

BERMUDA MONETARY AUTHORITY

Report and Accounts 2001



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The principal objects of the Authority are set out in section 3 of the Bermuda Monetary Authority Act 1969.

These include:

acting as issuing authority for the 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 the Government;

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.



COVER IMAGE

While its structure has evolved between 1936 (top) and 2002 (bottom), Somerset Bridge remains a distinctive feature on the Island. With its opening only one plank wide, the tiny span has acquired the nickname "Smallest Drawbridge in the World."

Bridging the gap between the old and the new

Since the establishment of the Bermuda Monetary Authority in 1969, its role has changed significantly. From its early days as a body concerned mainly with administering exchange control and issuing and safeguarding the integrity of Bermuda's currency, it has evolved in the ensuing years into an entity with the key function of acting as the principal licensing and regulatory authority for Bermuda's dynamic financial services sector.

For more than three decades it has remained a stable, unifying organisation through a period of unprecedented external change. It has had to deal with a wide range of factors, including technological advances, significant shifts in Bermuda's financial sector and international markets, changes to the make-up of its corporate environment, and extensive development of regulatory standards.

The bridges featured in this year's Annual Report underline the Authority's role as a robust and vital organisation that today is even more relevant than ever to the Island's financial well-being. As the structure and importance of Bermuda's bridges has evolved over time, so too has the Bermuda Monetary Authority. Effectively bridging the gap between the old and the new, the Bermuda Monetary Authority will continue to adapt and evolve proactively to meet the developing needs of the country in the 21st century.





BERMUDA MONETARY AUTHORITY

BURNABY HOUSE
26 BURNABY STREET
HAMILTON HM11
BERMUDA

Cheryl-Ann Lister, CFA, MBA
CHAIRMAN & CEO

30 April, 2002
The Hon. C. Eugene Cox, JP, MP
Minister of Finance
Ministry of Finance
Hamilton

Dear Minister,

In accordance with section 28(1) of the Bermuda Monetary Authority Act 1969 I have the honour to submit to you a report of the operations of the Authority for the year 2001 together with the annual statement of accounts certified by the Auditor.

This document also contains the reports for the year 2001 which the Authority is required to make to you pursuant to:

- section 8(3) of the Banks & Deposit Companies Act 1999; and
- section 28(2) of the Investment Business Act 1998.

Yours sincerely,





The unprecedented pace of change with which the Bermuda Monetary Authority has had to cope in recent years increased further in 2001. It is a measure of the Authority's success in responding to this changing environment that Government decided during the year to transfer regulatory responsibility for Bermuda's insurance industry to the Authority from the Ministry of Finance. The effect has been to establish the Authority as the independent regulatory body for the financial services sector with effect from 1 January 2002.

Preparations for this move, together with a number of related changes in the Authority's operational structure and senior governance, inevitably absorbed a considerable amount of management time during the latter part of 2001. That so major a project could be carried through efficiently and to a very tight timetable provides a practical illustration of the level of commitment of the Authority's highly professional staff.

Moreover, as this report makes clear, these major changes were planned and implemented alongside a particularly heavy pre-existing workload. The process of updating Bermuda's suite of financial regulatory legislation is a key priority for the country, and the Authority continued to devote considerable resources to this project in support of the Ministry of Finance. Again, good progress is being made. In particular, the year saw the enactment of a major new piece of legislation governing trust service providers.

At the same time, it is no less important for the Authority to ensure effective implementation of regulatory regimes that fully meet relevant international standards. The present report explains a number of important developments in that regard during 2001, notably as the Authority moved to put in place the on-site elements of its prudential supervision of the investment industry.

Consequently, this has been a year of very considerable pressure on management and staff. On behalf of the Board, I take this opportunity to express our very great appreciation of the enormous loyalty and dedication that has permitted the Authority to rise to the challenges confronting us.

We would especially like to express our appreciation for the service rendered by two of the Directors who retired from the Board at the end of the year. Mr. Gregory Haycock made an invaluable contribution over more than five years, while Mr. Myron Simmons has played an important role for the past two years. Finally, I would like to record my personal gratitude to all of the Board for their unstinting commitment and support.



Cheryl-Ann Lister, CFA, MBA
CHAIRMAN & CEO



BOARD OF

Directors

(From left to right)

Anthony D. Whaley, BA (Hons) (Law), BCL (Oxon)
PARTNER, CONYERS, DILL & PEARMAN

Jeremy Cox, BSc, CPA
SUPERVISOR OF INSURANCE

Darren Q. Johnston, CA
PARTNER, PRICEWATERHOUSECOOPERS

Cheryl-Ann Lister, CFA, MBA
CHAIRMAN & CHIEF EXECUTIVE OFFICER

D. Munro Sutherland, MA, DipFS
SUPERINTENDENT OF BANKING, TRUST &
INVESTMENT

Robert D. Steinhoff, FCA
DEPUTY CHAIRMAN
SENIOR PARTNER, KPMG

A. Shaun Morris, MA (Econ), LLB
PARTNER, APPLEBY, SPURLING & KEMPE

Bala Nadarajah, MCL
SENIOR CORPORATE ATTORNEY,
MILLIGAN-WHYTE & SMITH

Audette Exel, BA, LLB (Hons)
MANAGING DIRECTOR, ISIS LIMITED

Mark W.R. Smith, CA
PARTNER, DELOITTE & TOUCHE

Charles G.R. Collis, BA (Hons), LLB
PARTNER, CONYERS, DILL & PEARMAN

EXECUTIVE

Team



FORT HAMILTON

(From left to right)

Colin L. Furr, FCIB
CHIEF ADMINISTRATION OFFICER

Jeremy Cox, BSc, CPA
SUPERVISOR OF INSURANCE

Cheryl-Ann Mapp, LLB
SENIOR LEGAL COUNSEL

Marcia Woolridge-Allwood, BBA
DEPUTY DIRECTOR OF BANKING, TRUST &
INVESTMENT

D. Munro Sutherland, MA, DipFS
SUPERINTENDENT OF BANKING, TRUST &
INVESTMENT

Cheryl-Ann Lister, CFA, MBA
CHAIRMAN & CHIEF EXECUTIVE OFFICER



Many of Bermuda's bridges were originally designed for defensive purposes, to safeguard and protect our Island.



2001 was a year of major internal change for the Authority. Its increasing regulatory responsibilities necessitated changes in structure and in senior corporate governance arrangements to reflect the growing workload and to maintain effective management oversight and control of its operations. This need was reinforced by the decision of Government during the second half of the year that Bermuda's insurance regulatory function should be integrated with the Authority. The Supervisor of Insurance, together with his regulatory staff from within the Registrar of Companies Department, subsequently transferred to the Authority with effect from 1 January 2002, making the Authority the independent regulatory body for financial services in Bermuda.

Detailed preparation and planning for these developments represented a substantial project for the Authority during the latter part of 2001. Amendments to the Insurance Act 1978 and to the Bermuda Monetary Authority Act 1969 were introduced into Parliament in November 2001, approved in December and commenced on 1 January 2002.

The Bermuda Monetary Authority (No. 2) Act 2001 provides for various important changes in the governance of the Authority. Key elements include:

- an increase in the size of the Authority's Board from seven to 11 members, including three executive positions;
- a full-time Chairman/Chief Executive Officer role;
- two new Executive Director posts – the Supervisor of Insurance and the Superintendent of Banking, Trust & Investment; and
- the appointment of a Deputy Chairman, responsible for chairing a Board sub-committee comprising the non-executive directors, charged with certain monitoring functions including audit, as well as with determining executive remuneration.

As part of its preparation for these changes, the Authority undertook towards the end of 2001 a major internal review and restructuring of its operations. Its various regulatory functions have now been allocated to two line divisions reporting respectively to the Supervisor of Insurance and to the Superintendent of Banking, Trust & Investment. Within that structure, the Banking, Trust & Investment Division comprises two Departments – Banking & Trust, and Investment. These line divisions are supported by: the Legal, Authorisation & Compliance Division, which reports to the Senior Legal Counsel; and the Authority's financial control, information technology, and human resources teams which, together with the currency operations unit, report to the Chief Administration Officer. The Authority's new organisation chart is illustrated on page 13.



PALM GROVE

In conjunction with these changes, the Authority also developed plans for a new staff rank structure, together with certain alterations to existing salary and benefit arrangements. These have historically been based on the Civil Service model. However, as part of the Authority's transition to become a regulatory body with the degree of independence from Government that is now seen as necessary to meet fully the relevant international standards, it was important for the Authority to develop its own self-standing rank and salary arrangements. Government approved these various changes during December 2001. Implementation is being phased in, and will be completed by January 2003.

Since most of the above changes did not come into effect until the beginning of 2002, the following report on operations during 2001 is drawn up on the basis of the pre-existing divisional structure.



INSURANCE

Division

As from 1 January 2002, Insurance has functioned as one of the Authority's regulatory divisions, following the transfer to the Authority of the Supervisor of Insurance and his regulatory staff.

The Supervisor and his team have overall responsibility for the licensing, supervision and regulation of Bermuda's very large and dynamic insurance sector, comprising around 1,600 licensed insurance companies, split among Class 1, 2, 3 and 4, composite and long-term insurers, together with some 300 insurance managers, brokers and agents. The industry is regulated through the Insurance Act 1978 and related regulations, which are reviewed and updated regularly to ensure that there is a robust and effective regime suitable for the Bermuda marketplace.

The Division, reporting to the Supervisor of Insurance, comprises an Assistant Director and a Head of Division together with a team of senior analysts, analysts and support staff. In carrying out its functions, the Supervisor and the Division work closely with the Insurance Advisory Committee, a statutory body designed to ensure good continuing liaison between the industry and its regulators. In the past, the insurance regulatory teams have been primarily responsible for undertaking the off-site elements of supervision, including review of the statutory financial statements, with the necessary on-site aspects being provided routinely through certification and reports from auditors and reporting accountants. However, following decisions taken during 2001, the Division is currently developing its own on-site capability and is drawing up suitable programmes for this work, which will commence during 2002.

As at end-December 2000, the insurance market in Bermuda had aggregate capital and surplus of \$59.2 billion and total assets of some \$146 billion. It also wrote gross premiums of some \$38.1 billion, representing net premiums of \$32 billion. 2001 saw a sustained high level of interest in the Bermuda market, reflecting the continued growth of the professional insurance and reinsurance sector internationally. During the year, a total of 109 new insurance companies were added to the Bermuda register, a net increase of 38 over the period. 50% of the insurance formations in 2001 were new Class 3 companies, a group which includes rent-a-captives, finite reinsurers, reinsurers writing third party business, insurers writing direct policies with third party insureds, and captives deriving more than 20% of their net premium income from unrelated risks. There was also a significant increase in the Class 4 category during 2001, reflecting the response to the decrease in capacity in the international market that occurred following the terrorist attacks on 11 September 2001.

*Left to right
(standing)*

Leila Madeiros,

Shanai Swan,

Giselle Outerbridge,

Thomas Webbe,

Julie Preece,

Racquel Isaac,

Pamela Pearman,

Josie Richardson

(seated)

Afnik Williams-Hyde,

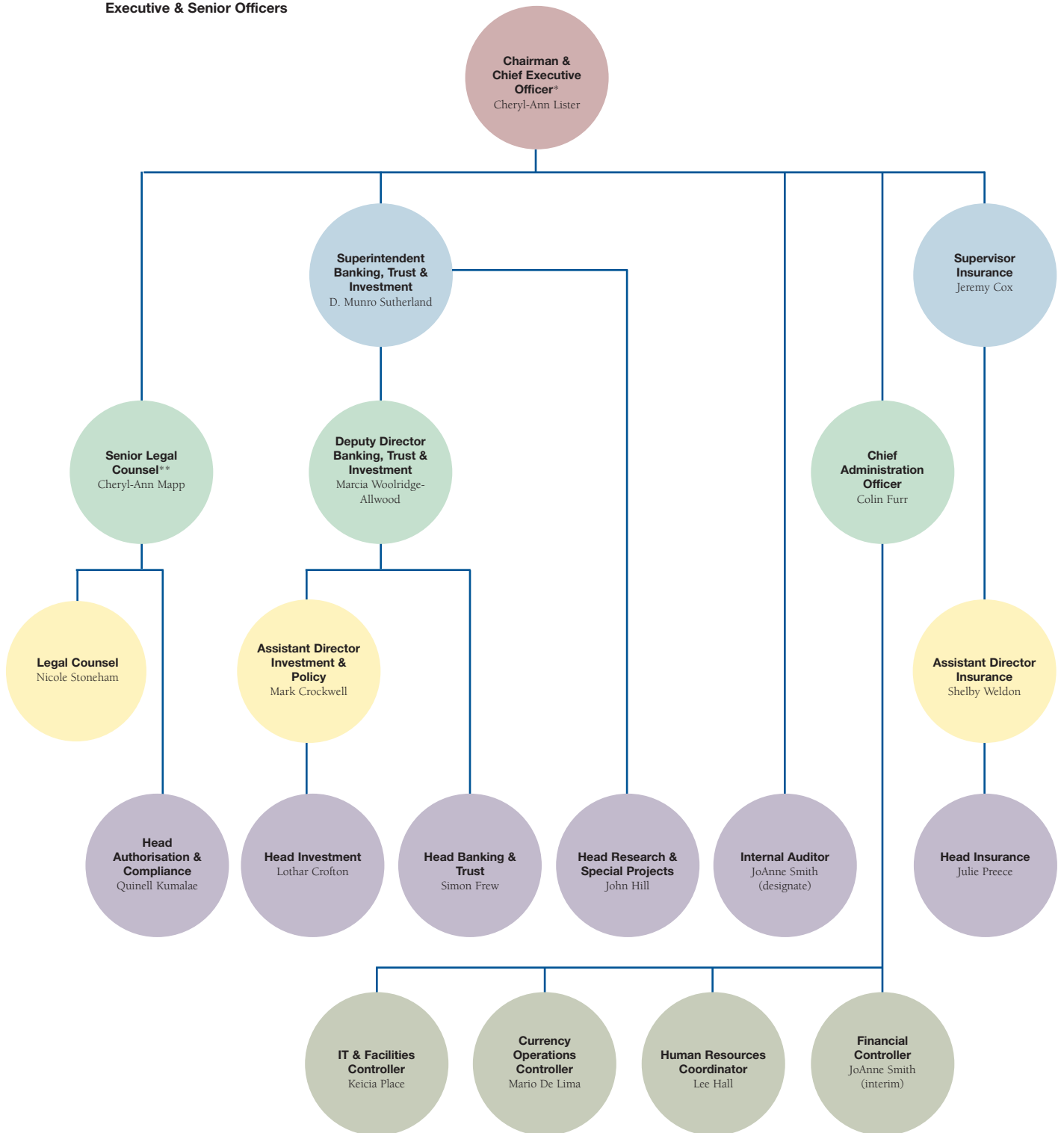
Jeremy Cox,

Dianne Burgess,

Shelby Weldon

ORGANISATION *Chart*

Executive & Senior Officers



* Controller of Foreign Exchange
 ** Secretary to the Board

OVERVIEW & HIGHLIGHTS

*for 2001***FINANCIAL HIGHLIGHTS 2001**

The net income of the Authority for 2001 was \$1.66 million. This compares with \$3.95 million in 2000 when income was inflated by a one-off profit of \$1.5 million due to the disposal of a small equity mutual fund investment. The Authority's income is derived primarily from earnings on the investment portfolio and from various licensing and application fees. At the end of the year, investment income earning assets stood at \$105.6 million (2000 – \$103.8 million).

The Authority's total expenses for 2001 were \$5.6 million, representing an increase of some 13% over the 2000 level. The increase in expenses reflected mainly a rise in staff costs due to increasing staffing levels together with related training and premises expenditures.

As is consistent with the practice in recent years, 50% of the Authority's net income for 2001 (\$0.83 million) has been allocated to the Consolidated Fund of the Government of Bermuda.

1969

BMA
established

1974

BMA takes
on exchange
control

1980

BMA takes
on vetting of
company
applications

1990

BMA takes
on supervision
of financial
institutions

1991

Anti-Money
Laundering
Code of
Conduct



BERMUDA CURRENCY OPERATIONS

The amount of Bermuda currency notes and coins in circulation showed continued growth in 2001. Circulation reached seasonal highs during the main national holiday periods of 2 and 3 August (Cup Match) and 25 to 29 December (Christmas). Immediately prior to the August holiday period, \$88.7 million was in circulation, against \$81.8 million for the same period in 2000, an increase of 8.44%. As at 31 December 2001 the total amount of notes and coins in circulation was \$86.1 million, against \$84.3 million for the same period in 2000.

1997

Proceeds of
Crime Act

1998

Investment
Business Act

1999

Banks and
Deposit
Companies
Act

2001

Trusts
(Regulation
of Trust
Business) Act

2002

BMA takes
on insurance
supervision

The original foundations for The Causeway, opened in 1871, were four small islands known as the Cartwheel Islands, that formed a loose line across Castle Harbour eastwards from Grotto Bay. In replacing the ferry between Coney Island and Ferry Reach, The Causeway was the first land-link between St. George's and Hamilton.



THE CAUSEWAY

Currency Notes Issued and Redeemed 2001

Month	Notes Issued			Notes Redeemed \$	Notes in Issue at Month End \$	Net Issues During Month	
	New* \$	Re-issue \$	Total \$			Change \$	Change %
January	736,535	6,910,000	7,646,535	16,734,910	64,251,687	(9,088,375)	-12.39
February	774,545	8,530,000	9,304,545	12,065,937	61,490,295	(2,761,392)	-4.30
March	642,000	11,445,000	12,087,000	8,198,200	65,379,095	3,888,800	6.32
April	730,826	9,302,000	10,032,826	10,341,480	65,070,441	(308,654)	-0.47
May	856,025	12,284,000	13,140,025	14,315,867	63,894,599	(1,175,842)	-1.81
June	471,670	14,436,000	14,907,670	13,629,400	65,172,869	1,278,270	2.00
July	2,710,497	22,999,000	25,709,497	13,443,635	77,438,731	12,265,862	18.82
August	815,752	10,387,000	11,202,752	18,553,900	70,087,583	(7,351,148)	-9.49
September	150,947	6,899,000	7,049,947	12,241,000	64,896,530	(5,191,053)	-7.41
October	410,948	10,350,000	10,760,948	7,238,015	68,419,463	3,522,933	5.43
November	7,426,246	3,950,000	11,376,246	11,147,100	68,648,609	229,146	0.33
December	12,036,574	3,180,000	15,216,574	9,272,100	74,593,083	5,944,474	8.66
2001	27,762,565	120,672,000	148,434,565	147,181,544	74,593,083	1,253,021	1.7
2000	51,298,745	100,503,000	151,801,745	159,315,044	73,340,062	(7,513,299)	-10.2

* Includes sales of currency notes to collectors

Currency Coins Issued and Redeemed 2001

Month	Coins Issued* \$	Coins Redeemed \$	Coins in Issue at Month End \$	Net Issues During Month	
				Change \$	Change %
January	23	–	11,013,999	23	0.00
February	6,582	–	11,020,580	6,582	0.06
March	4,023	–	11,024,603	4,023	0.04
April	3,417	–	11,028,020	3,417	0.03
May	27,675	43	11,055,651	27,632	0.25
June	81,888	–	11,137,539	81,888	0.74
July	160,355	–	11,297,895	160,355	1.44
August	2,479	–	11,300,374	2,479	0.02
September	39,252	–	11,339,626	39,252	0.35
October	41,147	–	11,380,774	41,147	0.36
November	71,534	–	11,452,308	71,534	0.63
December	72,980	–	11,525,288	72,980	0.64
2001	511,355	43	11,525,288	511,312	4.6
2000	555,312	915	11,013,976	554,398	5.0

* Includes sales of currency coins to collectors

BOARD

*Committees***AUDIT COMMITTEE**

The Audit Committee is appointed by the Board of Directors to assist it in fulfilling its oversight responsibilities. The Audit Committee's primary responsibilities are ensuring that the financial affairs of the Authority are monitored and reported in accordance with generally accepted accounting principles (GAAP) in Bermuda and Canada as outlined by the Canadian Institute of Chartered Accountants.

During 2001, the Audit Committee of the Board of Directors comprised three Directors of the Board: Mr. Gregory Haycock, FCA, JP (Chairman); Mr. Darren Q. Johnston, CA; and Mr. Anthony D. Whaley, BA, BCL.

During the year, the Committee met as required and reviewed a number of matters, including:

- recommendations made by the Auditor in the Management Letter for the 2000 audit;
- changes in accounting standards that may impact on the 2001 audit;
- the accounting treatment of various assets held by the Authority; and
- the planning of the 2001 audit.

INVESTMENT COMMITTEE

The Investment Committee is appointed by the Board of Directors to assist it in fulfilling its oversight responsibilities. The Committee's primary responsibilities are ensuring that the investment and management of the Authority's portfolio of assets is prudent and meets the requirements of the Bermuda Monetary Authority Act 1969 (the BMA Act) and Investment Policy Guidelines as established by the Board.

During 2001, the Investment Committee of the Board of Directors comprised four directors of the Board: Mrs. Cheryl-Ann Lister, CFA, MBA (Chairman); Ms. Audette Exel, BA, LLB; Mr. A. Shaun Morris, MA, LLB; and Mr. Myron E. Simmons, LLB.

During the year, the Committee met as required and reviewed a number of matters, including:

- recommendations on the general strategy and specific investments made by the Investment Manager;
- the volatility in the financial markets during the year and the impact on the portfolio;
- the risk profile of the portfolio;
- modifications to the Investment Policy Guidelines; and
- verification of compliance with the BMA Act and Investment Policy Guidelines.

ADMINISTRATION

Division

During the year, the Division had responsibility for accounting and financial control within the Authority, information technology development and support, and for the operation of the Authority's Currency Bureau. In addition, it was responsible for premises management, and central personnel and human resource administration.

INFORMATION SYSTEMS

The Authority has continued to develop customised systems for its supervisory and regulatory divisions. A project was undertaken to integrate the Authority's Companies database with the Collective Investment Schemes database, thereby facilitating data transfer and ensuring consistency of records. The new Investment Provider database and Register were also completed and integrated into the Investment Division system.

In addition a number of hardware and software upgrades were installed to enable systems to meet the growing needs of the Authority more efficiently and effectively.

Further work has also been undertaken to ensure the continued security of the Authority's systems.

CURRENCY BUREAU

The highlight of the year was the introduction of the Heritage Series of commemorative coins. Five coins, each depicting an aspect of Bermuda's heritage, will appear over a four-year period. The series began with the issue, in May 2001, of Bermuda's first multi-coloured coin, depicting a Gombey dancer. This was followed in

November 2001 by a coin celebrating the State House in St. George's, in recognition of the first anniversary of that town's award of World Heritage Status by UNESCO. Both coins met with considerable interest and success.

The Bureau also took steps during the year to sell down remaining inventory of some earlier commemorative items. Two special sales were held in order to clear older stock.

Staff from the Currency Bureau attended the 110th Anniversary Convention – The World's Fair of Money of the American Numismatic Association in August 2001 in Atlanta. Bermuda's exhibits proved very popular, with overall sales increasing by some 60% over last year's level.

Overall, the Bureau's sales totalled some \$278,000 in 2001. Sales of the Heritage Series coins amounted to \$86,000. The Bureau's net sales revenues for the year were some \$114,000.

During the year, the Currency Bureau was also heavily involved in planning future commemorative coin issues, notably the continuation of the Heritage Series. The next coin in the series, due to appear in May 2002, will celebrate the 100th anniversary of Bermuda's Cup Match. Details of remaining coins will be published shortly.



FLATTS BRIDGE



Bridges **unify** and link most of the larger islands that make up Bermuda. By enabling direct travel between areas once only accessible by water, they opened up significant gateways of **opportunity**.

PERMANENT STAFF

During 2001 the following individuals joined the Authority:

Sharon Davis	<i>Officer, Executive</i>
Denyelle Dublin	<i>Assistant, Deposit Taking Division</i>
Tanya Esdaille	<i>Supervisor, Policy, Research & Statistics Division</i>
Yuko Girard	<i>Assistant Manager, Investment Division</i>
Amanda Jackson	<i>Assistant Manager, Deposit Taking Division</i>
Tanya Jones	<i>Supervisor, Administration Division</i>
Cheryl-Ann Mapp	<i>Legal Counsel</i>
Kristin Smith	<i>Office Junior, Policy, Research & Statistics Division</i>
Mark Trott	<i>Assistant Manager, Deposit Taking Division</i>

In addition, the following staff received long service awards from the Authority.

Mark Crockwell	5 years
Marcia Woolridge-Allwood	15 years

TRAINING

The Administration Division continued to coordinate the Authority's staff training programme. As in past years, the Authority devoted considerable priority to efforts to support the qualification and development of its staff. Various members of staff participated in a number of local training courses to further develop their communication and analytical skills. In addition, staff also benefited from attendance at a number of overseas training courses and seminars. In particular, certain members of the Authority's regulatory teams attended various courses offered by bodies such as the Federal Reserve Bank of New York,

the Toronto Centre and the Ontario Securities Commission. In September 2001 Mrs. Marcia Woolridge-Allwood completed a two-year secondment with the Financial Services Authority (FSA) in the UK. During her secondment Mrs. Woolridge-Allwood gained invaluable knowledge of the supervisory regimes operated by the FSA for various constituents of the financial services sector and participated in a number of off-site visits with the Banking, Investments, Insurance and Markets and Exchanges Divisional teams. The Authority would like to record its appreciation to the FSA and to the other regulatory agencies for providing training and development opportunities for its staff members.

In the second half of the year, the Authority also made further use of the services of a retired Bank of England supervisor, Mr. Paul Hatton. Mr. Hatton provided the banking supervisory team with three weeks of intensive training on aspects of the Core Principles of Banking Supervision, together with a number of coaching sessions designed to enhance analytical skills.

In addition to technical training of this type tailored precisely to the Authority's own key functions and responsibilities, the Authority supported five members of staff in their studies for a professional designation.

REVISED POLICIES AND PROCEDURES

The Authority has put in place an ongoing programme to review and update the policies and internal procedures for the different operational areas. As part of this programme, new procedures documents covering staff orientation, physical and IT security, as well as vault and warehousing operations were finalised during the year. The Authority also continued work on updating its contingency planning and business interruption procedures.



Left to right (standing) Randolph Simons, Tanya Jones, JoAnne Smith, Patricia Butterfield, Gean-Ann Wolffe, Sharen Robinson, Mario De Lima (seated) Keicia Place, Karen Paynter, Colin Furr, Maureen Smith

AUTHORISATION & COMPLIANCE

Division

The Authorisation & Compliance Division undertakes background checks in relation to owners of companies and partnerships as well as on directors and senior executives of licensed institutions.

Bermuda's successful development as an international financial centre reflects its very rigorous approach to accepting business including requiring all corporate entities to provide details of ultimate beneficial owners. The Authority conducts background checks on such persons and reviews all company and partnership applications on behalf of the Minister of Finance.

The Authority conducts similar checks prior to granting specific exchange control permission for the issue and transfer of securities in Bermuda companies to persons deemed non-resident for exchange control purposes. In addition, senior staff from the Division attend meetings of certain key committees, as detailed below, in order to provide support from the regulatory and prudential perspective.

JOINT SELECT COMMITTEE ON PRIVATE BILLS

The Joint Select Committee on Private Bills met throughout the year to consider applications submitted by individuals and entities seeking to form companies by way of a Private Act or amendments to existing private legislation. The majority of the Private Bills laid before the Committee were insurance-related although certain Private Acts were also amended to vary the application of the provisions of public legislation to the entities concerned. The Committee, which comprises 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 and receives technical advice from representatives of the Ministry of Finance, the Attorney General's Chambers, the Registrar of Companies and the Authority.

BERMUDA INTERNATIONAL BUSINESS ASSOCIATION (BIBA) LEGISLATIVE CHANGE COMMITTEE

The BIBA Legislative Change Committee met regularly during the year to review a wide range of legislative initiatives, including matters emanating from the Committee's reports presented to the Minister of Finance early in the year. These covered proposed amendments to the Segregated Accounts Companies Act 2000 and the Companies Act 1981.



THE CUT BRIDGE, IRELAND ISLAND

INSURERS ADMISSIONS COMMITTEE

The Authority conducts background checks in relation to insurance applications in the same way as with any other company application. Insurance applications are also reviewed in detail by the Insurers Admissions Committee, which is comprised of representatives from Bermuda's insurance industry, the insurance regulatory team and the Authorisation & Compliance Division of the Authority.

During 2001, the Committee considered a total of 155 applications. Of these applications 132 were to incorporate as insurers; 17 were to incorporate as managers, brokers or agents; two were for share transfers; three were to alter the memorandum of association or involved a change in the business plan and one was for a permit.

COMPANY, PARTNERSHIP AND PERMIT APPLICATIONS

A total of 1,705 applications were received by the Authorisation & Compliance Division during 2001. While this was lower than the 2,186 applications received in 2000, the total was still the second highest on record.

Of the total of 1,681 applications processed during the year, 1,657 were consented and 24 were refused. 1,423 were exempted undertakings (i.e. exempted companies, exempted partnerships, overseas companies, overseas partnerships and continuation companies), 206 were local companies and 52 were unit trusts. The categories of exempted undertakings forming the largest percentages of the applications processed include corporate and investment holding, mutual funds and insurance underwriting.

Local company incorporations included, in particular, commercial trading, real estate, corporate holding and construction companies.

VETTING PROCESS

As previously noted, Bermuda is among only a small number of jurisdictions in the world which undertake direct checks on beneficial owners prior to incorporation and subsequently on proposals to transfer shares. The degree of vetting and hence the time required to complete that process varies from case to case, depending on the complexity of the issues. The Authority remains committed to administering the requirements efficiently and fairly, in keeping with the island's quality reputation. The Authority continuously reviews its procedures and policies and maintains an ongoing dialogue with industry and Government to ensure that the requirements are clear and appropriate.

INTERNATIONAL LIAISON

During 2001, the Division continued to liaise closely with a wide range of overseas supervisory counterparts regarding institutions and individuals. The majority of the enquiries sought information on whether or not an institution was licensed to conduct financial business and was regulated by the Authority. At the same time the Division initiated confidential enquiries with other regulatory bodies in a large number of cases including, notably, as part of background checks on individuals wishing to take on senior positions within the regulated financial services sector in Bermuda.

Applications Approved: Statistical Report

	1996	1997	1998	1999	2000	2001
Exempted Companies <i>(Bermuda companies exempted from the 60% Bermudian ownership requirement)</i>	1,010	1,178	1,100	1,223	1,661	1,224
Exempted Partnerships <i>(partnerships established in Bermuda to carry on business in or from within Bermuda)</i>	47	54	47	57	111	94
Overseas Partnerships <i>(overseas partnerships applying for permits to carry on business in or from within Bermuda)</i>	6	9	9	3	11	11
Overseas Companies <i>(overseas companies applying for permits to carry on business in or from within Bermuda)</i>	58	58	93	38	66	54
Unit Trusts	9	12	16	4	7	52
Continuation Companies <i>(companies from other jurisdictions continuing into Bermuda as exempted companies)</i>	10	10	17	18	27	19
Unlimited Liability Companies	3	2	3	2	5	3
Local Companies	189	209	188	166	205	200
Total Applications Approved	1,332	1,532	1,473	1,511	2,093	1,657

Statistics for earlier periods have been revised to reflect more recent data.



*Left to right (standing)
Donna Smith, Cheryl-Ann Mapp,
Deborah Bean
(seated) Leanora Stovel-Smith,
Desirae Dill, Quinell Kumalae*

DEPOSIT-TAKING

Division

The Deposit-Taking Division is responsible for the supervision, regulation and inspection of Bermuda's banks, deposit companies and trust companies, and of the Credit Union.

BANKS AND DEPOSIT COMPANIES ACT 1999

The following section (pages 24 to 29) comprises the report required to be made annually by the Authority to the Minister of Finance on its activities, pursuant to section 8(3) of the Banks and Deposit Companies Act 1999 (the Act).

DEVELOPMENTS IN THE BANKING SECTOR

As provided under 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 trends in the local market place, and in the group-wide operations of the Bermudian banks, as well as other developments in international banking and regulation.

The world economic climate made 2001 a challenging year for Bermuda's banking sector.

Bermuda's banks benefit from

well-diversified earning streams, with over half of their earnings derived from non-interest sources. There was some growth in fee income, despite the weakness in equity markets to which a portion of banks' fee income is related. But the low interest rate environment limited net interest earnings and eroded interest margins. The banks continued their efforts to hold down operating costs and improve efficiency. As a result, the underlying profitability of the sector was in large part maintained.

There was only modest growth of about 5% in the size of the aggregate asset base of the sector. The banks' appetite for credit risk remained relatively low, and aggregate loans and advances declined slightly from 22% to 20% of total assets. By the end of the year retained earnings had allowed aggregate capital to increase by some 8% over the end-2000 level, resulting in further improvement in banks' supervisory capital ratios from an already strong position.



GREY'S BRIDGE

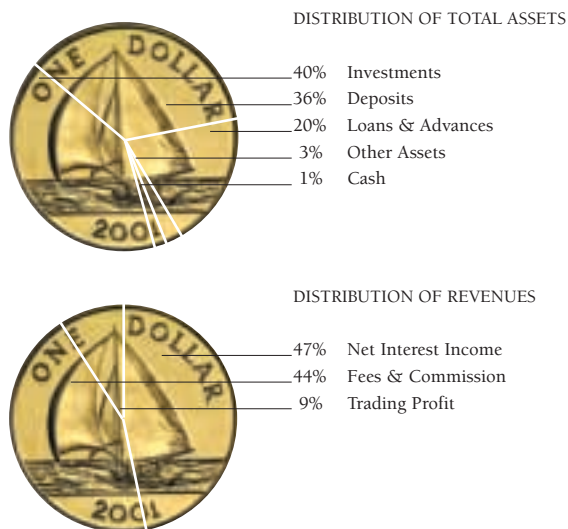




Bermuda's
bridges
provide
strong
and
depend-
able
anchors
of stability
against
powerful
currents.



Distribution of Total Assets & Revenues (Consolidated)



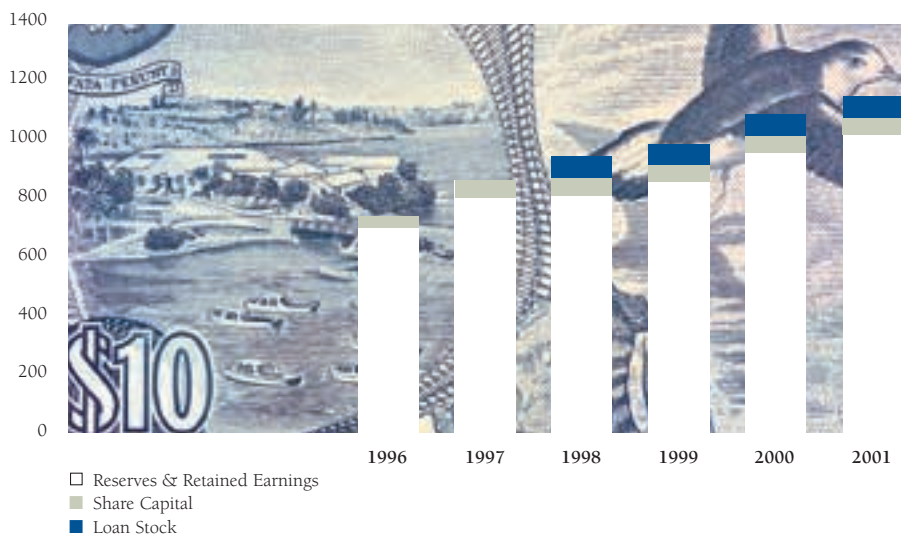
The banks continued to maintain significant levels of liquidity, with market placements and tradable investment-quality paper, as in previous years, comprising a very substantial portion of total assets.

The Authority is “home supervisor” for Bermuda’s banks and conducts consolidated supervision of their group operations worldwide. While the banks’ operations in Bermuda continue to represent their most significant source of revenue, the relative importance of overseas operations for the two largest banks continues to increase. During the year, the Bank of N.T. Butterfield & Son Limited acquired additional operations in Guernsey, as well as a small licensed bank in London. An Irish subsidiary of the Bank of Bermuda Limited was granted a banking licence early in 2002.

LICENSING

Bermuda has only a small number of licensed deposit-taking institutions. The number of banks increased to four during the year, following the issue in October 2001 of a licence to Capital G Bank Limited. This was the first new banking licence to be granted in Bermuda for many years. Capital G Bank had operated as a licensed deposit company, Gibbons Deposit Company Limited, since 1974. This development, together with the amalgamation of some bank-owned deposit companies into their parent banks, has reduced the number of deposit companies to two.

Combined Banks’ and Deposit Companies’ Shareholders Funds (BDS\$ Millions)



Following completion of a review of Government's policy approach to the banking sector during the year, the Minister of Finance granted exemptions from the Companies Act requirement for the existing banks and deposit companies to be 60% Bermudian owned. The Minister has also indicated that Government is satisfied that some modest expansion in the size of the banking sector, through the issue of new licences to a small number of highly reputable institutions, would be consistent with the economic and financial policy of the Government.

The Authority has received a number of expressions of interest in the possibility of obtaining a banking licence and has had preliminary discussions with several institutions. The Authority has also received two formal applications that remain under consideration.

APPLICATION OF THE ACT

No revisions were made during the year to the various policy documents pertaining to the Act that have previously been published. However, discussion has continued with the banks and the accounting profession on the Authority's paper "The Relationship with Auditors and Reporting Accountants of Banks and Deposit Companies". A final version of this paper is expected to be issued shortly, following agreement on the legal obligations to be imposed on auditors. As part of this, certain minor amendments to the wording of sections 39 and 46 of the Act are likely to be proposed. In the meantime, the relationships for which the paper provides are already fully in place. In particular, routine reports to certify the accuracy of banks' prudential reporting are already being commissioned from reporting accountants.

Capital Adequacy

The Authority requires deposit-taking institutions to maintain minimum risk asset ratios of 8% on an unconsolidated and 10% on a consolidated basis. No capital adequacy concerns arose during the year.

Liquidity

The Authority's approach to the monitoring of liquidity involves a framework for measuring cumulative maturity mismatches between an institution's assets and liabilities in specified timebands (based on contractual maturities). The Authority then sets a mismatch guideline for the sight to one-week and sight to one-month time bands to which each deposit taking institution is expected to work on a routine basis.

The Authority conducted extensive bilateral discussions with institutions during the course of 2001 regarding the setting of individual mismatch guidelines. In this regard, the Authority also agreed that, in the case of "core" domestic institutions, it could take some account of the behavioural characteristics of certain assets and liabilities where there is strong historical evidence that they can be relied on to be much more stable than would be implied by their contractual maturities. The Authority is now engaged in finalising individual mismatch guidelines, allowing for behavioural adjustments where relevant. These are being set to reflect institutions' different mix of business as well as the Authority's view of the robustness of their liquidity monitoring and management systems and other arrangements. Sight to one-week band guidelines will be set in the range of 0% to -10% and sight to one-month guidelines in the range of 0% to -20%.

Large Exposures

Section 38 of the Act requires licensed institutions to report large exposures incurred by them. A significant element of the large exposures regime is that an institution may not take on an exposure to a single counterparty or group of connected counterparties that would result in its being exposed to the risk of incurring a loss in excess of 25% of its capital without prior consent from the Authority. The Authority has made it clear that, other than in the case of standard inter-bank exposures with less than one year maturity, consent will only be given in exceptional circumstances. A very small number of such exceptional consents were granted in 2001, all in cases where the exposure was judged to be of extremely low risk.

Formal use of Powers

Sections 17 and 18 of the Act enable the Authority to restrict, or revoke, a deposit-taking licence when it judges it necessary for the protection of depositors or potential depositors. These provisions were not used during 2001.

Sections 25 and 26 provide for the Authority to review the fitness of all proposed new controllers of banks and deposit companies – specifically, of anyone owning or controlling 10% or more of a licensed company or of another company of which it is a subsidiary. No applications were received for proposed new controllers during 2001. Section 27 enables the Authority to object when it concludes that an existing controller is no longer fit and proper. No such adverse determinations were made during the year.

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. During the year, licensed institutions notified the Authority of all new appointments and of any changes, as required by the section, and the Authority conducted vetting of such appointees. No concerns arose in respect of these appointees.

Section 36 provides that a person who becomes a significant shareholder in relation to an institution must give written notice of that fact to the Authority. This relates to persons who, alone or with associates, control 5% or more of a licensed institution or of another company of which it is a subsidiary. The Authority received three such notifications during the year.

Section 39 provides power for the Authority to require the commissioning of reports from auditors, accountants or other persons with relevant professional skill on matters relevant to the Authority's responsibilities. During the year the Authority began to make use of this power as a part of its routine supervision. Reports were commissioned from banks' reporting accountants in respect

of the certification of the accuracy of prudential information provided to the Authority during the year. Overall, the reports confirmed that satisfactory standards of reporting had been maintained.

The Authority found no need to make use of the powers in sections 40, 41 and 42 of the Act to require the production of documents, to obtain entry to the premises of licensed institutions and to appoint persons to investigate an institution.

Similarly, the Authority had no need during the year to make use of its formal enforcement powers under sections 43 and 44 of the Act to investigate suspicions of illegal deposit-taking.

Appeal Tribunal

At the beginning of the year, the Minister announced the appointment of a chairman, deputy chairman and panel of persons from whom the chairman may select members to constitute an appeal tribunal to hear a case. There were no appeals against decisions of the Authority during 2001.

ONGOING SUPERVISION

The Authority's ongoing banking supervisory regime continues to involve a combination of on- and off-site elements, as described in detail in last year's report to the Minister.

On-site visits to institutions during 2001 focused primarily on the area of their Treasury operations. At the same time, visits were used to assess whether recommendations from the prior year's on-site programme had been adequately addressed. Each of the 2001 visits to deposit-taking institutions also included a specific review, and detailed compliance testing of, their anti-money laundering controls. In addition, it had originally been planned to undertake an on-site review of the major banks' Far East operations in late 2001. A review of priorities in the aftermath of the 11 September tragedy resulted in this visit being delayed until January 2002.

INTERNATIONAL COOPERATION

The Authority continued to play a full part in the wider framework of international supervisory liaison and discussions. It is a member of the Offshore Group of Banking Supervisors through which it is closely involved in the activities of the Basel Committee in developing international banking supervisory standards and practices. In particular, in that regard, the Authority is represented on

the Basel Cross-Border Banking Group, a joint working group of members of the Basel Committee (G10 countries plus Switzerland) and of the Offshore Group of Banking Supervisors. The Cross-Border Group continued to meet regularly throughout the year and is at the forefront of efforts to define more clearly the standards to be met by banks in conducting customer due diligence for anti-money laundering purposes.

Bermuda Money Supply

(BD\$ Millions)	1999 Year-end	2000 Year-end	2001 - Q1	2001 - Q2	2001 - Q3	2001 Year-end
Notes & Coins in Circulation*	91	84	76	76	76	86
Deposit Liabilities:						
Banks and Deposit Companies (unconsolidated) ♦	2,375	2,409	2,459	2,468	2,589	2,663
	2,466	2,493	2,535	2,544	2,665	2,749
Less: Cash at Banks and Deposit Companies	30	28	21	23	49	36
Bermuda Money Supply	2,436	2,465	2,514	2,521	2,616	2,713
% Growth Year-on-Year	6.56%	1.19%	2.11%	0.00%	6.00%	10.06%

* 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.

♦ Following recent amalgamations within the sector, separate data for the deposit companies are no longer published. The reformatted figures include rounding differences from the series previously published.

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

(BD\$ Millions)	1999 Year-end	2000 Year-end	2001 - Q1	2001 - Q2	2001 - Q3	2001 Year-end
Bank Deposit Liabilities ♦	2,375	2,409	2,459	2,468	2,589	2,663
Less: Bank Loans, Advances & Mortgages	1,919	2,079	2,137	2,173	2,214	2,228
Surplus Deposits	456	330	322	295	375	435
Percentage of Deposit Liabilities Lent	80.8%	86.3%	86.9%	88.0%	85.5%	83.7%

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

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

(BD\$ Millions)	1999 Year-end	2000 Year-end	2001 - Q1	2001 - Q2	2001 - Q3	2001 Year-end
Total Foreign Currency Assets	13,466	14,749	14,793	15,522	15,429	15,429
Less: Other Assets	181	193	229	298	177	177
Less: Foreign Currency Loans to Residents	277	314	253	270	348	348
Net Foreign Currency Assets	13,008	14,242	14,311	14,954	14,006	14,905
Total Foreign Currency Liabilities	12,296	13,563	13,484	14,248	13,281	14,029
Add: BD\$ Deposits of Non-Residents	71	121	146	167	191	216
Net Foreign Currency Liabilities	12,367	13,684	13,630	14,415	13,472	14,245
Net Foreign Currency Position (consolidated)	641	558	681	539	534	660

N.B. Except for the "Foreign Currency Loans to Residents" and "BD\$ Deposits of Non-Residents" items, the above table was compiled from the consolidated quarterly returns of the local banks and deposit companies.

TRUST COMPANIES ACT 1991

The Trust Companies Act remained in force throughout the year, with licensing and most intervention powers residing with the Minister of Finance and routine supervision undertaken by the Authority.

As a result of some continuing consolidation in the international financial services sector, the number of licensed trust companies in Bermuda declined from 34 to 32. No new licences were granted during the year but one existing licensed company was renamed following its acquisition by new owners.

The Trust Companies Act provided for companies' financial statements, management certificates and auditor's reports to be provided to the Authority within 120 days of each company's year-end. If the company had difficulty meeting this deadline it could apply to the Authority for an extension. A small number of such extensions were granted during 2001.

During the year, a routine annual prudential meeting was held with senior management of each licensed company. In addition, ad hoc meetings were held as required, typically to discuss significant changes in strategy or operations.

Section 16 of the Trust Companies Act enabled the Authority to serve a notice on a licensed institution requiring it to provide specific documents or information that the Authority reasonably required for its supervision. The Authority did not find it necessary to exercise this power during the year.

NEW REGULATORY FRAMEWORK

Bermuda's new trust legislation, the Trusts (Regulation of Trust Business) Act 2001 (the Act), came into effect on 25 January 2002. This repealed the 1991 legislation and provides the Authority with full licensing, supervision and enforcement powers in respect of persons carrying on trust business in or from within Bermuda.

Among a range of detailed changes, the Act:

- allows licensed trust companies to widen the scope of the business they can undertake;
- enhances the prudential criteria;
- provides for limited licences for individuals and partnerships with restrictions on assets under management and prohibitions on sole trusteeship;
- extends the statutory notification requirements and information powers in the Act;
- introduces a wider range of intervention powers to enable the Authority to deal with concerns in circumstances in which revocation is an inappropriate response;
- incorporates provisions for information "gateways" to other regulators which are similar to those in sections 52 to 55 of the Banks and Deposit Companies Act 1999; and
- makes supervisory fees payable directly to the Authority.

During the year, the Authority held extensive discussions with the trust industry and the Ministry of Finance regarding the forthcoming implementation of the Act. In particular, there was consultation on drafts of a Statement of Principles to be issued by the Authority pursuant to section 6 of the Act and of a Code of Practice under section 7 of the Act. The Statement of Principles provides guidance on the Authority's approach in applying the minimum licensing criteria and formal intervention powers in the Act. The Code of Practice provides guidance on the standards expected of licensed undertakings, including the systems and controls they need to have in place. By the end of the year, both documents were at an advanced stage. They will be finalised during the first half of 2002.

Discussions with the industry are continuing in respect of remaining aspects of the prudential regime that the Authority will apply to persons licensed under the Act. The Act provides for certain routine reporting and certification to the Authority that will form part of the Authority's off-site supervision. Prudential discussions will also be held periodically with senior management, to ensure the Authority is made aware of major business developments. Their frequency will be determined by an overall risk assessment. In addition, the Authority is still developing its proposals regarding the on-site aspect of supervision. This will involve routine on-site compliance visits by the Authority's own staff. However, the Act also enables the Authority to look to firms' auditors or other reporting accountants to provide reports on relevant matters. It is likely that part of the necessary on-site work will be conducted through the commissioning of reports from reporting accountants on key aspects of systems and controls.

*Left to right (standing) Simon Frew,
Tanya Esdaille, Mark Trott, Munro Sutherland
(seated) Joanne Tucker, Amanda Jackson*

THE BIU MEMBERS' CREDIT UNION CO-OP SOCIETY (THE CREDIT UNION)

The Authority undertakes certain supervisory functions under the Credit Unions Act 1982, which are delegated to it by the Minister of Finance. In recognition of the business differences, the Credit Union does not complete the standard prudential returns provided by banks and deposit companies. Instead, the Authority obtains and reviews financial data from the Credit Union's own internal management information.

The Authority held a number of meetings with the Credit Union's Board and Management during the year to discuss aspects of corporate governance and internal controls. As a result of management changes within the Credit Union, the scheduled 2001 on-site visit was deferred until early in 2002.



Combined Balance Sheet of Bermuda Banks and Deposit Companies (Consolidated)
(BD\$ Millions)

ASSETS	1999 Year-end			2000 Year-end			2001 - Q1		
	Total	BD\$	Other	Total	BD\$	Other	Total	BD\$	Other
Cash	325	39	286	328	31	297	352	30	322
Deposits	6,049	30	6,019	6,391	33	6,359	5,551	31	5,520
Investments	5,622	31	5,591	6,190	22	6,168	6,222	20	6,202
Loans & Advances	3,212	1,870	1,342	3,709	2,024	1,684	4,548	2,082	2,466
Premises & Equipment	254	207	47	253	204	49	255	201	54
Other Assets	234	53	181	270	77	193	269	40	229
TOTAL ASSETS	15,696	2,230	13,466	17,141	2,391	14,749	17,197	2,404	14,793
LIABILITIES									
Demand Deposits	6,019	877	5,142	6,071	848	5,222	5,990	695	5,295
Savings	644	433	211	718	477	241	740	484	257
Time Deposits	7,344	1,020	6,324	8,710	1,072	7,638	8,612	1,288	7,323
Sub Total - Deposits	14,007	2,330	11,677	15,499	2,397	13,102	15,342	2,467	12,875
Other Liabilities	719	100	619	550	89	461	740	131	609
Sub Total - Liabilities	14,726	2,430	12,296	16,049	2,486	13,563	16,082	2,598	13,484
Capital *	970	449	521	1,092	515	577	1,115	558	557
TOTAL LIABILITIES									
AND CAPITAL	15,696	2,879	12,817	17,141	3,001	14,140	17,197	3,156	14,041

ASSETS	2001 - Q2			2001 - Q3			2001 Year-end		
	Total	BD\$	Other	Total	BD\$	Other	Total	BD\$	Other
Cash	312	33	279	150	28	122	261	42	219
Deposits	6,496	39	6,457	5,181	48	5,133	6,427	33	6,394
Investments	6,502	17	6,485	6,771	30	6,741	7,163	17	7,146
Loans & Advances	4,084	2,136	1,948	4,429	2,181	2,248	3,626	2,191	1,435
Premises & Equipment	249	194	55	251	195	56	255	197	58
Other Assets	348	50	298	319	50	269	242	65	177
TOTAL ASSETS	17,991	2,469	15,522	17,101	2,532	14,569	17,974	2,545	15,429
LIABILITIES									
Demand Deposits	6,703	908	5,795	5,885	775	5,110	6,307	751	5,556
Savings	795	527	268	1,096	562	534	1,219	607	612
Time Deposits	8,690	1,052	7,637	8,386	1,196	7,190	8,819	1,301	7,518
Sub Total - Deposits	16,188	2,487	13,700	15,367	2,533	12,834	16,344	2,659	13,685
Other Liabilities	679	131	548	590	143	447	482	138	344
Capital *	1,124	541	584	1,144	492	652	1,148	464	684
TOTAL LIABILITIES									
AND CAPITAL	17,991	3,159	14,832	17,101	3,168	13,933	17,974	3,261	14,713

Totals may not add due to rounding

* Capital comprises share capital, share premium account, reserves and retained earnings.



SPITTAL POND

Whether they take us from our old capital city to the new, from a fortification to a quiet country lane, or from an historic smuggler's cove to a pristine golf course, our bridges link our past to our present and lead us on a journey full of contrasts that are **uniquely Bermudian.**



INVESTMENT

Division

The Investment Division is responsible for the supervision, regulation and inspection of investment businesses, of collective investment schemes and of the Bermuda Stock Exchange (BSX).

INVESTMENT BUSINESS ACT 1998

The following section (pages 34 to 36) comprises the report required to be made annually by the Authority to the Minister of Finance on the carrying out of its functions under the Investment Business Act 1998 (the Act), pursuant to section 28(2) of the Act.

DEVELOPMENTS IN THE INVESTMENT SECTOR

2001 was a very difficult year for investment businesses generally as a slow down in the global economy, and in particular in the US economy, provided a backdrop for tough market conditions for international securities. Declining equity prices and shrinking fixed income yields combined to bring about low volumes of customer business for most investment-related entities. As a result, a number of licensed investment businesses have had to take firm steps to control costs including in some cases through cutbacks in staffing levels or in services provided. In a small number of cases, capital problems have arisen, either requiring licensed firms to introduce additional capital or resulting in the Authority having to monitor a firm's situation more closely, including through more frequent financial reporting. The aggregate total assets of licensed investment providers (excluding banks and overseas entities) amounted to some \$4.4 billion at the end of 2001; aggregate capital exceeded \$500 million.

LICENSING

During 2001, the Authority received eight licence applications under the Act. Six new licences were issued, each valid for an initial period of ten years. Although the Authority did not decline any applications, two were later withdrawn, following an inability of the applicants to demonstrate full compliance with the licensing criteria

stipulated in section 7(3) of the Act. At the end of 2001, a total of 53 licences were in issue under the Act. The Authority also had three outstanding applications under review. One pre-existing licensed entity, voluntarily surrendered its licence during the year following a decision by the company not to proceed with its proposed business. The licence was subsequently cancelled by the Authority in accordance with section 13 of the Act.

The Authority continues to maintain, as required by the Act, a register containing particulars of each licence. This is available for inspection by members of the public at the Authority's offices or on the Authority's website (www.bma.bm).

FORMAL USE OF POWERS

During the year, the Authority also received two applications pursuant to section 11 of the Act from licensed companies that were seeking variations in the conditions attached to their licence. Following review by the Authority, both these applications were approved, and amended licences issued. There were no cases during the year in which the Authority itself sought to vary licence conditions in response to concerns about the conduct of an institution's business. Similarly, the Authority found no need to use its statutory powers to:

- suspend a licence under section 12;
- cancel a licence under section 13 due to regulatory concerns;
- commission a report by a reporting accountant under section 18;
- investigate the affairs of a licensed institution under section 19;
- seek information under section 20;
- take measures to safeguard the interests of clients or creditors under section 21;
- issue directions under section 23; or
- seek an injunction under section 24.

REVIEW COMMITTEE

At the beginning of 2001, the Minister announced the appointment under section 15 of the Act of the chairman and members of the panel from which any committee established to review a decision of the Authority would be drawn. No decisions of the Authority were referred to the Review Committee during the year.

ONGOING SUPERVISION

The Authority takes a risk-based approach to the supervision of licence holders. Through a combination of on-site and off-site regulatory tools, the Authority makes a judgement of the overall risk profile of an investment provider and reviews its assessment on an ongoing basis. The factors determining the risk assigned include: the scope of activities undertaken; the target customer base; the quality of management; the effectiveness of internal controls; and capital adequacy. The Authority gathers the necessary information to make these judgements through regular financial filings, supervisory meetings with senior management and routine on-site review visits. The nature and frequency of prudential meetings and on-site review visits are determined, case-by-case, on the basis of the Authority's risk assessment.

The Authority introduced its on-site review regime for investment providers during 2001. Routine compliance visits to 15 licence holders were conducted during the year. The purpose of these visits is to provide the Authority with an overview of the investment provider's operations, and to enable the Authority to form a view of the personnel, systems and controls, and compliance culture. The visits are also used to review investment providers' compliance with anti-money laundering obligations and "know your customer" requirements. Compliance visits are normally conducted on a voluntary basis at a mutually agreed time. In exceptional cases,

however, where the Authority has material concerns for the interests of clients or about the financial position of the investment provider, the Authority may conduct a visit at short notice or without prior notice.

AMENDMENTS TO THE ACT

In February 2001, the Authority circulated to licence holders and other interested parties a consultative paper on proposed amendments to the Act. Following extensive consultation involving meetings between representatives of the Authority, the Ministry of Finance and industry, Government has endorsed various amendments to the Act. These include provisions to:

- further clarify the existing definition of investment business;
- broaden the scope of regulated activities to include custody of securities;
- enhance the Authority's ability to share information with other securities regulators for regulatory purposes, including client specific information;
- formalise, under the Act, a supervisory and regulatory regime for securities exchanges and other self-regulatory organisations (SROs); and
- bolster the Authority's investigative and enforcement powers, including giving it responsibility for "policing the perimeter".

An Investment Business Amendment Act is currently being drafted and is expected to be introduced into Parliament in 2002.

INSIDER DEALING AND PRICE MANIPULATION

In addition to the specific proposals for amending the Act, Government has also agreed to introduce primary legislation prohibiting both insider dealing and price manipulation. While there are provisions in the Bermuda Stock Exchange Regulations and in the Code of Conduct

under the Act that prohibit insider dealing by BSX members and licensed entities, there is no general public law prohibition against other persons engaging in such activities. There is no evidence that insider dealing or price manipulation is a particular risk within Bermuda, and the Authority believes that, given the nature of the Bermuda market, the gap is theoretical rather than real. Nonetheless, it is an area in which Bermuda falls short of best practice. Accordingly, the Authority has agreed as a first step to publish a consultative paper shortly.

INTERNATIONAL SUPERVISORY COOPERATION

The Authority continues to liaise with similar regulatory bodies in other jurisdictions regarding its oversight of investment businesses. In particular, as part of the due diligence process for applicants or new key personnel within existing licence holders, the Authority liaises with any appropriate regulatory body to confirm fitness and propriety. During the course of the year, the Authority has also cooperated extensively with overseas regulators in response to queries regarding licensed entities or individuals connected with them.

The Authority's membership of various international organisations, including the International Organisation of Securities Commissions (IOSCO) and the Offshore Group of Collective Investment Scheme Supervisors (OGCISS) is an important facilitator in building and fostering cooperative relationships with regulators in other countries. These groups are also important for the wider exchange of ideas among regulators, including on the setting of international standards and on trends within the securities industry.

In October 2001, the Authority was admitted to membership of the Council of Securities Regulators of the Americas (COSRA) which now brings together 31 member bodies from 27 countries. Formed in 1992, COSRA is an international organisation with membership open to securities regulatory authorities of North, South and

Central America, as well as the Caribbean. It provides a forum for cooperation and communication between regulators in the region with a view to developing and fostering the growth of sound and transparent securities markets.

In November 2001, the Authority was invited to participate in a Special Project Team that was formed by IOSCO's Technical Committee to carry forward discussions with respect to expanded cooperation, information sharing and client identification. The aftermath of the 11 September tragedy highlighted some practical issues affecting information sharing between securities regulators, notably as regulators sought to determine whether terrorist organisations might have benefited financially from the turbulence in international markets.

COLLECTIVE INVESTMENT SCHEMES

Despite the uncertain international economic environment during 2001 and the poor performance of most securities markets, Bermuda's collective investment scheme industry continued to grow strongly. The year saw sustained interest in establishing new schemes. 185 new schemes or related sub-schemes were formed during the year, an increase of some 5% over the number in the previous year. Of these new schemes, 68 were classified as Bermuda Standard Schemes while 112 were classified as Bermuda Institutional Schemes. The remaining five schemes that were formed were exempted temporarily by the Authority from seeking classification under the Regulations for a variety of reasons, including that the schemes were not yet open to the investing public. As at the year-end, a total of 1,421 schemes and related sub-schemes were registered in Bermuda, with an aggregate net asset value of \$55.99 billion, as against 1,262 schemes with net assets totalling \$46.03 billion at the end of 2000. Approximately \$1.3 billion of the aggregate net asset value at the end of 2001 is attributable to schemes formed in 2001.

The Authority, in consultation with industry representatives through the BIBA Collective Investment Scheme Committee, continues to consider various amendments intended to enhance Bermuda's framework for regulating schemes. Some of the proposed amendments have been delayed slightly after it was determined that there was a need for new primary legislation dealing with the regulation of the collective investment scheme sector. The proposed Act will provide the Authority with a full suite of regulatory powers similar to those proposed under the Investment Business Amendment Act and already in place in Bermuda's legislation dealing with financial regulation of the banking and trust business sectors. The proposals will also:

- expand the definition of collective investment scheme to include a wider range of arrangements for the pooling of investors' funds;
- provide for exemptions for schemes which are non-public in nature and closed-ended schemes which are listed on approved public stock exchanges;
- enable scheme promoters to voluntarily register schemes which would otherwise qualify for exemption; and
- provide for the licensing of fund administrators.

Draft legislation will be introduced into Parliament during 2002.

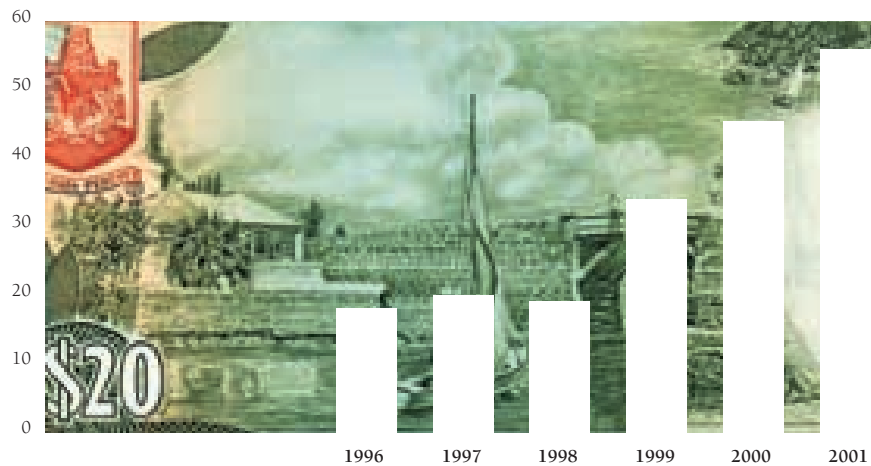
During June the Authority hosted a review team comprised of representatives of HM Treasury and the UK Financial Services Authority, which assessed the Authority's supervisory regime for Bermuda Recognised Schemes in order to determine its equivalence with comparable UK regulation. The visit was in response to the Authority's efforts to transfer the existing recognition of Bermuda's UK Class Scheme regime to the Recognised Scheme classification under the CIS Regulations. At the time of writing, the Authority had yet to receive a decision from HM Treasury in this matter.

Left to right (standing) Adrian Alhassan, Lothar Crofton, Marcia Woolridge-Allwood, Deneeka Basden (seated) Therese Lowe, Ameeta Vijayvergiya

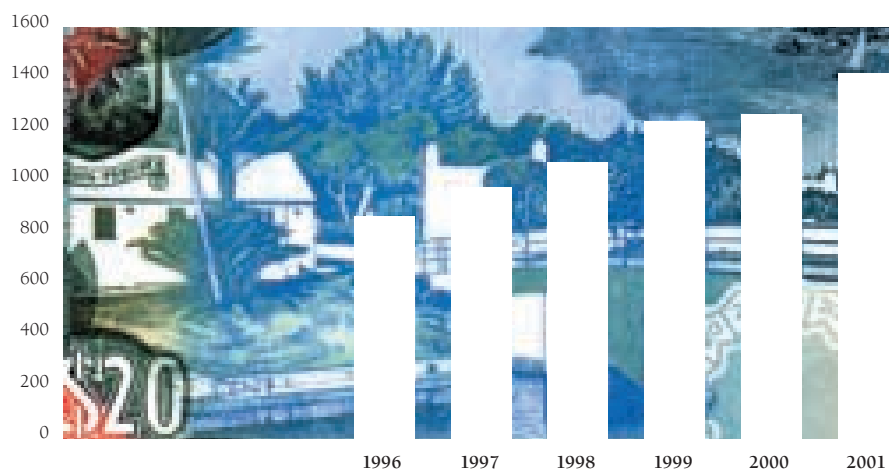


Collective Investment Schemes: Net Asset Value

(\$ Billions)

**Collective Investment Schemes: Statistics ***

	1999 Year-end	2000 Year-end	2001 - Q1	2001 - Q2	2001 - Q3	2001 Year-end
Mutual Funds	574	596	644	622	656	675
Sub-Funds	246	285	294	333	331	377
Umbrella Funds	85	57	57	54	49	49
Sub-Funds	169	145	144	133	127	127
Feeder-Funds	58	67	70	72	71	73
Total Mutual Funds	1,132	1,150	1,209	1,214	1,234	1,301
Unit Trusts	84	80	82	81	82	83
Umbrella Trusts	10	11	11	10	9	9
Sub-Trusts	17	19	19	19	24	27
Feeder Trusts	2	2	2	1	1	1
Total Unit Trusts	113	112	114	111	116	120
TOTAL *	1,245	1,262	1,323	1,325	1,350	1,421
TOTAL NET ASSET VALUE (in Billions)	\$33.93	\$46.03	\$48.17	\$47.16	\$49.45	\$55.99

Collective Investment Schemes: Number of Schemes Registered in Bermuda *

* The series has been adjusted to remove a number of schemes liquidated in earlier periods but which had continued to be reflected in the published statistics.

Bermuda Stock Exchange
2001 Bermuda Dollar Trading Volume Summary

2001	SHARE VOLUME	SHARE \$ VOLUME	BOND VOLUME	BOND \$ VOLUME	TOTAL \$ VOLUME
January	1,009,177	22,530,584	484,900	477,705	23,008,289
February	617,780	24,157,196	110,940	297,713	24,454,908
March	441,034	18,628,075	82,500	78,788	18,706,863
April	478,596	23,629,865	–	–	23,629,865
May	571,316	22,424,093	346,455	336,007	22,760,100
June	377,508	13,462,855	3	125	13,462,980
July	249,080	16,104,631	100,000	97,046	16,201,676
August	335,563	10,454,593	2,655,365	873,994	11,328,587
September	587,916	20,438,025	271,510	264,831	20,702,856
October	335,053	11,656,021	569,025	554,745	12,210,765
November	511,532	14,849,215	6,251,160	6,124,008	20,973,223
December	344,762	13,663,136	–	–	13,663,136
TOTAL	5,859,317	211,998,289	10,871,858	9,104,960	221,103,249

Totals may not add due to rounding

Source: Bermuda Stock Exchange

BERMUDA STOCK EXCHANGE (BSX)

The BSX saw further growth in its business during the year, with trading volumes setting new records. 5.9 million domestic shares with an aggregate value of almost \$212 million changed hands during the year compared to 5.0 million shares worth some \$136 million in 2000. International crossings continued to rise, recording a second consecutive annual record at more than 10.5 billion shares worth over \$436 billion.

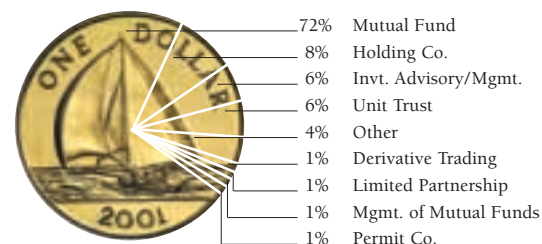
The Authority continued to provide oversight of the BSX and of its trading activity. It carried out its supervisory responsibilities with respect to the BSX through the holding of regular meetings with senior management of the BSX, the review of regular financial data, and the monitoring of trading activity. During the year the BSX introduced the Bermuda Securities Depository (BSD), an electronic clearing, settlement and registration system. The BSD, which is also subject to the Authority's supervision and regulation, will facilitate more efficient trade settlement for BSX listed securities by allowing book entry

settlement rather than paper based settlement. Pursuant to the provisions of the Bermuda Stock Exchange Act 1992, the Authority gave its approval for the issue of Bermuda Securities Depository Regulations that govern the activity of the BSD and its members.

INVESTMENT SERVICE ENTITIES

During the year, the Division reviewed 966 applications in respect of investment or related financial services business. The breakdown was as shown below:

Investment Services Applications Reviewed





Bermuda's bridges continue to provide routes around the Island – despite the **ever-changing** pressures of **progress**.



Today, the old railway trail serves as a place for recreation, taking people off the beaten path to gain new appreciation for the natural environment.

During the year, the Division was involved in regulatory policy development, the compilation of monetary and other statistics and anti-money laundering policies and practice.

PROCEEDS OF CRIME LEGISLATION

The Authority continued to be closely involved in the work of the National Anti-Money Laundering Committee (NAMLC). The Proceeds of Crime Amendment Act 2000 was commenced with effect from 1 June 2001. The amendment extended the scope of the legislation to cover the proceeds of all indictable offences. The NAMLC sub-committee on fiscal offences, which included private sector representation, advised on additional Guidance Notes that were introduced alongside the Amendment Act.

Towards the end of 2001, the NAMLC issued a consultation paper on possible amendments to the Proceeds of Crime Act and Regulations and the related Guidance Notes. This paper referred to recommendations in the KPMG *Review of Financial Regulation*, matters currently under discussion by the Financial Action Task Force (FATF), as well as other aspects of Bermuda's provisions identified for consideration. The Authority provided input for the consultative paper. Consultations with industry representatives remain in progress. Government hopes to introduce some amendments to the present framework during the course of 2002.

INTERNATIONAL ANTI-MONEY LAUNDERING INITIATIVES

In October 2001, the FATF, the acknowledged standard-setter for anti-money laundering, issued new international standards designed to combat terrorist financing. The standards comprise eight "special recommendations" which the FATF called on all countries to adopt and implement. In order to secure the swift and effective implementation of these new standards, the FATF agreed a comprehensive Plan of Action. As part of that plan, the Authority contributed to a self-assessment exercise undertaken by Bermuda, the results of which were reported to the FATF on 31 December 2001. In common with many other countries, Bermuda will need to introduce new legal provisions dealing with terrorist financing. This is planned for later in 2002.

During late 2001, the Authority reviewed its own records and requested licensed financial institutions to review their customer records for matches against lists of suspect names identified by the United Nations and certain overseas law enforcement bodies. No terrorist-related concerns were identified.



THE SALLYPORT, FORT SCAUR

The FATF is also carrying forward a review of its original 40 Recommendations on combating Money Laundering, a process that is expected to result in a number of changes to existing standards. The Authority has been closely monitoring these developments as well as contributing to the international policy debate.

ANTI-MONEY LAUNDERING TRAINING

The Division updated during the year its in-house awareness programme for the Authority's staff. All staff were required to attend one of the training sessions.

IMF COORDINATED PORTFOLIO INVESTMENT SURVEY (CPIS)

Bermuda has agreed to participate in the IMF's planned 2001 CPIS exercise. To that end, the Authority has written to request certain data from the private sector, while seeking as far as possible to limit demands placed on industry. A total of 71 survey letters were sent out. Class 4 insurance companies have been requested to provide data. Similarly the largest (by net asset value) collective investment schemes have been identified and their administrators have been asked to report. Also surveyed are banks (in respect of their own assets), pension fund administrators and Government and the Authority itself. Where sample surveys are performed (i.e. insurance and collective investment scheme sectors), data will be extrapolated in proportion to their size relative to the whole market. The results will be collated by the Authority and reported to the IMF in June 2002.

On a related topic, a seminar *Workshop on Macroeconomic Statistics for Small Economies with International Financial Centres* was held at the Fairmont Hamilton Princess Hotel from 4-7 September 2001. The event was formally opened by the Premier. Bermuda was represented by the Government Statistics Department, Ministry of Finance and the Authority. The Statistics Department and the Authority were joint hosts. There were participants from 12 jurisdictions in addition to Bermuda and the IMF team.

PROVIDENT INVESTMENT & HOLDINGS LTD. (PROVIDENT)

On 14 March 2001, the Supreme Court, on an application from the Authority, issued an order that the remaining assets of Provident held by the Authority, being a cash balance and shares and warrants in the Bermuda Commercial Bank, should be paid into the Court as the beneficiaries cannot be located. The Authority is now relieved of any further responsibility in this matter.

MONETARY ADVISORY COMMITTEE

The Monetary Advisory Committee, which is chaired by the Authority's Chairman, comprises representatives of the Ministry of Finance, the Authority and Bermuda's banks and deposit companies. In 2001, the Committee met quarterly to discuss matters of mutual interest, including local and international developments. Topics of recent interest included the implications of the EU Directive on Taxation of Savings Income and of the USA Patriot Act. There was also discussion of the role of the Bermuda dollar and the need to maintain the primacy of its position for transactions in the local market.



Left to right (standing) Roslyn Roberts, Sharon Davis, John Hill, Joan Burgess (seated) Kristin Smith, Elaine Whitecross



Built on a promontory, Fort St. Catherine was key in protecting the main shipping channel to HM Dockyard and the port of Hamilton. The drawbridge entrance to Fort St. Catherine with the Keep was built in the early 1820s.



BALANCE OF PAYMENTS

Commentary

The balance of payments figures are, to a large extent, based on estimated and historical data; they should therefore be interpreted with a suitable degree of caution. The estimates for professional, managerial and technical services receipts for 2000 and 2001 have been revised in light of the findings of International Companies 2000, a study conducted by Dr. Brian Archer as a consultant to the Ministry of Finance. Certain current account payment categories that have a relationship with the professional, managerial and technical services receipts have been revised also. Certain of the merchandise (imports) payments and travel receipts for 2002 have been revised by the Government Statistics Department, which notes that these figures may be subject to further revision.

CURRENT ACCOUNT

Provisional estimates for 2001 recorded a surplus on current account of \$145 million, representing a significant deterioration (some 30%) from the position in 2000. The travel account showed notable weakness, reflecting in particular the difficult conditions experienced after 11 September.

- **Payments**
Payments were \$73 million (4.4%) higher in 2001 compared to 2000.
- **Receipts**
Receipts were \$9 million (0.5%) higher in 2001 compared to 2000.

CAPITAL AND FINANCIAL ACCOUNT

The capital and financial account, which comprises capital transfers, long-term investment and short-term investment, recorded an estimated net outflow of \$98 million in 2001, down from the previous year. Estimates for 2001 include:

- net long term investment outflow of \$127 million reflecting continued investment overseas, offset by steady inflows of foreign capital; and
- net short-term investment inflow of \$29 million, attributable to a decrease of \$26 million and of \$3 million in the external holdings of the authorised dealers and of the Bermuda Monetary Authority respectively.

NOTE

Where Bermudian exempted companies do not carry on business in Bermuda, their financial flows (other than direct purchases of goods and services from, and their capital account transactions with, Bermuda residents) are excluded from these estimates.

Balance of Payments Estimates

(BD\$ Millions)	1998	1999	2000	2001	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4
CURRENT ACCOUNT												
PAYMENTS												
Merchandise (Imports)	629	712	719	720	178	187	170	184	183	183	163	191
Shipping & Other Transportation	101	108	114	113	30	30	28	26	26	31	29	27
Travel	222	212	216	216	30	53	79	54	32	47	81	56
Investment Income	61	56	68	69	15	18	19	16	16	19	16	18
Profess. Man. & Tech. Service	59	77	97	106	22	24	25	26	26	26	27	27
Other Goods Services & Income	211	220	243	284	55	59	66	63	68	73	69	74
Current Transfers	109	164	181	203	39	46	47	49	49	50	51	53
	1392	1549	1638	1711	369	417	434	418	400	429	436	446
RECEIPTS												
Merchandise (Exports)	33	51	51	36	11	20	8	12	9	9	6	12
Shipping & Other Transportation	16	20	26	29	6	11	5	4	9	7	8	5
Travel	481	483	434	350	47	164	154	69	36	131	128	55
Investment Income	188	208	232	315	68	54	49	61	159	63	44	49
Profess. Man. & Tech. Service	759	912	967	986	224	227	260	256	228	232	265	261
Other Goods Services & Income	123	120	123	124	32	28	31	32	33	26	31	34
Current Transfers	15	15	14	16	4	3	3	4	4	4	4	4
	1615	1809	1847	1856	392	507	510	438	478	472	486	420
NET BALANCE												
Merchandise (Trade)	(596)	(661)	(668)	(684)	(167)	(167)	(162)	(172)	(174)	(174)	(157)	(179)
Shipping & Other Transportation	(85)	(88)	(88)	(84)	(24)	(19)	(23)	(22)	(17)	(24)	(21)	(22)
Travel	259	271	218	134	17	111	75	15	4	84	47	(1)
Investment Income	127	152	164	246	53	36	30	45	143	44	28	31
Profess. Man. & Tech. Service	700	835	870	880	202	203	235	230	202	206	238	234
Other Goods Services & Income	(88)	(100)	(120)	(160)	(23)	(31)	(35)	(31)	(35)	(47)	(38)	(40)
Current Transfers	(94)	(149)	(167)	(187)	(35)	(43)	(44)	(45)	(45)	(46)	(47)	(49)
Current A/C Surplus/Deficit	223	260	209	145	23	90	76	20	78	43	50	(26)
CAPITAL & FINANCIAL ACCOUNT												
CAPITAL ACCOUNT	0	0	2	0	0	0	1	1	0	0	0	0
FINANCIAL ACCOUNT												
Net Long Term Investment	(109)	(173)	(119)	(127)	(28)	(35)	(26)	(30)	(127)	(1)	2	(1)
Net Short Term Investment	(230)	11	(40)	29	(27)	(12)	9	(10)	102	(4)	(27)	(42)
of which: Authorised Dealers	(229)	33	(41)	26	(42)	(10)	7	4	95	(5)	(27)	(37)
:BMA	(1)	(22)	1	3	15	(2)	2	(14)	7	1	0	(5)
Capital & Financial A/C Balance	(339)	(162)	(157)	(98)	(55)	(47)	(16)	(39)	(25)	(5)	(25)	(43)
BALANCING ITEM	116	(98)	(52)	(47)	32	(43)	(60)	19	(53)	(38)	(25)	69

Totals may not add due to rounding



THE ARBORETUM



From modest wooden structures to complex constructions, Bermuda's bridges are an **integral** part of the landscape – providing routes to new vantage points and **new perspectives**.



BERMUDA MONETARY AUTHORITY

BURNABY HOUSE
26 BURNABY STREET
HAMILTON HM11
BERMUDA

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.

Cheryl-Ann Lister, CFA, MBA
CHAIRMAN & CEO

Robert D. Steinhoff, FCA
DEPUTY CHAIRMAN



Office of the Auditor General

Hemisphere House
9 Church Street
Hamilton HM 11, Bermuda

Tel: (441) 296-3148
Fax: (441) 295-3849
Email: auditbda@gov.bm

AUDITOR'S REPORT

To the Board of Directors

I have audited the balance sheet of the Bermuda Monetary Authority as at December 31, 2001 and the statements of earnings, general reserve and cash flows for the year then ended. These financial statements are the responsibility of management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Bermuda Monetary Authority as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

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

Hamilton, Bermuda
March 8, 2002

Larry T. Dennis, C.A.
AUDITOR GENERAL

BALANCE

Sheet

As at December 31, 2001

In thousands of dollars	2001	2000
Assets		
Investment Income Earning Assets		
Cash and cash equivalents	13,712	17,861
Term deposits (Note 3)	25,000	20,000
Investments (Note 4)	66,956	65,942
	105,668	103,803
Other Assets		
Accounts receivable and accrued interest	1,009	1,181
Stock of notes and coins for circulation	1,429	1,431
Stock of numismatic items	414	563
Prepaid expenses	63	91
Capital assets (Note 5)	3,904	3,821
	6,819	7,087
	112,487	110,890
Liabilities, Capital and Reserve		
Liabilities		
Notes and coins in circulation	86,118	84,354
Accounts payable and accrued liabilities	557	410
Due to the Consolidated Fund (Note 6)	831	1,977
	87,506	86,741
Capital and Reserve		
Capital		
Authorised: \$30,000,000		
Subscribed and fully paid (Note 7)	10,600	10,600
General Reserve (Note 8)	14,381	13,549
	24,981	24,149
	112,487	110,890



Cheryl-Ann Lister, CFA, MBA
Chairman & CEO



Robert D. Steinhoff, FCA
Deputy Chairman

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

STATEMENT *of Earnings*

For the year ended December 31, 2001

In thousands of dollars	2001	2000
Revenues		
Investment income (Note 9)	6,039	7,640
Supervisory and licensing fees (Note 10)	566	570
Incorporation fees, vault commission and other income	526	626
Net sales of special coins	114	51
	7,245	8,887
Expenses		
Salaries and employee benefits	3,483	2,892
General expenses (Note 11)	1,239	1,074
Circulation note and coin expenses	466	599
Amortisation of capital assets	229	316
Write-off of tarnished commemorative coins	101	–
Professional fees	60	53
Loss on disposal of capital assets	4	–
	5,582	4,934
Net Earnings for the Year	1,663	3,953

STATEMENT *of General Reserve*

For the year ended December 31, 2001

In thousands of dollars	2001	2000
Balance, Beginning of Year	13,549	11,573
Net earnings for the year	1,663	3,953
	15,212	15,526
Distribution payable to the Consolidated Fund (Note 6)	831	1,977
Balance, End of Year	14,381	13,549

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

STATEMENT

of Cash Flows

For the year ended December 31, 2001

In thousands of dollars	2001	2000
Cash Flows from Operating Activities		
Net earnings for the year	1,663	3,953
Adjustment to convert earnings to a cash basis:		
Amortisation of capital assets	229	316
Amortisation of discounts on investments	(25)	(34)
Loss on disposal of capital assets	4	–
Write-off of tarnished commemorative coins	101	–
Gain on sale of investments	(60)	(1,557)
	1,912	2,678
Changes in non-cash working capital:		
Accounts receivable and accrued interest	172	1,150
Stock of notes and coins for circulation	2	(620)
Stock of numismatic items	48	157
Prepaid expenses	28	(50)
Notes and coins in circulation	1,764	(6,959)
Accounts payable and accrued liabilities	147	211
Funds Provided by Operating Activities	4,073	(3,433)
Cash Flows from Investing Activities		
Purchase of capital assets	(316)	(86)
Purchase of investments and term deposits	(59,956)	(21,937)
Proceeds from sale and maturity of investments	54,027	6,732
Funds Used in Investing Activities	(6,245)	(15,291)
Cash Flows from Financing Activities		
Distribution to the Consolidated Fund	(1,977)	(885)
Funds Used in Financing Activities	(1,977)	(885)
Decrease in Cash and Cash Equivalents	(4,149)	(19,609)
Cash and Cash Equivalents, Beginning of Year	17,861	37,470
Cash and Cash Equivalents, End of Year	13,712	17,861

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

NOTES TO THE

Financial Statements

For the year ended December 31, 2001

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:

- to issue and redeem notes and coins;
- to supervise, regulate and inspect any financial institution which operates in or 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 a resident;
- to foster close relations between financial institutions themselves and between the financial institutions and Government;
- to advise and assist the Government and public bodies on banking and other financial and monetary matters;
- to act as an investment adviser to the Government or to any public body; and
- to make recommendations to the Minister of Finance in respect of all matters relating, ancillary or consequential to the incorporation, establishment and formation of companies, partnerships, collective investment schemes or other entities.

2 Significant accounting policies

The financial statements are prepared in accordance with accounting principles generally accepted 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 and expenses 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. Realised and unrealised exchange gains and losses are included in investment income. Revenues and expenses are translated at the exchange rates in effect at the transaction dates.

(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.

(c) Cash and 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) Pension plan

For the 2001 financial year all employees of the Authority were covered by the Public Service Superannuation Fund administered by the Government of Bermuda. Contributions to the Fund 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. (See also Note 13)

3 Term deposits

Maturities and effective yields of term deposits are as follows:

In thousands of dollars	2001		2000
	1 to 5 Years	Total	Total
Term deposits	25,000	25,000	20,000
Average effective yield	6.91%	6.91%	7.20%

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

4 Investments

The investment portfolio includes fixed income securities denominated in US dollars. The market value of the portfolio of fixed income securities is \$68.1 million (2000 – \$65.9 million).

The fair value of the fixed income securities approximates market value.

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

In thousands of dollars	2001			2000
	1 to 5 Years	5 to 10 Years	Total	Total
US Government and US Government Agencies	16,995	41,973	58,968	58,020
Supranational bank	7,988	–	7,988	7,922
Total investments	24,983	41,973	66,956	65,942
Average effective yield	6.17%	5.95%	6.03%	6.43%

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 88.1% of its income earning assets are in US Government and US Government Agency securities.

5 Capital assets

In thousands of dollars	2001			2000
	Cost	Accumulated Amortisation	Net Book Value	Net Book Value
Land	1,000	–	1,000	1,000
Building	3,165	665	2,500	2,569
Computer equipment & software	796	549	247	192
Furniture & fixtures	703	546	157	60
	5,664	1,760	3,904	3,821

6 Due to the Consolidated Fund

In accordance with section 8(3) of the Bermuda Monetary Authority Act 1969, earnings in the amount of \$831,000 (2000 – \$1,977,000) will be payable to the Consolidated Fund of the Government of Bermuda. This amount is non-interest bearing and payable on demand.

7 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.

8 General Reserve

A general reserve of \$14,381,000 (2000 – \$13,549,000) has been established in accordance with section 8 of the Bermuda Monetary Authority Act 1969.

The Minister of Finance granted approval for \$832,000 (2000 – \$1,976,000) of net earnings to be transferred to the general reserve account.

9 Investment income

In thousands of dollars	2001	2000
Interest on investments	4,039	3,561
Interest on term deposits	1,482	1,456
Interest on cash and cash equivalents	461	1,065
Gain on sale of investments	60	1,557
Realised foreign exchange gain/(loss)	(3)	1
	6,039	7,640

10 Supervisory and licensing fees

In thousands of dollars	2001	2000
Bank and deposit company supervisory fees	501	485
Investment business licence fees	53	48
Bank and deposit company application fees	10	20
Investment business application fees	2	17
	566	570

11 General expenses

In thousands of dollars	2001	2000
Premises and general office expenses	551	486
Communication and computer expenses	361	307
Conferences, seminars, education and training	239	182
Miscellaneous expenses	88	94
Museum expenses	–	5
	1,239	1,074

12 Related party transactions

The Authority reviews, on behalf of the Minister of Finance, applications for the incorporation of companies, establishment of partnerships and the issuance of permits to overseas companies. The fees derived from these activities amounted to \$356,000 (2000 – \$456,000).

13 Subsequent events

(a) Corporate governance

A number of changes in senior corporate governance of the Authority were implemented through the Bermuda Monetary Authority Amendment (No. 2) Act 2001. This provided, among other matters, for the Authority's Chairman to become a full time Chief Executive Officer. It also expanded the Authority's Board to 11 persons, including two new Executive Director positions – the Superintendent of Banking, Trust & Investment and the Supervisor of Insurance, being the senior professional regulators for the respective sectors. In addition, the Amendment Act created a formal Deputy Chairman position and provided for the Deputy Chairman to head a committee of the non-executive members of the Board, charged with particular responsibilities for overseeing the Authority's discharge of its functions and the adequacy of its internal control arrangements as well as for determining the remuneration and other terms of service of the Executive Directors.

(b) Regulation of insurance

Responsibility for the regulation and supervision of insurance business was transferred to the Bermuda Monetary Authority under an amendment to the Insurance Act 1978 which came into effect on 1 January 2002.

(c) Pensions

As part of various changes intended to reinforce the Authority's position as an independent regulatory body with full operational autonomy, the Authority established in early 2002 a separate Defined Contribution Pension Plan. The majority of the Authority's employees transferred to the new Plan from the Government Superannuation Fund.

CONTACTING THE BMA**Bermuda Monetary Authority**

Burnaby House
26 Burnaby Street
Hamilton HM 11
Bermuda

Phone: (441) 295-5278
Fax: (441) 292-7471
Email: info@bma.bm
Website: www.bma.bm

For general information regarding:

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

Quinell Kumalae, *Head, Authorisation & Compliance* **Email:** qkumalae@bma.bm

Banks, trust companies and deposit companies, contact:

Simon Frew, *Head, Banking & Trust* **Email:** sfrew@bma.bm

Insurance business, contact:

Shelby Weldon, *Assistant Director, Insurance* **Email:** sweldon@bma.bm

or Julie Preece, *Head, Insurance* **Email:** jpreece@bma.bm

Investment services, collective investment schemes and the Bermuda Stock Exchange, contact:

Marcia Woolridge-Allwood, *Deputy Director,* **Email:** mwa@bma.bm

Banking, Trust & Investment

General information and requests for copies of BMA reports and other documents, contact:

John Hill, *Head, Research & Special Projects* **Email:** jhill@bma.bm

Information on Bermuda notes and coins, contact:

Mario De Lima, *Currency Operations Controller* **Email:** mdelima@bma.bm

Legal enquiries, contact:

Cheryl-Ann Mapp, *Senior Legal Counsel* **Email:** cmapp@bma.bm