integrity. The thorough internal reviews undertaken by the Board committees in the areas of financial controls, investment policy, the annual audit and risk management have ensured that the Authority continues to conduct its affairs prudently and appropriately. The Board and its committees have clearly had a very active year in which new and existing policies have been implemented to great effect to support the efficiency and effectiveness of the organisation.

Strategically, the Authority has set an agenda that is ambitious but rooted by focused objectives for some key development areas: further enhancing Bermuda's risk-based supervisory approaches to maintain a sound, effective framework; building a team of highly-skilled and motivated professionals; providing quality service to support Bermuda's reputation as a leading international financial centre and continuously improving the organisation's processes and controls to ensure consistency with international best practice. Moving forward, my fellow Directors and I will be

firmly focused on ensuring that strategic policy development during 2007 continues to support practical enhancements in each of those areas.

All of the strategic development work undertaken by the organisation has been, and will continue to be, conducted within the challenging context of an ever-changing marketplace and regulatory environment. Indeed, the only constant in national and international financial regulatory environments these days is change. The on going evolution of international standards is impacting financial regulators around the world as they strive to ensure their national regulatory frameworks are compliant as well as effective. In addition, the growth in cross-border financial services trade and cross-sectoral interdependence make the role of regulators even more challenging. This has also been true for Bermuda of course, as the Authority has ensured that we adapt this jurisdiction's framework in a manner that is both consistent with international standards and which appropriately builds on our regulatory requirements for the Bermuda market.

Therefore, as the Authority's responsibilities continue to evolve and grow, it continues to equip itself with corresponding, necessary resources in terms of staff, technical expertise, legislative infrastructure and technology. I am looking forward to working with my fellow Board members to support that process as we continue to develop the organisation at the strategic level, in full alignment with the Authority's operational needs and the external expectations placed on it as a leading regulator within the global financial market. We will ensure that our work assists the Authority to maintain its pivotal role in protecting the integrity of the Bermuda market and the jurisdiction's reputation as a leading financial centre.



R. Alan F. Richardson, CA, JP

CEO's Statement

In 2006 the Authority and its staff successfully planned and delivered a number of important initiatives designed to enhance both Bermuda's regulatory framework and the BMA as an independent unitary regulator. In addition to conducting the everyday, demanding business of international regulation, our dedicated team undertook a variety of significant projects. These included planning our major relocation to new premises - BMA House; our corporate re-branding; successfully enhancing our IT systems; and testing our new independent disaster recovery site. Our successes reflect the efforts of our committed and professional staff, to whom I extend the sincere thanks of the Board and the Executive. It has been yet another year of change as well as of intense activity. Indeed, the Authority's increased growth and responsibilities have necessitated separating the roles of Chairman and Chief Executive Officer (CEO). I welcome Mr. Alan Richardson as our new Chairman and I look forward to working, in transition, with my successor as CEO, Mr. Matthew Elderfield. They have the support of an outstanding team at the Authority.



In writing this, my final statement for the Authority's Annual Report, I feel a great deal of satisfaction about what has been achieved over the past year, and also during the period of evolution we have experienced since I have had the privilege of being part of this important organisation. At its inception in 1969 the Authority's primary role was issuing Bermuda's currency, and from 1974 foreign exchange control. Today, the BMA is the unitary regulator of the Island's financial services, as well as being responsible for issuing Bermuda's currency. The work conducted during 2006 has continued to build on the organisation's effectiveness and expertise, both from the perspective of the Board and the staff.

We are indebted to our Board of Directors, which is charged with ensuring that the Authority maintains its policy direction and meets its strategic goals. The name of the Audit Committee was amended to the Audit and Risk Management Committee during the year to emphasise its responsibilities in reviewing the key risks faced by the Authority and ensuring that an effective enterprise risk management process is implemented and developed within the organisation. The Board welcomed the Committee's recommendations on the new Business Continuity Plan implemented in 2006 and the decision to appoint an internal auditor in 2007. The Committee oversaw the Authority's complete review of its risk management framework and internal controls towards the end of 2006, and will establish with management the focus and scope of the Authority's risk management and internal audit activities for 2007.

The Corporate Governance Committee steers the Authority in the practical adoption of corporate governance protocols that are consistent with international regulatory standards and general best practice. In 2006 this resulted in the Board Code of Conduct and the Board Conflict of Interest Code, as well as the drafting of a new Staff Code of Conduct, all of which build on the Authority's guiding principles of accountability, independence, integrity and transparency. Also, to ensure that the Authority's Board procedures and practice meet

the most current criteria as regards governance, objective setting and performance measurement, the Directors completed the first annual Self Evaluation Survey in 2006.

The work the Authority conducted in the regulation and day-to-day supervision of entities within Bermuda's financial services sector continued to support the overall financial stability of the market and soundness of financial institutions during the year. The Authority successfully introduced comprehensive legislative changes and built on supervisory programmes that have enhanced regulation across market sectors. Some highlights included the introduction of new legislation such as the Investment Funds Act — which among other matters broadened the scope of fund regulation and introduced a new licensing regime for fund administrators, following an exhaustive consultation process with industry — as well as new Money Service Business Regulations and further amendments to the Insurance Act. The continued successful execution of on-site programmes across sectors, in particular the enhanced programme for Class 4 insurance companies, also remained a key tool in the Authority's assessment of entities' regulatory compliance. Other key initiatives that supported specific regime enhancement included the development of the Risk-based Capital Model, a capital adequacy assessment tool to be applied to Class 4 insurers in the first instance, that builds on Bermuda's existing stringent solvency requirements. The Authority also contributed extensively towards the end of the year to preparatory work for Bermuda's further enhancement of its regime for anti-money laundering and combating terrorist financing. Amendments to the Proceeds of Crime Act, and the drafting of new Proceeds of Crime Regulations were prepared to be tabled in Parliament in early 2007. This work was also part of Bermuda's preparations for its next assessment by the International Monetary Fund (IMF), which is scheduled to take place in the second quarter of 2007.



It is clear from all of this activity that continuing our comprehensive, ongoing review of Bermuda's framework to update the existing regulatory regimes for business sectors here remained a priority during 2006. However, as always, we remained sensitive to ensuring that even as we maintained international best practice in amending the framework, the changes implemented were appropriate for the Bermuda market.

As Bermuda's financial services sector has grown, the Authority has increasingly found itself having to operate not only in a local context but also within the global economy. Over the past year we have continued our monitoring of developments and active participation in a variety of meetings and initiatives related to international standard setting bodies and regulators. The Authority participated in and provided direct input to discussions regarding international regulatory development being directed and overseen by bodies such as the International Association of Insurance Supervisors and the Offshore Group of Banking Supervisors. Such participation also provided the Authority with the opportunity to promote greater understanding internationally about the nature and effectiveness of Bermuda's regulatory framework.

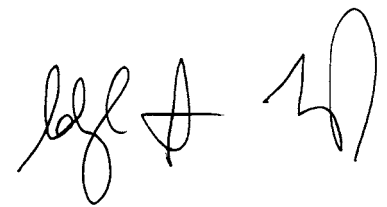
The increase in the scale of the Bermuda market and expansion in the Authority's responsibilities has also necessitated corresponding growth in the organisation's human resources. The Authority's relocation to a new facility that accommodates all departments, with room for a projected increase to 135 staff by the end of 2007 and more expected in the future, was both timely and well executed. The Facilities and Security

Unit are to be highly congratulated for their successful renovation and reconfiguration of BMA House in the latter part of 2006 in preparation for the move of all our staff to this new facility. In terms of general staffing matters, the Authority placed significant emphasis on adding to its existing technical expertise to support execution of its demanding supervisory responsibilities. This also involved paying close attention over the past year to ensuring that the increased staff levels were supported by expanded learning and development resources, to ensure the organisation's available technical and professional skills reflect its needs. Technical staff within each of the regulatory units were engaged in numerous learning and development activities locally and internationally, with the local initiatives being conducted primarily by internal subject matter experts. In addition, the Authority focused on upgrading skills among administrative staff as part of its diverse and comprehensive approach to providing training opportunities for all staff throughout the organisation.

The Authority has continued to enjoy a productive and positive relationship with our colleagues within the Bermuda Government as we seek to protect the financial stability and overall interests of Bermuda. I gratefully acknowledge the always reliable and dependable support of Minister Paula Cox and her team at the Ministry of Finance, and thank them for their collaboration and support during the year. I also thank Mr. Robert Steinhoff our Deputy Chairman, who has given the Authority the benefit of his extensive experience in financial services as chairman of the Non-Executive Committee, Audit and Risk Management Committee

and the Compensation Committee; Mr. Darren Johnston who has been a most able chairman of the Corporate Governance Committee; Ms Audette Exel for her leadership chairing the Investment Committee and all of the Authority's Board members for their constant support and invaluable expertise. I would also like to acknowledge our Board members who retired at the end of 2006, Ms Exel, Mr. Bala Nadarajah and Mr. Anthony Whaley, and express our sincere gratitude for their outstanding contributions to the work of the Authority.

Finally, on a personal note, I must express my own sincere appreciation for the privilege of working with so many committed, focused individuals during the past eight years that I have spent at the Authority. It has been a wonderful, and frequently very challenging, experience for me as a professional. I feel honoured to have contributed to building a first-class organisation and in the process forming such close and positive relationships. My thanks to all members of the Board, past and present, with whom I have worked, the managers and staff of the BMA team and all of our external stakeholders for sharing this experience with me, in support of building a regulatory framework and a regulatory authority of which Bermuda can be proud.



Cheryl-Ann Lister, MBA, CFA
Chief Executive Officer

Statistical & Financial Highlights for 2006

The Authority's net income amounted to \$5.17 million in 2006, which compares to \$9.19 million in the previous year. Total revenues for the year were \$22.48 million, a decrease of \$1.11 million from the \$23.60 million recorded in 2005.

This net decrease resulted from the \$1.3 million increase in supervisory and licensing fees and investment income recorded for 2006 being offset by a \$2.44 million decrease in other income, due to the exceptional \$2.5 million gain on the sale of Burnaby House recorded in 2005. In short, revenue generated in 2006 returned to normal levels in the absence of the gain on the real estate sale and previous rental income related to the Authority's new head office, BMA House. In terms of expenses, a number of budgeted vacancies remained unfilled at the end of the year. The Authority anticipates filling these vacancies early in 2007. However, overall expenses increased by 20% mainly due to an increase in professional fees for certain significant projects undertaken by the Authority during the year that required the use of external consultants.

In accordance with Section 8 (3) of the Bermuda Monetary Authority Act 1969, the Authority contributed 50% of its net income to the Consolidated Fund of the Government of Bermuda in the amount of \$2.58 million, as compared to \$1.72 million in 2005.

Bermuda Currency Operations

At the end of 2006 the amount of Bermuda currency notes and coin in circulation was \$121 million, a 6% increase over the \$114 million recorded for 2005. The usual seasonal peaks in circulation figures were experienced during the main public holidays in July (Cup Match) and December (Christmas), consistent with previous years. Immediately ahead of the Cup Match holiday \$120.3 million was in circulation, up 6% on the total recorded for 2005. The total notes and coin in circulation during the Christmas week was \$118.6 million, 4% above the figure recorded for the previous year.

Bermuda Money Supply

(BD\$ millions)	2006-Q4	2006-Q3	2006-Q2	2006-Q1	2005-Q4	2005-Q3
Notes & Coins in Circulation*	121	106	106	99	114	98
Deposit Liabilities						
Banks and Deposit Companies (unconsolidated)	3,499	3,480	3,481	3,418	3,362	3,510
	3,620	3,586	3,588	3,517	3,476	3,609
Less: Cash at Banks and Deposit Companies	44	30	31	24	40	25
BD\$ Money Supply	3,575	3,557	3,557	3,493	3,437	3,583
% Growth on Previous Period	0.53%	-0.02%	1.84%	1.64%	-4.10%	-1.39%
% Growth Year on Year	4.04%	-0.75%	-2.11%	-4.20%	-5.34%	-0.79%

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.

Currency Notes Issued and Redeemed

Bermuda Dollar

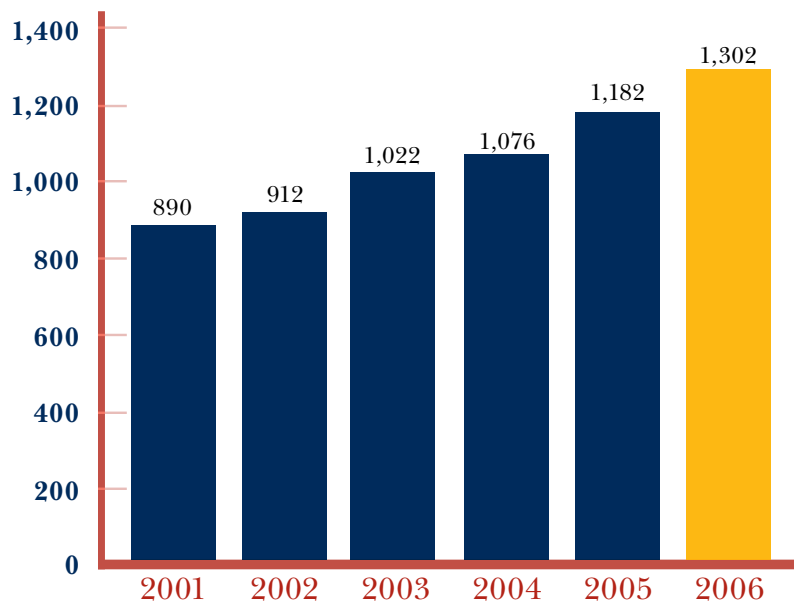
Month	New	Re-issue	Total	Notes Redeemed	Notes Issued & O/S at End of Month	Change	% Change
January	763	3,520,000	3,520,763	15,665,000	87,981,734	(12,144,237)	-12.13%
February	323,197	4,850,000	5,173,197	7,139,400	86,015,531	(1,966,203)	-2.23%
March	150,629	6,035,000	6,185,629	6,412,300	85,788,860	(226,671)	-0.26%
April	901,605	7,550,000	8,451,605	6,187,400	88,053,065	2,264,205	2.64%
May	805,111	7,342,000	8,147,111	6,645,500	89,554,676	1,501,611	1.71%
June	230,520	7,210,000	7,440,520	4,321,200	92,673,996	3,119,320	3.48%
July	5,906,585	15,555,000	21,461,585	7,792,000	106,343,581	13,669,585	14.75%
August	569,770	1,900,000	2,469,770	18,224,400	90,588,951	(15,754,630)	-14.81%
September	152,276	5,838,000	5,990,276	4,709,700	91,869,527	1,280,576	1.41%
October	741,584	5,220,000	5,961,584	4,563,100	93,268,011	1,398,484	1.52%
November	410,740	8,692,000	9,102,740	7,116,900	95,253,851	1,985,840	2.13%
December	650,134	15,170,000	15,820,134	4,157,600	106,916,385	11,662,534	12.24%
2006	10,842,914	88,882,000	99,724,914	92,934,500	106,916,385	6,790,414	6.78%
2005	14,956,345	87,854,000	102,810,345	89,413,000	100,125,971	13,397,345	13.4%

Currency Coins Issued and Redeemed

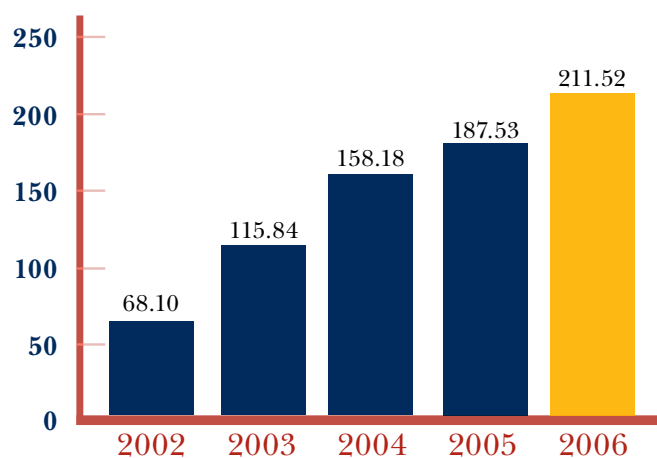
Bermuda Dollar

Month	Coins Issued	Coins Redeemed	Coins Issued & O/S at End of Month	Amount Change	% Change
January	25	-	13,572,415	25	0.00%
February	6,064	-	13,578,479	6,064	0.04%
March	18	-	13,578,497	18	0.00%
April	52,759	-	13,631,256	52,759	0.39%
May	154,796	-	13,786,052	154,796	1.14%
June	14,828	-	13,800,880	14,828	0.11%
July	150,773	-	13,951,653	150,773	1.09%
August	270	-	13,951,923	270	0.00%
September	87,180	-	14,039,103	87,180	0.62%
October	24,122	-	14,063,225	24,122	0.17%
November	65,547	-	14,128,772	65,547	0.47%
December	0	-	14,128,772	0	0.00%
2006	556,382	0	14,128,772	556,382	4.1%
2005	375,415	0	13,572,390	375,415	2.8%

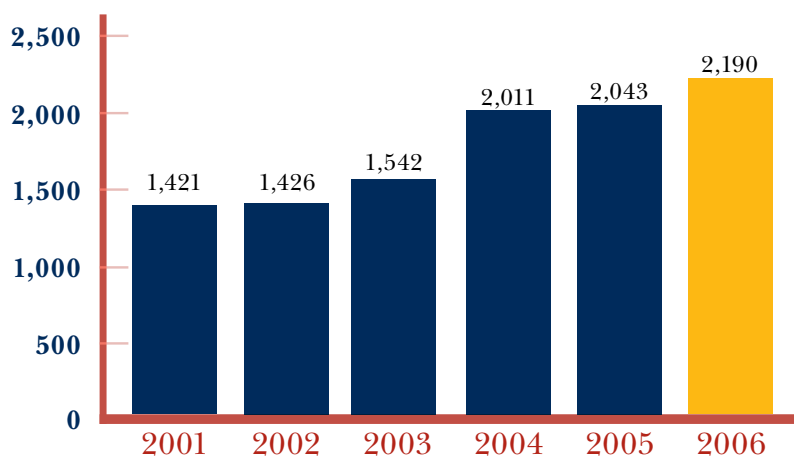
Collective Investment Schemes:
Total Number of Schemes



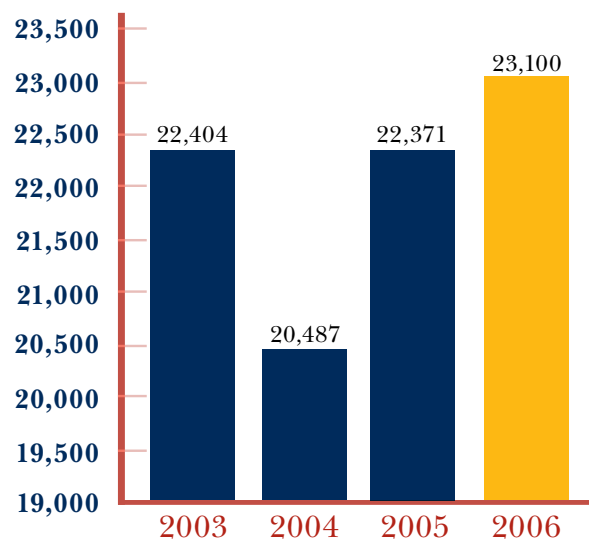
Collective Investment Schemes:
Net Asset Value
(BD\$ Billions)



Collective Investment Schemes:
Number of Portfolios within
Bermuda Classified Schemes



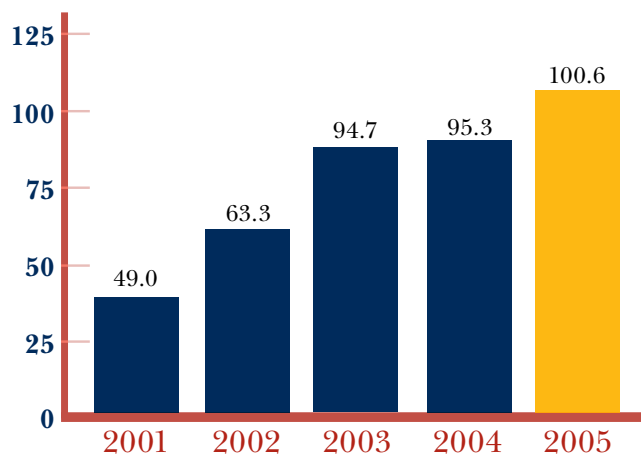
Bermuda Bank and
Deposit Companies
(Consolidated) Total Assets
(BD\$ Millions)



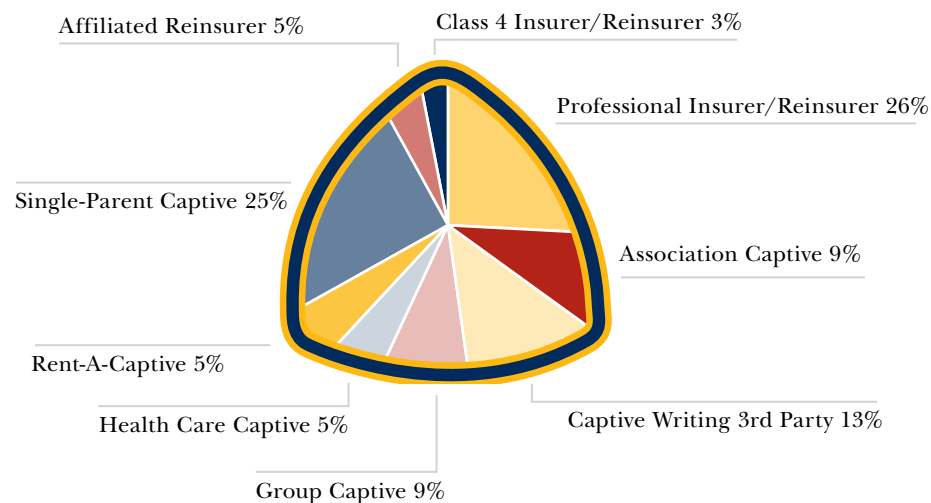
Analysis of all International Insurers Registered

Class of Insurer	2006	%	2005	%
Class 1	356	24	363	26
Class 2	397	27	403	28
Class 3	474	32	441	31
Class 4	31	2	30	2
Long-Term	99	7	84	6
Dual Licenses	103	7	100	7
Grand Totals:	1,460	100	1,421	100

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



Breakdown by Company Type of the Actively Writing International Insurers 2006





Corporate & Financial Services

The Corporate and Financial Services Department encompasses the Authority's administrative and support groups; financial operations, currency operations, facilities, security, and document management. The Department is also responsible for coordinating the Authority's Disaster Recovery/ Business Continuity Planning and its Enterprise Risk Management functions.

Financial Operations

During 2006 the Financial Operations Unit launched a new Annual Business Fee Collection system for insurance licensees. This new system allows better tracking of insurance licensee fee balances receivables and provides a platform that can be extended to all regulatory groups in the Authority. In early 2006, the team also amended its funds transfer platform from the tested telex system to the Swift network. The new system provides a more secure means of managing the Authority's treasury and securities functions and has automated a number of related processes that were previously manually intensive.

Currency Operations

In June 2006, the Authority was pleased to partner with the Bermuda Maritime Museum in the opening of its new Note Exhibit at the prestigious Commissioner's House in Dockyard. This new exhibit illustrates the history of Bermuda's banknotes from inception to current day and also features the latest collectors' coins available for purchase at the Authority's main premises in Hamilton. The Minister of Finance, The Hon. Paula Cox, JP, MP, was the guest of honour at a reception that officially opened the exhibit, which was attended by representatives of the local business community and the Maritime Museum Board and donors. The Authority was also pleased to welcome Mr. Damian Kwiatkowski from De La Rue, its note printer, and Mr. Richard Eastwood, representing the Royal Mint, who attended the ceremony on behalf of their respective institutions and assisted with the provision of artifacts and information for the facility.

In August 2006 the Bermuda Monetary Authority's Chairman, Mrs. Lister, and members of the Currency Unit travelled to Denver, Colorado to attend the Annual American Numismatic Association's Money Show. During this event the Authority and the Royal Mint jointly launched the 2006 Bermuda Shipwreck Coin series. This triangle coin series consists of 12 coins that the Authority began issuing during 2006, and which it will continue to introduce throughout 2007. The new series was well received by the numismatic community. In addition, the 1-kilo gold shipwreck version of the coin, which generated significant attention at the show, has been particularly well received by collectors in Europe.



The Currency Unit also began working with consultants during the year to establish an exhibit facility at the Authority's new premises in Hamilton in 2007. As well as being a new tourist attraction in Hamilton, the museum will provide an additional facility for extending the educational presentations that the Currency Unit conducts during each year to local schools.

Facilities Management and Security

The primary focus of the Facilities Management Unit during the latter part of 2006 was its special project involving the renovation and reconfiguration of BMA House, the Authority's new premises in Hamilton. As well as providing new expanded office space, BMA House will include an exhibit featuring Bermuda currency and will provide purpose-built training facilities for the Authority's staff. The Facilities Management Unit was responsible for coordinating all aspects of the new building refit, in addition to providing on going services to staff housed in the Authority's previous two facilities prior to the move.

As with any central authority, security issues are kept under constant review. In the latter part of 2006 the Unit engaged the services of a new technology service provider to introduce state of the art security systems in the Authority's new and existing facilities.

Document Management

The management of the on going scanning of the Authority's historical and current documents has been the focus of the Document Management Team for the past year. This work has assisted with the wider Authority-wide project that requires the continuous review of existing processes against best practice as regards disaster recovery/business continuity planning.

Authority Projects

Disaster Recovery and Business Continuity Planning

As part of the review of disaster recovery systems prior to the annual hurricane season, the Authority updated its offsite capabilities by establishing a disaster recovery site in an independent location. This site will provide a facility for the resumption of operations should our main buildings be rendered unusable in a national emergency/disaster. During the year the Crisis Management Team tested the plan on two occasions with satisfactory results. By early 2007 plans were already in place for the system to be tested again subsequent to the Authority's relocation to BMA House.

Enterprise Risk Management

With the assistance of a third party facilitator, the Authority undertook a complete review of its risk management framework and internal controls during the fourth quarter of 2006. The Audit and Risk Management Committee (ARMC) of the Authority's Board of Directors received a draft report of the

review's findings in December 2006. Management received and considered a more detailed report covering the review of the Authority's individual processes and procedures in early 2007. Once the reports are finalised, the ARMC and management will jointly agree the focus of the Authority's risk management and internal audit activities for the remainder of 2007.

Policy, Research & Communications

During the year, the responsibilities of the Policy, Research & Communications (PRC) Department covered overall regulatory policy development, strategic research and corporate communications for the Authority. Following the end of the year, the corporate communications area was relocated to report directly to the Chief Executive Officer.

Policy Developments

During 2006 the Authority continued to devote considerable resources to a wide range of regulatory policy developments. As has been the case in recent years, many of these initiatives reflected changes in international standards and approaches for the different regulatory sectors. Generally, there was a continuation of the trend towards making regulation both more risk-based and principles-based, moving away from an overly standardised and rules-based approach.

This trend is fully consistent with the pragmatic approaches to supervision that the Authority has itself been developing and applying in recent years. The Policy Unit supported the Authority's efforts in fostering the continued application of both these approaches within Bermuda's regulatory framework for financial services, as well as monitoring the potential impact of developments in international regulation for Bermuda.

The Policy Unit worked closely with the line supervisory departments and with external stakeholders to monitor and assess the implications for Bermuda of a wide variety of technical and policy issues during the year. The Unit also conducted a number of formal consultative exercises, which included important proposed amendments to the regulatory framework for insurance and banking. In addition, the Policy team was closely involved in discussions with regard to the range of changes to Bermuda's regulatory legislation enacted during the year. These covered the statutes for insurance, banking, trust, investment business, investment funds and money service business. Of particular importance were the changes included in the Insurance Amendment Act 2006, which involved among other matters new provisions with regard to shareholder controllers, and the development of Statements of Principles and codes of conduct. Similarly, there was a need for extensive work to finalise the policy framework for the new Investment Funds Act 2006, which replaced the Collective Investment Scheme Regulations early in 2007. Towards the end of the year the Policy Unit also began consultations with industry regarding proposals for licensing of insurer Special Purpose Vehicles and the regulation of insurance Segregated Accounts Companies, in conjunction with the Insurance Department. Consultation on these proposals will continue during 2007, with a view to introducing these enhancements to the regulatory regime for insurance by the end of the year. Another important project, in which the Policy Unit was



closely involved with the Banking, Trust & Investment Department, related to major enhancements to the regulatory framework for banks that will result from the forthcoming implementation of the new capital adequacy requirements incorporated in Basel II. Extensive amendments to the present policy framework are involved. An important initial step, during 2006, was the development and implementation of a full market risk measurement regime, applicable where banks take on material trading book operations. This change, implemented in the fourth quarter, was an important stepping-stone in preparing for Basel II implementation. The Policy Unit contributed to this work, as well as to the preparation and circulation of a number of consultative papers on aspects of the new Basel II regime that is to be implemented as of January 2009.

At the international level, the Unit was actively involved in the Authority's contribution to a variety of initiatives potentially impacting Bermuda's financial services sector. Chief among these was the work undertaken by the International Association of Insurance Supervisors (IAIS) focused on issues related to the supervision of the captive insurance sector. The Unit, along with the Insurance Department, provided input to this initiative, which seeks to improve understanding among the standard setters about the nature of captives and their related issues

for supervisors. Based on this work, the IAIS is now proceeding during 2007 to develop a guidance paper for supervisors. The Authority will continue to take an active part in this project.

The Policy Unit also maintained a close interest in a variety of other IAIS initiatives, including the IAIS Roadmap for a Common Structure and Common Standards for the Assessment of Insurer Solvency and a Survey on the Supervision of Reinsurers, which seeks to clarify the present standards in place for supervising reinsurers with a view to developing standards for mutual recognition.

Research

The Research Unit aims to generate and disseminate data and information to assist the Authority in fulfilling its mandate, as well as to help local and international audiences better understand current issues affecting the regulation and supervision of financial services in Bermuda. For this purpose, in early 2006, the Research Unit developed and put into operation a research programme to give structure and focus to the research activities it undertakes.

During the year the Unit conducted and delivered reports on a variety of studies for the Authority's various regulatory and supervisory departments including, among others, major reviews of comparative data with respect to:



- Codes of Practice for banks providing retail banking services;
- Key policy provisions regarding publicity given to enforcement actions by regulators;
- Corporate Service Providers (CSP) regimes, looking at current legislation, and regulatory approaches to CSPs in a variety of peer jurisdictions;

In addition, the Research Unit assisted other Authority departments with research input designed to support Authority-wide projects that were not directly of a regulatory or supervisory nature, such as analysis of utilisation of the BMA website, or perceptions among local residents of the Authority and its role in Bermuda's economy.

The team also provided inputs to a number of relevant international research projects during 2006. Among the most significant of these were:

2006 Edition of IAIS Global Reinsurance Market Study

This initiative, run by the IAIS Reinsurance Transparency Group, looks at trends in the seven largest reinsurance markets in the world. As has been the case in previous years, the Authority is one of the seven participating agencies. The Research Unit provided quantitative data for the study on the largest Bermuda-based reinsurers, as well as contributing analysis on key developments in Bermuda's reinsurance market, such as 'sidecar' arrangements. Participation in the study was a joint effort of the Authority and the Association of Bermuda Insurers and Reinsurers

(ABIR). The response rate of Bermuda-based reinsurers, which has been 100% in all three editions of the research, reconfirmed the industry's commitment to transparency and strengthened the successful coordination efforts between the Authority and ABIR. Copies of the research reports are available at IAIS website www.iaisweb.org

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

For the second year, the IMF conducted this research project on financial sector information of offshore financial centres, collating a wide variety of data, e.g. on structural and activity indicators of the banking and insurance industries; collective investment schemes; company and trust service providers; and overall financial sector contribution to the economy. The Authority cooperated in collating, analysing and submitting aggregate data, as well as participating in the 2006 Round Table meeting organised by the IMF to discuss, among other matters, the findings of this research. Copies of IMF Reports on the Information Framework study and the Offshore Financial Centres Initiative are available from the IMF website at www.imf.org

International Organisation of Securities Commissions (IOSCO) Survey of Regulation of Non-Audit Services & European Union Audit Regulation Survey

The Authority took part in these two international research studies which aimed to improve understanding of global regulation and supervision

of services provided by audit firms. The successful completion of these two surveys was the outcome of joint coordination work between the Authority, the Institute of Chartered Accountants of Bermuda (ICAB) and Bermuda-based audit firms. Research findings from the IOSCO study are in the process of publication.

Corporate Communications

The Authority's corporate communications programme developed further during 2006, and culminated in a comprehensive rebranding exercise, to complement the move to the Authority's new premises in early 2007.

In terms of internal communications, the flagship project completed for the year was the development and successful launch of the Authority's intranet, in close collaboration with the IT Department. The intranet is one of several tools that are assisting the Authority to minimise internal data gaps across the organisation, as well as helping to disseminate information of relevance to staff consistently. The Authority envisages that the intranet will become ever more critical as a communications vehicle as the organisation's growth continues. Overall, the Authority intends to continue using the intranet to support increasing awareness and knowledge among staff of cross-departmental activities, and of the BMA's external communications activities. It has also created another avenue for learning and development opportunities for staff.

Staff had direct input and provided feedback for a variety of Authority-wide projects, many of which were also supported with direction from the Communications Committee. This group, comprising representatives from all areas of the Authority, was reinstated during the year and provided valuable input for the on going enhancement of our internal communications.

The external communications programme remained very active. The Communications Unit drafted and produced a wide variety of keynote speeches, articles, panel presentations and interview briefings for media coverage during the year. This activity involved presentations to private sector representative groups locally and overseas, as well as to other regulator bodies such as the Caribbean Group of Securities Regulators and the National Association of Insurance Commissioners (NAIC).

The Authority was also represented with speakers and had a presence at numerous industry conferences and events, including the Society of Trust and Estate Planners Caribbean Conference, the Bermuda Captives Conference and the IMF Roundtable for Supervisors and Standard-Setters Conference. The Authority also participated in a variety of community events locally during the year, including major career fairs targeting students, to raise its profile among the public in Bermuda. All of these endeavours supported the Authority's commitment to increasing awareness and understanding about

Bermuda's regulatory framework and our transparency as regards the operations of the regulator. Based on the success of these activities, the programme of speaking engagements and conference/event participation is being expanded for 2007.

The Authority's rebranding project involved the development of a new corporate identity for the organisation, including a new logo and corporate colours. As Bermuda's market has grown and the scope and nature of regulatory standards has continued to evolve the Authority's role and responsibilities have similarly increased. These responsibilities reflect the Authority's pivotal role in protecting and enhancing Bermuda's position and global profile as a significant financial centre. This evolution has also supported the Authority's position as a dynamic, contemporary organisation with an international perspective.

Therefore, the objective of rebranding the organisation was to reinforce that position and assist the Authority in presenting an updated corporate image. The new corporate identity for the BMA, which was developed with direct input from the staff, reflects and reinforces the Authority's important status as Bermuda's integrated and independent regulator. It will also enable the Authority to present the organisation in a consistent manner in terms of all its visual communications and materials.



Information Technology

The Information Technology (IT) Department manages the development of IT facilities designed to support and enhance the Authority's operational effectiveness. Effective January 1st 2007, the IT Department joined the Corporate and Financial Services (C&FS) Department, reporting to the Director, C&FS.

The IT Department began 2006 with the initiation of several projects to upgrade the front-office systems used by the Authority's regulatory departments. The first phase of the systems upgrade, encompassing the workflow and database management of information relating to insurance entities, was in its final phases of testing and training by early 2007. Successful implementation during the first two quarters of 2007 will be followed by the rollout of the system for the information management of Investment Funds.

In partnership with the Policy, Research, and Communications Department, an Authority wide intranet was designed, developed, and deployed during 2006. The intranet fosters collaboration between individuals and departments, and brings greater efficiencies to many back-office procedures.

In preparation for any unforeseen catastrophes, the IT Department has deployed the technology infrastructure necessary to bring seamless business continuity to all Authority operations. In the event of a hurricane or other catastrophic event, all IT systems can be made available in a secondary location with full access to information and communication services.

The Authority's work to complete electronic document storage (scan-to-file process) continued in earnest throughout 2006. This on going project reflects the Authority's drive to implement fully functional business continuity processes for all facets of daily operations.

At the end of 2006, the Department had completed all initial development to move the Authority's entire IT infrastructure to our new location at BMA House, including the implementation of a new voice over IP communication system.



Legal Services & Enforcement

The Legal Services & Enforcement Department expanded in 2006 by taking on responsibility for vetting applications for the incorporation of companies and has integrated the companies authorisation unit within the Department. The Department reports to the Director, Legal Services & Enforcement.

The Department supports the Authority by advising on the performance of the Authority's statutory functions and by advising on a wide range of 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 enforcement action in relation to unlicensed entities ('policing the perimeter'). It would investigate any

cases of unlicensed activity falling within the scope of its authority that come to its notice, and would assist 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 BMA Act 1969 and the Insurance Act 1978, to require information from licensed entities. The Department's authorisation unit vets applications for company incorporation and applications for the establishment of partnerships as the agent of the Minister of Finance. It also deals with applications made under the Exchange Control Act for share transfers .

New Legislation

The Department was directly involved throughout 2006 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 Bermuda Monetary Authority Amendment Act 2006 introduced a new organisational structure for the Authority, including the separation of the roles of Chairman and Chief Executive Officer, and the abolition of the statutory offices of Superintendent of Banking, Trust and Investment and the Supervisor of Insurance. It also made provision for the regulation of money service businesses. The Bermuda Monetary Authority Amendment (No 2) Act 2006 clarified the delegation and sub-delegation powers of the Authority and made changes to the fee bands for banks and to the level of fees for regulated insurance, trust and investment entities.

The Department in consultation with industry and the Ministry of Finance drafted the Insurance Amendment Act 2006. This legislation enhanced the regulatory framework for the supervision of insurers, insurance managers and intermediaries, with new provisions for further enhancement of fitness and propriety standards for individuals managing (re)insurance companies. It also facilitated the Authority's ability to issue codes of conduct for (re)insurance companies, which are currently in development and being based on already established guidance that the industry is currently following. The amendments also made the Insurance Act 1978 more consistent with the legislation regulating the rest of the supervised financial services industry.

Another significant legislative change that the Department drafted was the Investment Funds Act 2006. This Act provides a new framework for the supervision of investment funds in Bermuda and also makes provision for the regulation of fund administration business.

Committees

Members of the Department represent the Authority at various external Committees on an ongoing basis throughout the year to discuss issues and develop 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 to 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 Committee, which includes representatives of both Houses of the Bermuda legislature – the House of Assembly and the Senate – is traditionally chaired by the Deputy Speaker of the House of Assembly. 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, acting on recommendations received from the technical officers. The Authority takes the lead on reviewing applications for financial institutions and reviewed some interesting uses of private acts in the insurance field in 2006.

Bermuda International Business Association (BIBA) Legislative Change Committee

During the year the Department's legal staff participated in discussions with BIBA's Legislative Change Committee on legislative proposals, which led to the introduction of the Companies Amendment 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 2006.

Accordingly, during the year it dedicated increased resources and time to this area.

The Department's enforcement activities during the year continued to involve advising and assisting the Authority's line supervisory departments with enforcement matters. The Department remained vigilant to ensure that unauthorised business was not conducted in or from Bermuda. It carried out a number of inquiries into possible breaches of Bermuda's regulatory provisions. These inquiries were typically triggered by initial information provided or requested by overseas regulatory bodies.

The Department continued to liaise closely with the Bermuda Police Service and with overseas regulators in order to minimise risks to the public as regards incidents in which false Bermuda company names were being used to promote investment products on the Internet. The Authority's 'Warning List' of such suspect names and entities was maintained during the year to warn the public. The list is posted on the Authority's website at www.bma.bm.

International Regulatory Cooperation

The Authority continued to liaise closely with relevant foreign regulatory authorities in conducting its supervisory responsibilities during 2006. Such co-operation and liaison is regular and routine as part of the Authority's operations, and involves meetings or ongoing discussions between line supervisors. In addition, regulator-to-regulator

cooperation is based on agreed international standards that require agencies to be able to assist each other in their regulatory enquiries by obtaining information pertaining to licensed persons. These powers enable the supervisor to compel regulated entities to provide relevant information in order to assist an overseas regulator with a legitimate need or inquiry. The Authority is able to exercise the compulsory powers under sections 30A to 30D of the BMA Act.

During 2006, the Authority received requests for assistance in nine cases from six regulatory bodies in five countries. This was a decrease in requests for assistance for the year as compared to the total of 22 received in 2005.

The Authority served notices on licensed institutions in five of the cases in 2006, and passed the information obtained to the requesting authority. These cases involved suspected insider dealing and/or market manipulation. In two cases the requesting authority was directed to the Ministry of Finance because the companies concerned were not licensed or regulated by the Authority.

At year-end the Authority was assisting with two on going regulatory requests, both of which supplemented earlier formal requests.

Authorisations

During 2006, the Authority received 1610 applications for the incorporation of new companies and partnerships, as well as permits for overseas companies; this exceeded the level seen in 2005 (1,522).

The Authority gave consents for a total of 1,578 applications during the year, while 15 were refused. Consents were granted for 1,311 exempted undertakings (i.e. exempted companies, exempted partnerships, overseas companies, overseas partnerships and continuation companies). In addition, 225 local companies and 42 unit trusts were consented. As in previous years, most of the consents granted for 2006 were for corporate and investment holding companies, mutual funds and insurance undertaking businesses.



Companies Partnerships and Permits Statistics - Applications Approved

2006-Q4 2006-Q3 2006-Q2 2006-Q1 2005-Q4 2005-Q3

Exempted Companies (Bermuda companies exempted from the 60% Bermudian ownership requirement)	306	230	246	282	280	249
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	57	16	73	25	36	22
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	11	0	1	2	8	1
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	14	4	5	4	16	4
Unit Trusts	4	7	19	12	46	10
Continuation Companies (companies from other jurisdictions continuing into Bermuda as exempted companies)	3	9	10	6	13	7
Unlimited Liability Companies	0	6	1	0	0	0
Local Companies	49	56	64	56	45	50
Total Applications Approved *	444	328	419	387	444	343

* Some earlier quarters have been amended to reflect more up-to-date consent information.

Human Resources

During 2006 the Authority continued on a path of deliberate and sustainable growth to support its adjustment in responsibilities and services, and to ensure that the organisation continued to perform at the highest standard possible. The Human Resources Department evolved correspondingly, to ensure that the core business of the Authority was adequately serviced in terms of staffing and skills requirements. The Department continues to report directly to the Chief Executive Officer.

The Human Resources Department developed additional areas of specialisation with the segregation of duties relating to compensation and benefits. A Compensation and Benefits Administrator post was established to accommodate the Authority's additional personnel and expanded benefits package. Similarly, an internal team of professionals as well as a strategically appointed team of global recruiters supported the Authority's increased recruitment activity during the year. These changes were designed to assist the Authority in attracting and retaining key talent.

Policies and Procedures

The Human Resources Department addressed a number of policies and procedures that required further development and/or implementation during the year. In accordance with the feedback contained in the 2005 Human Resource Audit, policies and procedures for the following areas were developed and implemented:

- Recruitment and Selection Process
- Learning and Development Sponsorship
- Payroll and Benefits Administration
- Records Management
- New Hire Orientation
- Employee Exit Process

Learning and Development

In 2006 the Authority continued to place a heavy emphasis on the formation of a fully operational Learning and Development Unit. With the addition of a Learning and Development Officer, the Unit centralised the learning and development activities of the Authority and launched pilot presentations for the two-tier Core Training Programme. In addition, the Unit coordinated the delivery of a revised Anti-Money Laundering workshop and an updated Organisation Orientation workshop. In addition to the focus on upgrading skills among administrative staff, technical staff within each of the regulatory departments were engaged in numerous learning and development activities locally and internationally, with the local initiatives being conducted primarily by internal subject matter experts.



This diverse and comprehensive approach to staff development reinforces the importance the Authority places on ensuring that the depth of skills and knowledge within the organisation are suitable to support its responsibilities and objectives, current and future.

Recruitment

During 2006 the Authority greatly enhanced its recruitment process with the expansion of the existing recruitment strategy to include numerous overseas and local recruitment agencies. In addition to expanding talent sources, the hiring process and procedures were improved to enable the Human Resources Department to better support the core business of the Authority. Revised job descriptions, the enhancement of core competencies, and the introduction of online occupational personality assessments were all adopted to improve the quality of recruitment efforts and retention outcomes.

Permanent Staff

A total of 16 new team members joined the Authority's permanent staff during 2006 in the following positions and business units:

Banking, Trust & Investment

Randi Outerbridge – Analyst
Fadwa Sahly – Principal
Jamila Simmons – Analyst

Corporate & Financial Services

Nicole Caines – Principal (Facilities)
MeShay Gomes – Administrator (Facilities)
Michelle Hill – Assistant Controller
Selena Wilson – Assistant

Human Resources

Dionne Dowling – Senior Compensation & Benefits Administrator

Insurance

Jason Floyd – Senior Officer
Melissa Morton – Senior Analyst
Candace Roach – Senior Officer
Trudy Smith – Senior Analyst
Craig Swan – Principal

Legal Services & Enforcement

Cyralene Benskin-Murray – Assistant Director, Enforcement

Policy, Research & Communications

Kevin Anderson – Senior Analyst, Policy
Carla Bean – Communications Officer

Internal Transfers/Promotions

Carolyn Brown – Administrative Assistant (Chairman's Office)
Martin McHugh – Principal (Banking, Trust & Investment)
Terry Pitcher – Assistant Director (Corporate & Financial Services)
Selena Wilson – Assistant (Financial Operations)

Two staff members were recognised by the Authority for their loyalty and service commitment to the organisation with long service awards during 2006:

Sharon Davis, Banking Trust & Investment – 5 years service
Mark Trott, Insurance – 5 years service



Banking, Trust & Investment

Responsibility for the Authority's regulatory functions under financial services legislation (other than insurance) lies with the Director of Banking, Trust & Investment. These functions are conducted within the Banking, Trust & Investment Department, which is responsible for the supervision of Bermuda's banks, deposit companies, trust and investment businesses, collective investment schemes (more recently re-characterised as investment funds), the Bermuda Stock Exchange and the Credit Union.

Towards the end of 2005, in order to support the introduction by the Authority of a more formal risk-based supervisory framework across the banking, trust and investment sector, plans were developed for a major restructuring of the Department. This initiative was implemented during 2006, and involved changing the traditional single industry based structure to a multi-disciplinary team approach. The new structure comprises three separate line teams responsible for the supervision of (a) larger financial groups (b) stand-alone institutions, and (c) investment funds. These teams are supported by, and work closely with, a new central Risk Assessment Unit within the Department.

The Department's risk-based approach involves the application of standardised analysis and assessment in order to identify higher risk institutions, thereby providing for supervision that is more effective and permitting a more efficient allocation of the Authority's resources. The Department's supervisory programmes are now tailored more directly to those entities with the highest risk scores. The results of the scoring system are internal to the Authority and not divulged in detail to institutions. 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. Analysing factors such as financial condition, overall business conduct, risk management processes and internal controls form the evaluation of the individual institution risk profile. The assessment includes quantification of both the level of risk and of whether risk is stable, increasing or decreasing.

During 2006, the Department completed initial assessments under the new risk evaluation model for all deposit-taking and trust licensees. A similar process involving licensed investment businesses was completed early in 2007. Generally, institutions where the risks are higher or increasing can expect to be subject to a higher incidence of on-site reviews and prudential meetings. However, all institutions remain subject to regular on-site review and a number of lower risk institutions can expect to be subject to such on-site reviews within each annual programme.

*Representing the Banking, Trust & Investment Department: (front to back/l to r)
Hana Riley, Tina Laws, Fadwa Sahly, Betty Dale, Martin McHugh, Randi Outerbridge,
Jay Smith, Tessa Ingham*



During the year, the Department conducted more than 20 prudential and strategy meetings with institutions or regulated groups as well as 15 on-site reviews. The focus of standard on-site work continued to be on matters such as: high-level controls; new business take-on procedures and anti-money laundering controls; follow up to remedial action plans in relation to earlier on-site visits; liquidity management; operational risk; and corporate governance. In each case, the Department provided written feedback reports, identifying any specific concerns or weaknesses and making recommendations as to remedial action or areas in which policies or practices require enhancement.

Banks & Deposit Companies Act 1999

The following section (pages 36 to 43) 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 the consolidated worldwide groups to which they belong, other than in the case of 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.

Banking Sector Assets & Deposits

	2006-Q4	2006-Q3	2006-Q2	2006-Q1	2005-Q4	2005-Q3	2005-Q2	2005-Q1
Total Assets (\$millions)	23,100	22,253	22,804	22,102	22,371	19,786	19,082	22,551
Quarterly Change (%)	4	-2	3	-1	13	4	-15	10
Total Deposits (\$millions)	19,906	19,304	19,901	19,408	19,586	17,239	16,662	20,335
Quarterly Change (%)	3	-3	3	-1	14	3	-18	11

Bermuda's banks continued to benefit from the favourable market and benign economic conditions in 2006. With international interest rates recovering from the exceptionally low levels of earlier years, the banking sector's financial performance remained very strong. Profitability remained robust, particularly for the larger institutions, and there was significant growth in both net interest and fee income. Operating expenses increased at a slower pace than income generation, reflecting to some extent staff costs lagging behind budgeted levels because of continuing tightness in labour markets in key jurisdictions. Asset quality remained strong, with very low incidence of loan losses. The aggregate balance sheet and total deposits of the banking sector grew modestly by some 3% and 2% respectively compared to end-2005 levels.

Within the local Bermuda market, as a result of the continuing strength of the economy, loan demand remained strong, much of it property-related. However, growth in lending was rather slower than that experienced in the previous year. At the same time, greater competition within the banking sector increased the available supply of credit. Overall, Bermuda-dollar denominated loans and advances rose by 12.3% during the year, as compared to 20% in 2005. There was very little change in the asset composition of the aggregate balance sheet of Bermuda's banking sector, with 2/3 of total

assets continuing to be represented by inter-bank placements and holdings of high quality marketable securities.

The requirement that licensed institutions should have sufficient capital to support the risks inherent in their business is one of the key licensing criteria under the Act. Capital needs to provide a firm cushion against the losses to which institutions may become exposed as a result of the risks that they take on. The Authority continuously monitors capital adequacy of individual institutions and the sector as a whole by, amongst other things, analyzing 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 strengthened during the year and ended 2006 at 18.2%, remaining well in excess of the 10% minimum ratio imposed by the Authority.

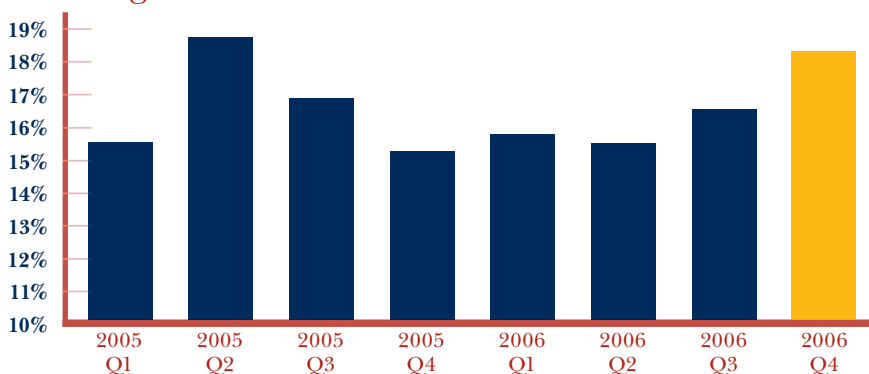
Licensing

The total number of licensed institutions remained unchanged at four banks and one deposit company. No applications for new licences were received during the year.

Legislative Change

During the year, Parliament passed the Bermuda Monetary Authority Amendment (No.2) Act, which amended the Fourth Schedule to the BMA Act, setting out the bands which determine annual licence fees payable by licensed institutions. This amendment corrected an anomaly by increasing the gross assets' threshold for the lowest fee-band from \$100 million to \$500 million.

Banking Sector Consolidated Risk Asset Ratio





Application of the Act

There were no changes in the Authority's general supervisory approach under 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. As in 2005, the on-site programme during 2006 focused on progress in addressing recommendations made in previous review visits. Programmes included meetings with internal audit and compliance teams within banks, as well as with members of their Audit Committees. The objective of on-site work is to gain a more complete understanding of the quality of management and systems and of the internal control environment.

Compliance with anti-money laundering and counter-terrorism requirements and procedures is routinely tested as part of such reviews.

Capital Adequacy

Following a consultation process that began in 2005, the Authority finalised revisions to the framework for the measurement of regulatory capital in order to deal more fully with material market risks to which institutions may be exposed. A new policy paper 'The Assessment and Measurement of Capital Adequacy for Banks and Deposit Companies', was published in September 2006 and brought into effect for the monitoring and reporting of capital adequacy as from the end of the third quarter of the year. The changes represent the first stage in a more extensive set of alterations to the

capital adequacy and wider policy framework and requirements under the Act, which are in preparation and which are discussed in a later section of this report. Alongside the changes, the Authority introduced a revised format for the detailed quarterly prudential information reports submitted by banks and deposit companies to reflect the new capital measurement framework that has to be applied by institutions in reporting market risks which exceed a stipulated threshold level of materiality. The Authority continues to require institutions to meet risk asset ratios of 8% solo and 10% on a group consolidated basis and monitors capital adequacy carefully on the basis of the detailed quarterly prudential information reports that are submitted by institutions.

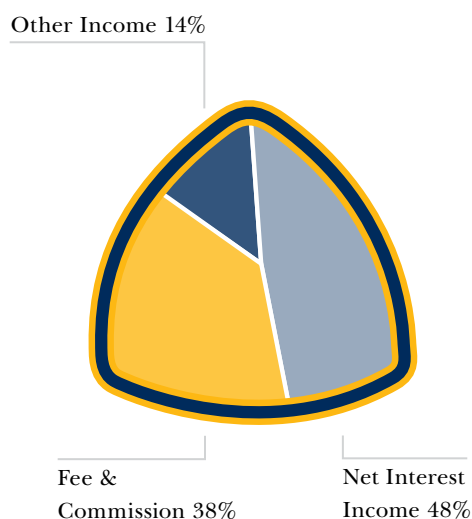
Bermuda Money Supply

(BD\$ millions)	2006-Q4	2006-Q3	2006-Q2	2006-Q1	2005-Q4	2005-Q3
Notes & Coins in Circulation*	121	106	106	99	114	98
Deposit Liabilities						
Banks and Deposit Companies (unconsolidated)	3,499	3,480	3,481	3,418	3,362	3,510
	3,620	3,586	3,588	3,517	3,476	3,609
Less: Cash at Banks and Deposit Companies	44	30	31	24	40	25
BD\$ Money Supply	3,575	3,557	3,557	3,493	3,437	3,583
% Growth on Previous Period	0.53%	-0.02%	1.84%	1.64%	-4.10%	-1.39%
% Growth Year on Year	4.04%	-0.75%	-2.11%	-4.20%	-5.34%	-0.79%

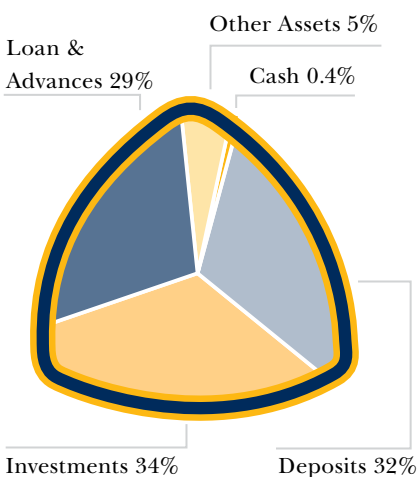
Totals may not add due to rounding.

* 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.

Banks and Deposit Companies Net Income (Consolidated)



Distribution of Total Assets (Consolidated)



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 1999 paper, "The Measurement of Liquidity", and against the mismatch guidelines established for individual institutions.

Large Exposures

Section 38 of the Act requires licensed institutions to report all exposures to a single counterparty or group of connected counterparties where they face a risk of incurring a 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, notably those cases where the exposure can clearly be seen as extremely low risk. During 2006, a small number of exceptions were granted, after detailed assessments, which confirmed to the Authority's satisfaction that the associated level of risk in each case was acceptable.

Formal Use of Powers

Sections 17 and 18 of the Act enable the Authority to restrict or revoke a licence where that is judged necessary for the protection of depositors or potential depositors. The provisions were not used in 2006.

Sections 25 and 26 of the Act provide for the Authority to review the fitness of all proposed new controllers of licensed institutions. No such notifications were received during the year. Section 27 enables the Authority to object when it concludes that an existing controller is no longer fit and proper; no such cases occurred in 2006. 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 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. These powers have been used for some years to commission reports to test and validate the accuracy of statistical information provided to the Authority by licensed institutions. These powers were not used in 2006.



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

(BD\$ millions)	2006-Q4	2006-Q3	2006-Q2	2006-Q1	2005-Q4	2005-Q3	2005-Q2
Deposit Liabilities	3,499	3,480	3,481	3,418	3,362	3,510	3,562
Less:							
Loans, Advances and Mortgages	(3,810)	(3,700)	(3,589)	(3,438)	(3,368)	(3,281)	(3,079)
Surplus Deposit	(311)	(219)	(107)	(20)	(6)	(230)	484
Percentage of Deposit Liabilities Lent	108.9%	106.3%	103.1%	100.6%	100.2%	93.5%	86.4%

During the year the Authority initiated discussions with the Institute of Chartered Accountants of Bermuda (ICAB) with a view to agreeing standard arrangements governing the use of the section 39 power to commission reports on the effectiveness of aspects of institutions' internal controls. Expansion of the use of section 39 reporting in this way has been under discussion for some time and will represent an important additional tool available to the Authority as it develops further aspects of its regulatory regime under the Act. Further discussions will take place with ICAB in 2007 with a view to finalising the new arrangements.

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

suspicious of illegal deposit taking. There were no appeals against decisions of the Authority under the Act during 2006.

Forthcoming Supervisory Developments

The Authority devoted increasing attention during 2006 to a number of key changes to the current supervisory framework that are envisaged. These reflect important developments in international standards and requirements for banks engaged in cross-border business. The initiatives reflect two major strands of work:

a) First, a series of amendments to the Basel Core Principles were approved by banking supervisors internationally in late 2006. While the changes do not alter in any fundamental way the standards with which banks are required to comply, they do include new and more detailed provisions against which supervisors must monitor and assess banks. In order to ensure that Bermuda's supervisory requirements

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

(BD\$ Millions)	2006-Q4			2006-Q3			2006-Q2		
	Total	BD\$	Other	Total	BD\$	Other	Total	BD\$	Other
Assets									
Cash	89	62	26	460	40	420	1,440	43	1,396
Deposits	7,324	24	7,299	7,088	11	7,077	6,868	15	685
Investments	7,758	-6	7,764	7,379	-6	7,385	7,407	199	7,208
Loans & Advances	6,806	3,763	3,044	6,358	3,656	2,702	6,151	3,541	2,610
Premises & Equipment	376	322	54	378	318	60	369	314	55
Other Assets	747	104	644	590	93	498	568	74	495
Total Assets	23,100	4,269	18,831	22,253	4,113	18,141	22,804	4,186	18,617
Liabilities									
Demand Deposits	8,755	785	7,970	9,465	777	8,688	10,471	798	9,673
Savings	2,845	1,216	1,628	2,037	1,243	795	2,064	1,257	808
Time Deposits	8,306	1,495	6,811	7,802	1,420	6,382	7,366	1,414	5,951
Sub Total - Deposits	19,906	3,496	16,409	19,304	3,440	15,864	19,901	3,469	16,432
Other Liabilities	748	432	315	640	253	387	706	256	450
Sub Total - Liabilities	20,653	3,929	16,725	19,943	3,693	16,251	20,607	3,725	16,882
Capital	2,447	1,436	1,011	2,310	1,352	958	2,196	1,362	834
Total Liabilities and Capital	23,100	5,365	17,736	22,253	5,045	17,208	22,804	5,087	17,717

(BD\$ Millions)	2006-Q1			2005-Q4			2005-Q3		
	Total	BD\$	Other	Total	BD\$	Other	Total	BD\$	Other
Assets									
Cash	894	33	861	803	42	761	440	42	398
Deposits	7,071	18	7,053	7,941	41	7,900	6,235	39	6,195
Investments	7,222	5	7,217	6,936	7	6,929	3,827	6	6,821
Loans & Advances	5,963	3,391	2,572	5,890	3,350	2,540	5,596	3,232	2,363
Premises & Equipment	359	309	50	357	308	49	361	314	47
Other Assets	593	76	516	444	52	392	328	43	285
Total Assets	22,102	3,832	18,269	22,371	3,801	18,570	19,786	3,677	16,109
Liabilities									
Demand Deposits	10,008	792	9,216	9,549	755	8,794	8,188	795	7,393
Savings	2,039	1,241	798	2,077	1,253	824	2,129	1,339	790
Time Deposits	7,361	1,409	5,952	7,960	1,378	6,582	6,922	1,381	5,541
Sub Total - Deposits	19,408	3,442	15,966	19,586	3,386	16,200	17,239	3,515	13,724
Other Liabilities	602	267	335	783	234	549	623	135	487
Sub Total - Liabilities	20,010	3,709	16,302	20,368	3,620	16,748	17,862	3,650	14,212
Capital	2,091	1,356	735	2,002	614	1,388	1,924	626	1,299
Total Liabilities and Capital	22,102	5,065	17,037	22,371	4,234	18,137	19,786	4,276	15,510

Totals may not add due to rounding



Combined Banks and Deposit Companies Foreign Currency Position (Consolidated)

(BD\$ millions)	2006 - Q4	2006 - Q3	2006 - Q2	2006 - Q1	2005 - Q4	2005 - Q3
Total Foreign Currency Assets	18,831	18,141	18,617	18,269	18,570	16,109
Less: Other Assets	644	498	495	516	392	285
Less: Foreign Currency Loans to Residents	1,189	1,085	1,074	1,109	1,154	1,086
Net Foreign Currency Assets	16,998	16,558	17,048	16,644	17,024	14,739
Foreign Currency Liabilities	16,725	16,251	16,882	16,302	16,748	14,212
Add: BD\$ Deposits of Non-Residents	147	128	134	120	117	117
Net Foreign Currency Liabilities	16,872	16,379	17,016	16,421	16,865	14,328
Net Foreign Currency Position (consolidated)	126	179	32	223	159	411

Totals may not add due to rounding

maintain a high level of compliance with international standards, the Authority conducted a full review of the current policy framework surrounding the Act. The Authority concluded that virtually none of the amendments would require changes to legislation, although it is still reviewing some relatively minor amendments that may be required in that regard. However, the Authority identified a significant number of detailed amendments to the current policy framework that require implementation. The Act provides the Authority with broad discretion to develop and apply prudential standards, and these are encapsulated in a Statement of Principles provided for in the Act, together with a series of policy papers which set out the Authority's approach and requirements. During the year, the Authority undertook a full review of the Statement of Principles and the various policy

papers relating to the Act. Shortly before the end of the year it published as a basis for consultation amended drafts of the following papers: Statement of Principles, The Management and Control of Credit Risks and the Implementation of the Statutory Provisions for Large Exposures, The Measurement and Monitoring of Liquidity, The Bermuda Monetary Authority's Relationship with Auditors and Reporting Accountants of Banks and Deposit Companies, The Approach to Consolidated Supervision, Outsourcing of Services or Functions by Institutions. A new draft paper on Interest Rate Risk was also published. Copies of all the draft papers are available on the Authority's website, www.bma.bm. Following review of comments received from institutions and other interested parties, the Authority intends to finalise and implement this amended material during the first half of 2007.

b) Implementation of the new Basel II capital adequacy framework – this work has been referred to in previous Annual Reports by the Authority as an important international initiative which many supervisors are currently moving to implement. Discussions with Bermuda's banks have been on going over the past three years. This work gathered further pace in Bermuda during 2006 as the Authority proceeded to publish consultative papers on particular elements of the new framework. In particular, during the year, the Authority completed its consultations with the market on exercising the variety of options and discretions available under Pillar 1 of the new framework. Shortly after the end of the year, the Authority finalised its approaches to these Pillar 1 matters and published a relevant feedback document. Separately, the Authority consulted the market on its proposed approach to the use and recognition of external credit assessment institutions – a new option that will become available to banks in determining the risk weights applicable to particular asset classes under Pillar 1. Subsequently, a final version of the Authority's proposed approach was published shortly after the end of the year. Copies of these papers can also be found on the Authority's website www.bma.bm. Further papers in this series will appear during 2007 – in particular to deal with the proposed approach to credit risk mitigation, to securitisation and to Pillar 2 of the new Basel framework. This work remains an important priority in order to ensure that Bermuda's banks will have the option to move over to Basel II as from January 2009.

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 good progress and remains on track for final implementation in the latter part of 2007.

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 (the 1982 Act). 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. At the same time, the Authority completed its initial review of the 1982 Act and current regulatory framework for the Credit Union, with a view to finalising proposals to the Minister for a number of important amendments to the present supervisory approach and requirements. These will be the subject of on going discussion with the Ministry and the Board of the Credit Union during 2007.

TRUST

Trusts (Regulation of Trust Business) Act 2001

The following section (pages 43 to 44) comprises the report the Authority is required to make annually to the Minister of Finance on the carrying out of its functions under the Trusts (Regulation of Trust Business) Act 2001 (the Act), 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 2006. The number of full-time staff employed in the industry in Bermuda increased slightly from the 2005 level. The Authority continued to evaluate developments in the sector and any implications for compliance and trust officers 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 remained as described in last year's Report. This was the third year of implementation of the Authority's on-site compliance programme, which proceeded smoothly and successfully.



Overall, industry continues to be very cooperative and their feedback on the programme remains very positive, with many firms once again affirming the benefits from a management perspective.

Licensing

Applications for two new unlimited trust licences were received during the year, with one licence approved and one outstanding at the end of the year. No applications were received or approved for limited trust licences. There was one merger of a trust company, with one licence subsequently surrendered. Accordingly, there remained 33 unlimited licences in operation at the end of the year, unchanged from the previous year.

Legislative Change

Following consultation with the industry, the Authority proposed the introduction of changes to the method of setting annual trust licensing fees. Previously, each trust company paid an annual licence fee of \$10,000, regardless of the size and complexity of its business. After discussions with the industry, the Authority recommended the introduction of a new basis under which licence fees would fall into one of three tiers, based on the number of persons employed by the licensed company. Effectively the number of staff acts as a reasonable proxy for the scale of the regulatory task performed by the Authority; and similar arrangements have previously been applied in some other peer jurisdictions. Subsequently, the Bermuda Monetary Authority Amendment (No.2) Act 2006, was approved by Parliament and enacted towards the end of the

year. It provided for three fee tier bands, with annual supervisory fees of \$10,000 in the lowest band, \$17,500 for slightly larger entities and \$30,000 for the largest companies.

Private Trust Companies

The Authority reviewed and recommended 22 private trust companies for incorporation during 2006, a slight increase over previous years. In each case, the Authority conducted the relevant checks to be satisfied 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 number of 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 2006. In each case, the Authority was able

to give 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, routine use was made during the year of the powers in sections 36 and 37 of the Act to obtain information and reports and to obtain production of documents. Sections 38 and 39 provide powers for the Authority to gain right of entry to premises and for the appointment of inspectors. During the year, the Authority had no need to make use of its powers under either section of the Act. A matter that had been investigated as a result of having exercised the section 39 power in 2005 was satisfactorily resolved in 2006. No matters were submitted under section 29 of the Act for appeal to the relevant tribunal.

Investments

Investment Business Act 2003

The following section (pages 44 to 47) 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 (the Act), pursuant to section 8(3) of the Act.

Developments in the Investment Sector

The strengthening trend in international markets in 2006 helped the investment sector achieve growth in business, with aggregate total assets of licensed investment

Collective Investment Schemes Statistics

	2006-Q4	2006-Q3	2006-Q2	2006-Q1	2005-Q4	2005-Q3	2005-Q2
Mutual Funds	906	878	869	850	846	836	849
Umbrella Funds	67	63	62	62	62	60	67
Sub-Funds	283	279	284	293	315	328	405
Segregated Account Companies	69	67	64	61	55	49	45
Segregated Accounts	390	393	394	394	331	290	247
Total	1,715	1,680	1,673	1,660	1,609	1,563	1,613
Unit Trusts	109	108	108	107	105	101	105
Umbrella Trusts	151	151	139	122	114	71	81
Sub-Trusts	215	222	232	232	215	211	227
Total	475	481	479	461	434	383	413
Total Portfolios	2,190	2,161	2,152	2,121	2,043	1,946	2,026
Total Number of Schemes	1,302	1,267	1,242	1,202	1,182	1,117	1,147
Total Net Asset Value (In Billions)	\$211.52	\$210.95	\$207.52	\$209.07	\$187.53	\$180.01	\$178.58

Note: Data reported for the periods after Q4 2005 include schemes that have been granted exemption pursuant to Regulation 3A of the Bermuda Monetary Authority (Collective Investment Scheme Classification) Regulations 1998.



providers (excluding banks and overseas entities) amounting to about \$3.2* billion at year-end 2006, up 7% over the prior year. The aggregate capital of the licensed sector grew to approximately \$900* million at the end of 2006 compared with \$830 million at the end of the previous year. Generally speaking, there was an improvement in the capital position of the largest licensed entities in 2006 (as measured by excess capital and the equity position in relation to the total balance sheet) and earnings were flat to slightly improving for the year.

Application of the Act

The Authority continued during the year to supervise licensed firms in accordance with the framework established under the Act, including through the mix of off-site regulation (review of quarterly balance-sheet, profitability and liquidity data), prudential meetings with senior management to review key strategies and developments, and on-site review visits to assess the effectiveness of governance arrangements, the internal control environment and record-keeping, as well as compliance with the requirements of the Act, Regulations and Codes.

The Authority agreed during the year to take on the role of home supervisor for one major international investment management group headquartered in Bermuda. This decision followed extensive discussions with the group itself, with the UK Financial Services Authority and with a number of supervisors from other EU countries.

The Authority had also previously consulted the industry on its developing approach to consolidated supervision in the investment field (see later section on Forthcoming Developments).

Legislative Change

In light of the developments with regard to the introduction of consolidated supervision in appropriate cases, Parliament passed during the year the Bermuda Monetary Authority Amendment (No.2) Act 2006. This amended the Fourth Schedule to the BMA Act to provide new higher fee bands that apply where the Authority takes on a wider supervisory role for consolidated investment groups. The bands are based on the value of net assets within group companies subject to consolidated supervision.

Licensing

There were 53 licences in issue at the end of 2005. Two applications remained outstanding at that time, and were subsequently approved during 2006. Three applications were received during the year and one of these remained outstanding at the end of 2006. No existing licences were surrendered during the year. As a result, a total of 57 licences were in issue at the end of 2006.

Formal Use of Powers

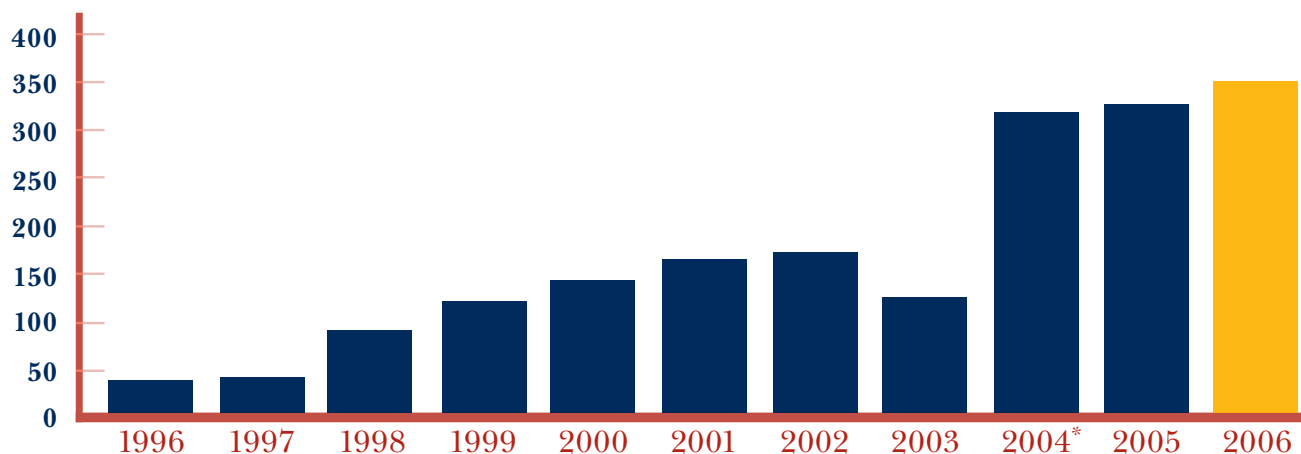
Under section 17(4) of the Act, the Authority may, on an application made by an investment provider, vary or remove any limitation imposed on the scope of a licence. There were no such applications made during the year.

Under sections 20, 21 and 23, the Authority may restrict or revoke a licence. The Authority was not required to use these powers during 2006. Similarly, it was not necessary to give directions under section 24 in the case of any licences that were surrendered.

Under section 28, persons intending to become shareholder controllers of licensed providers are required to serve notice on the Authority, which has power to object to the proposal. The Authority received notices with respect to two licensed providers during the year and, following a review of the proposals, was able to confirm its non-objection. There was no need to use the power in section 30 to object to an existing controller or the power in section 32 to restrict shares or seek an order for their sale. During the year, investment providers gave notice to the Authority of changes in controllers and officers, as required by section 43 of the Act and the Authority conducted appropriate vetting of such persons. The Authority continued to receive from investment providers on a voluntary basis the regular information and reports necessary for the conduct of its supervision. Consequently, no use was made of the formal powers in sections 45, 46 and 47 of the Act to obtain information and reports, to require the production of documents, and to gain entry to premises. Similarly, there was no need to have recourse to the powers in section 49 to investigate an investment provider.

** Numbers provided are best estimates based on data reported to the BMA by the time of publication of this report.*

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



* includes secondary listing of HSBC Holdings in 2004.

The Authority was not required to use its powers under sections 50 and 51 of the Act with respect to perimeter policing and obtaining a warrant to enter and search premises. No use was made in 2006 of the powers in Chapter 6 of the Act to publish a statement of public censure or in Chapter 7 to take protective measures.

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

Bermuda Stock Exchange

Consistent with wider international trends, the improvement in market conditions continued in 2006 promoting an increase in trading volumes on the Bermuda Stock Exchange (BSX). Domestic trading volumes increased by 34% in 2006 compared to the prior year. New listings maintained a steady pace,

with 28 new securities listed in 2006. There were 49 subsequent issues made in the securities of issuers already listed. This brought the total of securities listed on the BSX to 430, including 361 collective investment schemes. At the end of 2006, total market capitalisation (excluding mutual funds) exceeded \$350 billion, up 8% from a year earlier.

During the year, domestic equity securities with an aggregate value of over \$121 million changed hands, an increase of around 63% over 2005. International crossings* recorded lower levels of business during the year, with a total of 53 million shares being transacted representing an aggregate value of \$1.5 billion, a result of developments in other markets which diminished the interest for international transactions to be crossed on the BSX.

The Authority continued to supervise the BSX and to oversee

its activities, with particular regard to the BSX's status as a recognised investment exchange under Part IV of the Act. It 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.

Forthcoming Developments

Work continued during the year on some important enhancements to the present regulatory arrangements under the Act:

The Authority published a consultative paper in 2005 on the application of Basel-consistent capital tests for the small number of licensed firms that take material market or credit risk and for which the present fixed-point capital tests are inappropriate. During the year the Authority held a round-table discussion with representatives of

* Crossing means a transaction in which a trading member handles both sides of a trade (including transactions in which the trading member is itself either the buyer or the seller). A crossing may include international securities, which are not listed or approved for listing on the BSX.



these firms to discuss their comments on the consultation paper. The Authority expects to issue amended proposals during 2007.

As noted earlier, the application of consolidated supervision within the investment business sector is also a matter that remains under active review. Such group-wide supervision is increasingly the norm internationally and, where it is absent, firms face increasing difficulties in operating in the way they would wish in many other jurisdictions. The Authority published consultative proposals in late 2005 and has proposed, as an interim step, to agree with firms case by case where consolidated supervision is to apply. The Authority is working on further proposals for formalising the implementation of consolidated supervision to Bermuda-based investment groups, and expects to issue a further consultative paper during 2007. The Authority undertook further work during the year on certain outstanding secondary legislation under the Act, including an Order pertaining to the definition of carrying on business in Bermuda and draft Regulations under section 67 of the Act setting out specific requirements and standards for recognised investment exchanges. Final drafts of this material will be circulated to interested parties during 2007, with a view to their introduction before the end of the year.

During the year, the Authority also commenced work on a review of the present investment business codes of

conduct which, while remade under the 2003 Act, were substantively unchanged from those originally introduced under the 1998 Act. The Authority will be publishing during 2007 proposals for revisions to these codes.

Collective Investment Schemes

137 new collective investment schemes (CIS) were classified during 2006. As in the past, these were overwhelmingly targeted towards institutional/sophisticated investors. At the end of the year, there were 2,190 different investment portfolios operating within Bermuda's 1,302 classified schemes, increases of some 7.2% and 10.2% respectively from 2006 year-end levels*.

The aggregate net asset value of Bermuda's classified schemes continued to increase strongly, reaching in excess of \$211 billion at the end of 2006, almost 12.8% above the 2005 level. 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 1,043 requests for amendments to approved service providers or for material changes to scheme offering documents during the year, compared to 861 requests processed in 2005.

Following the introduction at the end of 2005 of a new exemption under Regulation 3A under Bermuda's existing CIS Regulations for certain

collective investment schemes pursuant to the Bermuda Monetary Authority (Collective Investment Scheme Classification) Amendment Regulations 2005, 94 schemes applied for, and were subsequently granted exemption during 2006. Exemption is available only to certain non-retail funds offered exclusively to sophisticated investors. Those funds must, however, be registered by the Authority and have to meet certain criteria, including appointing an auditor, appointing a recognised fund administrator and retaining a local representative in Bermuda. Such exempted funds are regarded as being out of scope for the purposes of the European Union Savings Directive (EUSD), specifically where Swiss paying agents are involved. A list of exempted funds is available on the Authority's website, www.bma.bm.

Legislative Change

Towards the end of 2006, Parliament passed the Investment Funds Act 2006 which makes amended provision for the authorisation and regulation of mutual funds and other pooled investment vehicles. The legislation also introduced a licensing requirement for persons carrying on the business of a fund administrator in or from Bermuda: companies conducting such business in Bermuda became subject to ongoing supervision by the Authority.

These developments represented the culmination of a very extensive process of consultation with the industry that has been conducted by the Authority and the Ministry of Finance over the last two years. The new provisions include a

* Numbers include schemes exempted under regulation 3A of the Bermuda Monetary Authority (Collective Investment Scheme Classification) Regulations 1998.

number of changes from the earlier Regulations, including some streamlining of the earlier provisions for funds. Generally, however, 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. The overwhelming portion of Bermuda's fund industry remains exclusively targeted at sophisticated investors. Within the Authority's risk-based system, regulation of such funds continues to place considerable weight on ensuring full disclosure of material information to investors through the prospectus or offering documentation, together with the interaction of expert professional service providers in providing on going checks and balances in the funds' daily operations. Under the new provisions, therefore, the Authority continues to review very carefully the contents of fund prospectuses and the quality and suitability of their promoters and service providers.

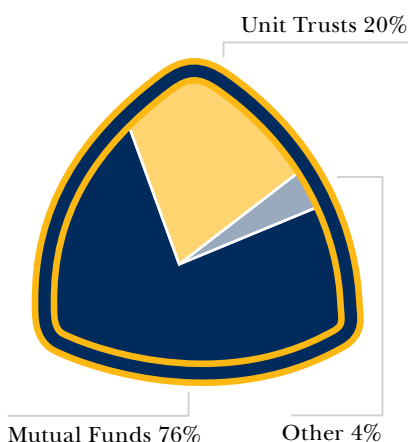
at sophisticated investors, with the latter required to appoint a Bermuda licensed fund administrator. Standard Funds are funds that are open to a wider spectrum of investors. Funds existing at the date of commencement of the new Act may apply to be reclassified without additional fee during the period of six months from commencement.

Under the transitional provisions of the new 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 predecessor Regulations was deemed exempted from authorisation under the new Act.

The Act also provides for funds which 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 have a 12 month period in which to make an application for a licence.

Investment Services Applications Reviewed 2006



The new legislation came into effect on March 7th 2007, when the 1998 Collective Investment Scheme Classification Regulations were repealed. At that time, the Authority finalised and published related guidance to the industry on the new provisions, copies of which are available on its website, www.bma.bm. The new legislation provides for three classes of fund: Standard, Institutional and Administered Funds. Institutional and Administered Funds are targeted



Insurance

The Insurance Department is responsible for the supervision, regulation licensing, and inspection of Bermuda's insurance companies and for the licensing of all insurance brokers, agents, managers and salesmen under the Insurance Act 1978 (the Act) and related provisions. The Department reports to the Supervisor of Insurance.

Developments in the Insurance Sector

Bermuda's insurance sector continued to record further growth for the reporting period. Aggregate total assets at the end of 2005 were \$329.9 billion compared to \$290.1 billion in 2004, an increase of 13.7%.

Bermuda has remained the leading jurisdiction for captive registrations, which continue to represent a

significant proportion of the licensed insurance entities in Bermuda, writing \$19.4 billion in gross premiums in 2005, an increase of 16.7% over the previous year. Also consistent with overall market trends in recent years, Bermuda's commercial (re)insurance market indicators showed growth of \$2.66 billion in gross premiums written, and commercial insurers and (re)insurers accounted for 81% of the total gross premium results for 2005.

In fact Bermuda maintained its position as a preferred domicile for the industry as a whole, recording a three-year high for (re)insurance company incorporations during 2006. A total of 82 new (re)insurers were established in Bermuda during the year which represented an increase of approximately 9% in the number of new (re)insurance companies incorporated in the jurisdiction over 2005.

The majority of these new companies were large, highly capitalised reinsurers. Captive insurance companies also formed a significant proportion of the new incorporations. This significant increase in the number of new (re)insurance companies was a clear indication of the continued confidence the market has in Bermuda as a leading global insurance and reinsurance centre, as well as its practical, effective regulatory framework.

From a licensing perspective, it was a very busy year and the continued interest and increase overall in captive formations as well as commercial reinsurance companies added to the strength of the Bermuda market. Specifically in terms of the captives sector, there was continued interest during the year surrounding Bermuda's servicing of the healthcare industry, as well as renewed interest in employee benefit programme solutions.

On the commercial side, the most significant trend of the year related to the formation of a number of sidecars, which entered the market to take advantage of capacity gaps in the property and catastrophe arena.

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



Approach to Insurance Supervision

During 2006 the Authority conducted initiatives that resulted in further development of its supervisory framework, as part of its continuing review and enhancement of insurance regulation in Bermuda. The Authority's objective with 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 Insurance Amendment Act 2006 introduced provisions that facilitated further enhancement of fitness and propriety standards for individuals managing (re)insurance companies, in line with international standards. The Act also provided for the Authority to issue codes of conduct for (re)insurance entities, which will be developed during 2007. These codes will be based on previously established guidance that is currently in effect for the industry. Therefore, the new codes will include requirements that are already familiar to the market. The Authority will be publishing the first codes during the first half of 2007, after completing a period of consultation with industry.

Further enhancements of the framework during 2006 supported the Authority's goal to continue building on the effectiveness of Bermuda's regulation of the insurance industry. The Authority's on-site supervisory programme for Class 4 companies was expanded in 2006. This will continue to be a key tool in the Authority's assessment of

(re)insurers' regulatory compliance, and will be extended to include other classes of commercial (re)insurers going forward. In addition, work during the year on a new risk-based capital adequacy model for Class 4 companies progressed steadily and was nearing its final stages moving into 2007. The new Risk-Based Capital (RBC) Model, which has evolved from Bermuda's existing capital adequacy framework for Class 4 companies, has been developed in consultation with industry. The model will apply capital charges to individual classes of business (premium and claims liability) based on the characteristics of premium and claims liabilities for that class of business, rather than to the (re) insurers' overall premium and claim liability balance. There will also be a specific capital charge for business that is exposed to natural catastrophes, and capital charges for other asset and liability classes. The Authority is taking the proactive step of developing this enhanced capital adequacy assessment tool to ensure that Bermuda's approach in this regard is consistent with international standards, including initiatives such as the proposed International Association of Insurance Supervisors (IAIS) solvency regulation capital standard currently under development. The Authority remains committed to ensuring that the RBC Model is in place and effective for Class 4 (re) insurers in time for the December 2007 year-end statutory filings.

The new departmental structure put in place the previous year — which established two larger, dedicated



Market Statistics by Company Type for the Year ended 31st December, 2005

Company Type	No. of Co's	Gross Premiums	Net Premiums	Total Assets	Cap. and Surplus
Captives					
Association Captive	116	5,094,078,217	4,646,534,983	16,767,152,643	4,662,297,267
Captive Writing 3rd party	172	5,096,295,255	3,784,024,228	22,608,846,402	10,496,859,053
Group Captive	122	1,440,632,405	1,160,157,078	3,896,488,886	1,332,061,452
Health Care Captive	60	642,094,678	575,679,954	2,663,612,960	701,425,240
Rent-A-Captive	64	2,058,524,471	812,106,464	1,952,099,430	361,295,322
Single-Parent Captive	335	5,098,465,489	4,091,542,771	17,123,148,175	8,251,263,790
Sub-Totals:	869	19,430,090,515	15,070,045,478	65,011,348,496	25,805,202,124
Professional Ins./Reinsurers					
Affiliated Reinsurer	65	4,095,222,451	3,035,313,613	12,347,078,366	3,808,591,096
Class 4 Ins./Reinsurer	38	30,799,130,892	27,557,760,964	116,800,797,923	40,907,760,475
Professional Ins./Reinsurer	340	46,357,605,536	40,612,011,911	135,662,998,811	39,512,757,874
Sub-Totals:	443	81,251,958,879	71,205,086,488	264,810,875,100	84,229,109,445
Totals:	1,312	100,682,049,394	86,275,131,966	329,822,223,596	110,034,311,569

teams for licensing and authorisation responsibilities, and prudential reviews and compliance matters — supported the efficient operation of the Insurance Department's functions during 2006. 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. The Insurance department has reviewed current processes and is exploring technology and upgrades to the current IT framework that supports the department. These upgrades of the current system and implementation of new technologies are being undertaken with a view to enhancing the reporting capabilities of the market and response times for regulatory requests where applicable.

Licensing

During 2006, the Authority received a total of 106 new insurer applications for incorporation. The Authority approved 94 of these applications, refused a total of 4 applications, and 8 applications were still under review. The breakdown of applications were as follows: 82 for insurers ranging from Class 1 to Class 4 including Long-Term insurers, two for insurance agents, four insurance brokers and seven insurance managers.

As required by the Act, the Authority maintains a register giving details of each licensed insurer. This register can be made available for inspection by members of the public at the Authority's offices.

Application of the Act

a) Timeliness of Reporting

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

b) Solvency Margin Maintenance

Bermuda's existing strict minimum solvency margin requirements continue to support the overall stability of the insurance sector. These requirements, which are determined according to the nature and risk of the business being conducted by an insurer, complement the other factors supporting the integrity of the Bermuda market: rigorous review of new incorporations and early intervention by the authorities in the event of potential solvency issues.

Whilst the Authority is pleased to note that the incidence of insolvency in the Bermuda market remains very low, as referenced previously Bermuda is taking proactive steps to ensure that its capital adequacy framework for insurers remains highly effective. The development of the RBC Model, mentioned above, is an example of the Authority's commitment in this regard.

On going Supervision

As part of its routine supervisory activities, the Authority conducted regular prudential meetings with the management of (re)insurance companies throughout 2006. Such

meetings, in addition to assessments undertaken in the enhanced on-site programme and on going off-site analysis of financial data, ensured that the Authority effectively maintained its detailed monitoring of industry developments and identified any specific corporate issues.

During 2006, there was only one instance where the use of statutory powers to intervene formally under the Act were employed. There were very few incidents of unauthorised entities claiming to conduct regulated business in Bermuda during 2006.

International Developments

Overall, the rethinking being applied to assessing or evaluating risk, particularly property risk, and the growing focus in terms of regulation on capital adequacy and risk management of insurers, continued during 2006. As the financial stability of several insurers in some major markets has been significantly affected over the past few years by deteriorating underwriting results and substantial catastrophe claims, the leading (re) insurance regulators are in various stages of redesigning their insurer capital requirements. Other on going initiatives that remained under close review by the Authority during the year to assess potential implications for the Bermuda market included the development of international financial reporting standards by the International Accounting Standards Board (IASB). The work towards converging these new standards with those set by the Financial Accounting Standards Board (FASB) in the US progressed further, with the establishment of a Memorandum of



Market Statistics by Domicile of Beneficial Owner/s for the Year ended 31st December, 2005

Company Type	No. of Co's	Gross Premiums	Net Premiums	Total Assets	Cap. and Surplus
Captives					
Africa/Middle East	5	27,444,672	21,002,050	108,192,616	26,729,865
Asia	25	215,971,468	165,344,814	656,147,177	429,681,914
Australia/New Zealand	6	46,824,788	38,080,946	73,026,946	15,607,920
Bermuda	57	917,642,727	792,106,119	1,919,939,028	671,829,982
Caribbean/Latin America	28	210,121,210	158,330,733	440,039,100	219,500,112
Europe	126	3,179,943,541	2,259,204,464	11,620,975,807	6,002,038,337
North America	622	14,832,142,109	11,635,976,352	50,193,027,822	18,439,813,994
Sub-Totals:	869	19,430,090,515	15,070,045,478	65,011,348,496	25,805,202,124
Professional Ins./Reinsurers					
Africa/Middle East	7	943,077,905	880,952,128	1,609,283,847	79,659,770
Asia	16	263,093,758	245,071,173	1,580,270,024	847,848,664
Australia/New Zealand	3	268,305,394	226,198,077	722,475,384	245,085,629
Bermuda	85	27,830,982,922	24,344,121,806	109,620,815,428	38,457,808,675
Caribbean/Latin America	17	465,319,614	446,196,202	9,832,160,347	3,096,007,851
Europe	71	4,207,375,201	2,795,179,843	27,801,654,782	7,226,872,033
North America	244	47,273,804,085	42,267,367,259	113,644,215,288	34,275,826,823
Sub-Totals:	443	81,251,958,879	71,205,086,488	264,810,875,100	84,229,109,445
Totals:	1,312	100,682,049,394	86,275,131,966	329,822,223,596	110,034,311,569

Understanding between the IASB and FASB that reaffirms the shared stated objective of both organizations to develop high quality, common accounting standards for use in the world's capital markets. The Authority continued to place its own regulatory developments during the year within the context of all these important trends and initiatives.

In common with other regulators, the Authority also monitored and took into account during the year

initiatives such as the G30 Report on reinsurance regulation and the NAIC proposals regarding reform of collateralisation requirements for foreign reinsurers wishing to conduct business in the US. The Authority actively monitored the discussions on the collateralisation matter conducted by the NAIC Reinsurance Task Force. Also, the Authority took the opportunity to ensure that regulatory bodies such as the NAIC had a greater understanding about the Bermuda

framework by conducting a series of presentations at various NAIC meetings during the year, to provide information about the development of insurance regulation in the jurisdiction. Such awareness-raising discussions about the Bermuda framework also formed part of the Authority's continued interaction with the IAIS over the past year, in addition to being appointed to the IAIS Technical Committee, adding to its participation in the IAIS Reinsurance Committee, Reinsurance Transparency Group, Reinsurance Mutual Recognition Working Group and Captives Supervision Working Group. In a move to develop a cohesive approach with the Financial Services Authority (FSA) to address the consolidated

supervision of complex Bermuda insurance groups with a UK branch or subsidiary, the Authority met with FSA representatives to discuss various supervisory methodologies that encompass multi-jurisdictional platforms and issues.

By remaining actively engaged in on going regulatory developments internationally in this way, the Authority has ensured that regime enhancements during 2006 for Bermuda licensed entities reflect and are consistent with international standards. The Authority's risk-based approach has remained practical and balanced within the dynamic, challenging landscape that is the global insurance industry.

Market Statistics by Class of Insurer for the Year ended 31st December, 2005

Class of Insurer	No. of Co's	Gross Premiums	Net Premiums	Total Assets	Cap. and Surplus
Class 1	344	4,703,200,615	3,703,634,927	16,149,042,783	8,026,096,346
Class 2	379	8,658,458,042	7,237,284,194	35,398,633,778	13,390,388,835
Class 3	474	33,767,513,559	25,022,705,595	117,165,413,841	38,344,281,714
Class 4	38	30,799,130,892	27,557,760,964	116,800,797,923	40,907,760,475
Long-Term	77	22,753,746,286	22,753,746,286	44,308,335,271	9,365,784,199
Totals:	1,312	100,682,049,394	86,275,131,966	329,822,223,596	110,034,311,569

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
 - (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
 - iv) Finite reinsurers and rent-a-captives.
- d) Class 4 - Insurers and reinsurers capitalised at a minimum of \$100 million underwriting excess liability and/or property catastrophe reinsurance risk.
- e) Long-Term Insurers - Insurers writing long-term (or life) business.



Class of Insurer Incorporated

Class of Insurer	2006	%	2005	%
Class 1	13	16	12	16
Class 2	4	5	10	13
Class 3	50	61	31	42
Class 3 & Long-Term	3	4	1	1
Class 4	3	4	11	15
Class 4 & Long-Term			0	0
Long Term	9	11	10	13
Grand Totals:	82	100	75	100

Analysis of all International Insurers Registered

Class of Insurer	2006	%	2005	%
Class 1	356	24	363	26
Class 2	397	27	403	28
Class 3	474	32	441	31
Class 4	31	2	30	2
Long-Term	99	7	84	6
Dual Licenses	103	7	100	7
Grand Totals:	1460	100	1421	100

International Supervisory Cooperation

The Authority remains firmly committed to meeting international standards with regard to regulatory cooperation with foreign regulators and, as necessary, liaises with overseas agencies in relation to the supervision of individual licensed institutions. Generally the Authority does not require a Memorandum of Understanding (MOU) with a foreign regulator to be in place, making use of the information exchange gateway provisions that exist in Bermuda's regulatory legislation. Nevertheless, the Authority has signed a number of bilateral MOUs, including one with the UK Financial Services Authority (FSA). In addition, following a detailed evaluation of legal powers and related provision in Bermuda, the International Organisation of Securities Commissions (IOSCO) confirmed early in 2007 that Bermuda's application, submitted some two years ago, to sign the new IOSCO multilateral MOU had been approved.

The Authority continued its involvement with a wide range of international regulatory groups and participated during the year in various meetings including those of the Offshore Group of Banking Supervisors (OGBS), IOSCO, the International Association of Insurance Supervisors (IAIS) and the Council of Securities Regulators of the Americas (COSRA). The Authority also attended meetings of the Caribbean Group of Banking Supervisors and the Caribbean Securities Regulators. This activity enabled the Authority to remain very much involved in global discussions of issues regarding banking supervisory policy and practice. During the year the OGBS, which continues to represent actively the interests of quality offshore financial centres, was particularly focused on the matter of risk-based due diligence practices, and helped to clarify the acceptable parameters of such approaches. The Authority actively participated in the OGBS deliberations on this issue. It also held initial discussions with Bermuda's licensed institutions about the possible application of risk-based know Your Customer techniques in Bermuda.

As regards insurance regulation, the Authority's appointment to the IAIS Technical Committee during 2006, which is the central standard setting committee of that organisation, adds to its existing active membership in the IAIS Reinsurance Committee, Reinsurance Transparency Group, Reinsurance Mutual Recognition Working Group, and recent



appointment to the Corporate Governance Task Force and Solvency and Actuarial Sub-committee. In addition, the Authority remained part of the working group originally set up by the IAIS to examine issues related to the regulation of captive insurance companies. The IAIS formally adopted the Captive Issues paper produced from that exercise at its Annual General Meeting last October in Beijing. The IAIS subsequently established a new working group to develop proposed guidance for the supervision of captive insurance companies. The Authority is a member of that group, and remains very actively involved in these developments.

The Authority also maintained a constructive and on going dialogue regarding insurance regulation with a variety of other regulatory bodies overseas during 2006, such as the FSA and the National Association of Insurance Commissioners (NAIC) in the US. Such dialogue became increasingly relevant given the continued development of international issues and proposals potentially impacting cross border insurance transactions and corresponding regulation of the insurance industry.

Overall, the Authority continues to step up the resources devoted to international cooperation across all sectors in order to ensure that it is able to play its full part in helping to shape international standards and maintain its tradition of mutual assistance with its regulatory counterparts overseas.

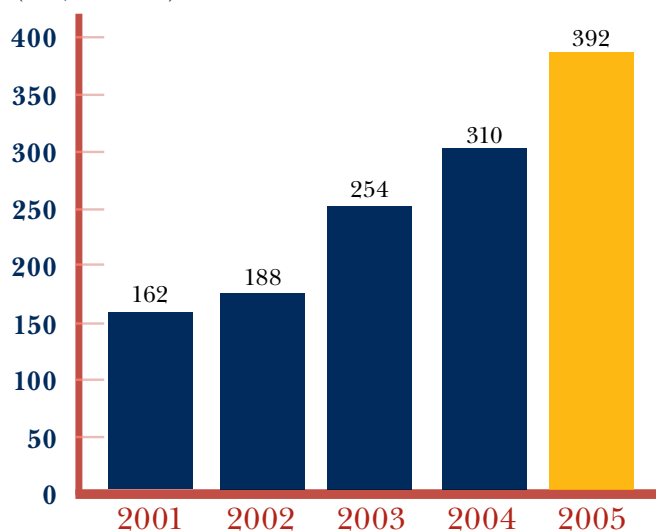
International Statistical Updates

During 2006 the Authority continued its commitment to taking part in the International Monetary Fund's (IMF) annual Coordinated Portfolio Investment Survey (CPIS) and the Bank for International Settlements' (BIS) quarterly Locational Banking Statistics. While the former survey measures investment in equities and debt securities by participating jurisdictions, the latter looks at cross-border claims and liabilities by licensed banks.

With respect to the CPIS study, data for 2005 showed that total cross-border investments held by Bermuda entities totalled \$392.1 billion, up 27% from the figure of \$309.6 billion for the previous year. Investments include equities, and long- and short-term debt. Full results of the survey are posted on the IMF website. Data for the period 2001 to 2005 is reported in the chart below.

As in the previous years, the Authority was represented at the annual IMF CPIS workshop for Small Economies with International Financial Centres ('SEIFiCs'), held in the Isle of Man in April.

CPIS: Bermuda Cross-Border Investments for 2001-2005
(US\$ Billions)



The workshop proved extremely useful in creating a platform for participants to exchange views and experiences, and also to discuss the various methodologies used by jurisdictions with respect to data collection and collation.

The Authority continued to collate and produce quarterly reports on Locational Banking Statistics for submission to the Bank for International Settlements (BIS). Data for 2006 showed that at the end of the year Bermuda's banks had aggregate cross-border claims of US \$12.0 billion (US\$13.5 billion in 2005) and total cross-border liabilities of US \$12.3 billion (US \$12.2 billion in 2005).

Bermuda has been a participant in the CPIS since 1997, the year in which the first such study took place, and has contributed to the BIS Locational Statistics since 2002. In addition to the international uses of the information provided, BIS data are a tool available to the Authority to monitor the debt securities portion of Bermuda banks' CPIS returns.

30 April, 2007



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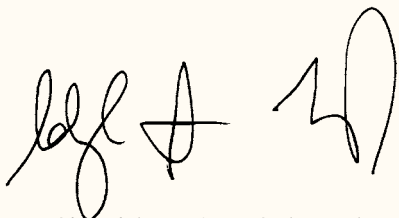
Dear Minister:

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 2006 together with the annual statement of accounts certified by the Auditor.

This document also contains the reports for the year 2006 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,



Cheryl-Ann Lister CFA, MBA
Chief Executive Officer

30 April, 2007



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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.

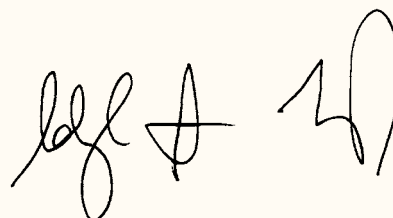
In support of its responsibility, management maintains financial and management control systems and practices to provide reasonable assurance that the financial information is reliable, that the assets are safeguarded, and that the operations are carried out effectively.

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



Cheryl-Ann Lister, CFA, MBA
Chief Executive Officer



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AUDITOR'S REPORT

To the Board of Directors

I have audited the balance sheet of the Bermuda Monetary Authority as at December 31, 2006 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

Hamilton, Bermuda
March 2nd, 2007

Larry T. Dennis, CA
Auditor General



BERMUDA MONETARY AUTHORITY

Balance Sheet as at December 31, 2006

(In thousands of dollars)	2006	2005
ASSETS		
Investment Income Earning Assets		
Cash and cash equivalents	51,354	30,509
Term deposits (Note 4)	15,000	24,956
Investments (Note 5)	64,690	65,400
	131,044	120,865
Other Assets		
Accounts receivable and accrued interest	1,850	1,621
Stock of notes and coins for circulation	1,172	1,236
Stock of numismatic items	558	569
Prepaid expenses	143	125
Capital assets (Note 6)	30,506	28,553
	34,229	32,104
	165,273	152,969
LIABILITIES, CAPITAL AND RESERVE		
Liabilities		
Notes and coins in circulation	121,045	113,698
Accounts payable and accrued liabilities	2,939	1,425
Due to the Consolidated Fund of the Government of Bermuda (Note 7)	2,582	1,722
	126,566	116,845
Capital and Reserve		
Capital		
Authorised: \$30,000,000		
Subscribed and fully paid (Note 8)	20,000	10,600
General Reserve (Note 9)	18,707	25,524
	38,707	36,124
	165,273	152,969

R. Alan F. Richardson, CA, JP
Chairman

Cheryl-Ann Lister, CFA, MBA
Chief Executive Officer



BERMUDA MONETARY AUTHORITY

STATEMENT OF EARNINGS FOR THE YEAR ENDED DECEMBER 31, 2006

(In thousands of dollars)	2006	2005
REVENUES		
Supervisory & licensing fees (Note 10)	13,635	13,407
Investment income (Note 11)	5,397	4,310
Rental Income	2,412	2,536
Incorporation fees, vault commission and other income	800	3,237
Net sales of special coins	239	106
	22,483	23,596
EXPENSES		
Salaries and employee benefits	10,509	8,824
General expenses (Note 12)	3,873	3,381
Professional fees	1,330	627
Amortisation of capital assets	1,271	1,275
Circulation note and coin expenses	335	300
	17,318	14,407
NET EARNINGS FOR THE YEAR	5,165	9,189

BERMUDA MONETARY AUTHORITY

STATEMENT OF GENERAL RESERVE FOR THE YEAR ENDED DECEMBER 31, 2006

(In thousands of dollars)	2006	2005
BALANCE, BEGINNING OF YEAR	25,524	18,057
Net earnings for the year	5,165	9,189
Transfer to capital (Note 9)	(9,400)	-
Distribution payable to the Consolidated Fund (Note 7)	(2,582)	(1,722)
BALANCE, END OF YEAR	18,707	25,524

BERMUDA MONETARY AUTHORITY

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2006

(In thousands of dollars)	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings for the year	5,165	9,189
Adjustments to convert earnings to a cash basis:		
Amortisation of capital assets	1,271	1,275
Amortisation of discounts on investments	(18)	(18)
Gain on disposal of capital assets	–	(2,484)
Loss on sale of investments	–	227
	6,418	8,189
Changes in non-cash working capital:		
Accounts receivable and accrued interest	(229)	(138)
Stock of notes and coins for circulation	64	(202)
Stock of numismatic items	11	(167)
Prepaid expenses	(18)	127
Notes and coins in circulation	7,347	13,771
Accounts payable and accrued liabilities	1,514	197
	15,107	21,777
FUNDS PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets	(3,224)	(152)
Purchase of investments and term deposits	(15,164)	(33,892)
Proceeds from sale of capital assets	–	5,745
Proceeds from sale and maturity of investments	25,847	18,406
	7,459	(9,893)
FUNDS PROVIDED BY (USED IN) INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Distribution to the Consolidated Fund of the Government of Bermuda	(1,721)	(1,594)
Proceeds on Issuance of capital	9,400	–
Distribution from General Reserve to capital	(9,400)	–
	(1,721)	(1,594)
FUNDS USED IN FINANCING ACTIVITIES		
INCREASE IN CASH AND CASH EQUIVALENTS	20,845	10,290
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	30,509	20,219
CASH AND CASH EQUIVALENTS, END OF YEAR	51,354	30,509

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, 2006

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. 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 \$329,675 (2005 – \$272,186).

The Public Service Superannuation Fund administered by the Government of Bermuda covers the remainder of the Authority's employees. Contributions of 6% (2005 – 5%) 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 \$56,115 (2005 – \$ 45,324).

(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 2006 is \$175,416 (2005 – \$125,184) 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, pre-retirement leave benefits of \$27,542 (2005 – \$15,605) were paid. The liability as at December 31, 2006 is \$194,146 (2005 – \$174,351) 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)	2006			2005
	Less Than 1 Year	1 to 5 Years	Total	Total
Bermuda Dollar Term Deposits	10,000	5,000	15,000	24,956
Average effective yield	3.25%	5.25%	3.92%	4.10%

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 \$63.2 million (2005 - \$64.9 million).

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

(In thousands of dollars)	2006		2005	
	1 to 5 Years	> 5 Years	Total	Total
US Government Agencies	33,423	26,249	59,672	60,379
Supranational bank	–	5,018	5,018	5,021
Total Investments	33,423	31,267	64,690	65,400
Weighted average effective yield	4.62%	4.66%	4.64%	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 83.9 % (2005 – 74.5%) of its income earning assets are in US Government and US Government Agency securities.

6. CAPITAL ASSETS

(In thousands of dollars)	2006		2005	
	Cost	Accumulated Amortisation	Net Book Value	Net Book Value
Land	4,000	-	4,000	4,000
Building	25,584	1,903	23,681	23,855
Furniture & fixtures	3,194	1,444	1,750	371
Computer equipment & software	2,018	943	1,075	327
	34,796	4,290	30,506	28,553

The following capital asset deposits included in capital assets are not yet being amortised:

Building	\$574,000
Computer equipment	\$238,000
Furniture & fixtures	\$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 \$2,582,000 (2005 – \$1,722,000) will be payable to the Consolidated Fund of the Government of Bermuda. This amount is non-interest bearing and payable by May 31, 2007.

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. During 2006 \$9,400,000 was transferred from the General Reserve to capital with the approval of the Minister of Finance.

9. GENERAL RESERVE

A general reserve of \$18,707,000 (2005 – \$25,524,000) has been established in accordance with Section 8 of the Bermuda Monetary Authority Act 1969.

The Minister of Finance granted approval for \$2,582,000 (2005 – \$7,467,000) of net earnings to be transferred to the general reserve account.

The Minister of Finance granted approval for \$9,400,000 to be transferred from the General Reserve to capital.

10. SUPERVISORY & LICENSING FEES

(In thousands of dollars)	2006	2005
Insurance fees	9,013	8,869
Bank and deposit company fees	4,078	4,036
Trust company fees	340	335
Investment business licence fees	204	167
	13,635	13,407

11. INVESTMENT INCOME

(In thousands of dollars)	2006	2005
Interest on investments	3,006	2,677
Interest on cash and cash equivalents	1,433	646
Interest on term deposits	1,014	1,295
Foreign exchange loss	(56)	(81)
Loss on sale of investments	-	(227)
	5,397	4,310

12. GENERAL EXPENSES

(In thousands of dollars)	2006	2005
Premises and general office expenses	2,952	2,516
Conferences, seminars, education and training	519	461
Communication and computer expenses	402	404
	3,873	3,381

13. LEASE COMMITMENTS

The Authority entered into operating leases for office premises that expired on February 28, 2007. The minimum annual lease payments pursuant to these leases were \$116,871 in 2007. In addition, the leases provided for payment by the Authority of its share of general occupancy costs of \$15,025 in 2007.

In 2004, the Authority purchased a building that was occupied by the existing 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 December 31, 2007. The minimum annual lease receipts and maintenance fees pursuant to these leases are as follows:

(In thousands of dollars)	2007
Lease receipts	373
Maintenance fees	53
	426

14. COMPARATIVE FIGURES

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



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