



Regulatory Update ***November 2007***

***(Incorporating Financial Statistics for the
Quarter ended June 2007)***

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REGULATORY, LEGISLATIVE AND OTHER DEVELOPMENTS

This bulletin reports on recent activities at the Bermuda Monetary Authority (“the Authority”) and recent developments affecting the financial sector, as well as the community generally. Attached to it are the regular statistical data covering Bermuda dollar money supply, Bermuda banks’ balance sheet analysis and other financial and company sector information, updated for the quarter ended June 30th 2007.

(I) REGULATORY DEVELOPMENTS

a) Banks and Deposit Companies

Basel II Pillar 2

Consultation on the Authority’s proposed approach to implementation of Pillar 2 of the Basel II Accord is complete. The Authority is currently working on finalising its approach to Pillar 2, taking into consideration the comments received from industry to its recently circulated consultation paper. More information regarding the Pillar 2 process can be found in the Special Feature on page nine of this Regulatory Update.

b) Investment Funds

Fund Administrator Code of Conduct

The Authority has issued for industry comment a draft Code of Conduct for Fund Administrators who are to be licensed under the new Investment Funds Act (2006). A copy of the draft Code can be found in the Investment Fund section under Banking Trust and Investment on the Authority’s website (www.bma.bm). Comments on the Code should be sent to the Authority, addressed for the attention of Kathleen Strachan (kstrachan@bma.bm) no later than December 31st 2007.

c) Insurance

Audited Generally Accepted Accounting Principles (GAAP) Financial Statements

As part of the ongoing enhancement of the regulatory framework for insurance, the Authority has published a consultation paper entitled “Audited Generally Accepted Accounting Principles (GAAP) Financial Statements”. The paper which outlines the Authority’s proposal to publish audited GAAP financial statements of reinsurers as defined under the Insurance Act 1978.

This proposed regulation is in line with international standards of disclosure set by the International Association of Insurance Supervisors (IAIS), as outlined in their Core Principles. The Authority proposes that this requirement only be extended to the commercial reinsurance market and that it be implemented in a phased approach, beginning with the Class 4 reinsurers commencing with the 2007 year-end.

(II) LEGISLATIVE DEVELOPMENTS

a) *Proceeds of Crime Amendment Act 2007, Financial Intelligence Agency Amendment Act 2007 and Criminal Justice International Cooperation (Bermuda) Amendment Act 2007*

The Proceeds of Crime Amendment Act 2007, Financial Intelligence Agency Amendment Act 2007 and Criminal Justice International Cooperation (Bermuda) Amendment Act 2007 have been enacted; however have not yet been brought into force. It is expected that the legislation will come into force subsequent to the establishment of the Financial Intelligence Agency (FIA). The FIA will be the new administrative body that will receive, store, analyse and disseminate information relating to suspected proceeds of crime and potential financing of terrorism. The FIA will work in cooperation with Bermuda's Financial Investigation Unit and other relevant authorities.

b) *The Insurance Amendment Bill 2007*

The Authority completed a draft of the Insurance Amendment Bill 2007, which supports the filing of GAAP statements by Class 4 insurers and provides for their publication. The Bill was tabled in the House of Assembly in July, however was not enacted as the House was prorogued due to the national election scheduled for December 18th 2007.

c) *Bermuda Monetary Authority Amendment Act 2007*

Consultations are currently underway with industry regarding proposed amendments to the Bermuda Monetary Authority Act. The amendments consolidate all provisions relating to assistance provided to overseas regulators under the Act, and also facilitate certain increases in licensing and annual fees for regulated entities.

d) *Investment Funds Amendment Act 2007*

The Authority is reviewing proposals made by industry regarding amendments to the Investment Funds Act. These amendments cover a wide range of issues, and include under Section 76 (2), grand-fathering all the exclusions and conditions attached to funds under the previous Collective Investment Schemes Regulations 1998.

(III) OTHER DEVELOPMENTS

a) IAIS Global Reinsurance Market Study 2007

The fifth annual Global Reinsurance Market Study sponsored by the International Association of Insurance Supervisors (IAIS) Reinsurance Transparency Group was completed in September. The study, which looks at the workings and performance of reinsurance markets worldwide, involves a specific group of jurisdictions including France, Germany, Switzerland, Japan, the United Kingdom, the United States and Bermuda. Participating companies from these jurisdictions must meet certain criteria outlined by the IAIS in order to be included in the survey. All of the eligible reinsurance companies from Bermuda participated in this year's study and the Authority coordinated and prepared Bermuda's submission. The final report is expected to be published by the IAIS in mid-December.

b) Bermuda Bankers Association

The Authority has endorsed the newly formed Bermuda Banker's Association (BBA), an industry think tank, lobby group and forum established to support further cooperation among Bermuda's banks. The six member association, which currently includes all of the island banks and deposit companies, will meet on a monthly basis to focus on promoting an understanding of the banking industry between industry stakeholders, international bodies and the media. The Authority has observer status membership in the Association.

c) International Association of Insurance Supervisors Committee Appointment

Jeremy Cox, Supervisor of Insurance, recently accepted the position of Chairman of the IAIS Reinsurance Transparency Group (RTG). The RTG is a subcommittee of the IAIS Technical Committee, whose main remit is to improve transparency in the sector through producing annual global reinsurance market statistics and reports.

The Authority also represents Bermuda on a number of other IAIS committees and sub-committees including the Reinsurance Subcommittee, of which Mr. Cox is Vice Chairman, the Corporate Governance Task Force, the Captive Guidance Paper Working Group, The Solvency and Actuarial Sub Committee, the Mutual Recognition Sub Group, and the IAIS Technical Committee. Involvement with international regulatory groups such as the IAIS enables the Authority to remain abreast of, and participate in, the development of international standards.

d) Seminars, Conference and Publications

September

William Kattan, Director, Legal Services and Enforcement, was a speaker at the 25th International Symposium on Economic Crime from September 2nd – 9th, at Jesus College, Cambridge, United Kingdom.

Cyralene Benskin-Murray, Assistant Director, Legal Services and Enforcement and Dina Wilson, Legal Counsel, Legal Services and Enforcement, attended the 5th Annual Sedgwick Bermuda Insurance Market Conference on 12th September 2007.

Shanna Lespere, Deputy Director, Insurance Licensing & Authorisations, attended the First Global Middle East Insurance Conference in London from September 3rd - 7th.

Mrs. Lespere, Marcelo Ramella, Assistant Director, Research and Susan Kovacs, Principal, Insurance, were speakers at the 2007 Bermuda Captive Conference which took place from September 16th – 19th.

Matthew Elderfield, Chief Executive Officer, attended and was the keynote speaker at the Bermuda International Business Association (BIBA) New York Round Table event from September 25th – 27th. Mrs. Lespere was also a speaker at the event.

October

Mr. Elderfield was also the featured speaker at the MarHedge Conference held at the Fairmont Southampton Princess on October 28th and attended the National Association of Insurance Commissioners (NAIC) Fall National Meeting in Washington DC which took place from September 29th – October 2nd.

Mrs. Lespere attended the American Society for Healthcare Risk Management (ASHRMS) 2007 Annual Conference & Exhibition in Chicago, Illinois from 10th – 12th October.

Harry Whitcher, Deputy Director, Insurance Compliance attended the Association of Insurance & Reinsurance Run-off Companies' (AIRROC) Conference from October 12th – 18th, held in New Jersey. Mr. Whitcher also attended the International Association of Insurance Receivers' (IAIR) 2007 Captives Market Conference held in New York from October 23rd – 25th.

Matthew Elderfield and Jeremy Cox, Supervisor of Insurance, attended the IAIS 14th Annual Conference in Fort Lauderdale, Florida from 16th – 19th October. Mr. Cox was a panel participant.

Graeme Dargie, Director, Banking, Trust and Investment, represented the Authority at the Alternative Investment Management Association's (AIMA) 4th International Regulatory Forum held in London on October 22nd. Mr. Dargie also attended the

Offshore Group of Banking Supervisors 2007 Annual Meeting in Macao, China from October 29th – 31st.

Mrs. Lespere was a speaker at the Canadian Institute of Chartered Accountants (CICA) Best Practices Regulator Group on October 24th.

November

Mrs. Lespere and Mr. Ramella were speakers at the 17th World Captive Forum held in Scottsdale, Arizona from November 5th – 7th.

Shelby Weldon, Director, Insurance, and Susan Kovacs attended the AIG Regulator's Conference in Washington DC from November 6th – 7th,.

Mr. Weldon, Mrs. Lespere, and Suzanne Williams, Assistant Director, Insurance, attended the 19th Annual Property and Casualty Executives Conference in New York from November 8th – 9th.

Jeremy Cox was a panel participant at the Mealey's Global Reinsurance Forum held from November 14th – 15th.

Mr. Kattan and Kevin Anderson, Policy Officer, Policy & Research, attended the Caribbean Financial Action Task Force (CFATF) Conference in Costa Rica from November 18th – 23rd.

Harry Witcher was a panel participant at RenaissanceRe's Global "Compliance Palooza" event held on November 27th.

e) New Staff

Yvette Pierre has joined the Insurance department as a Principal.

Cynthia Currie has joined the Human Resources department as Director.

Vera Burgess has joined the Corporate & Financial Services department as Assistant Controller.

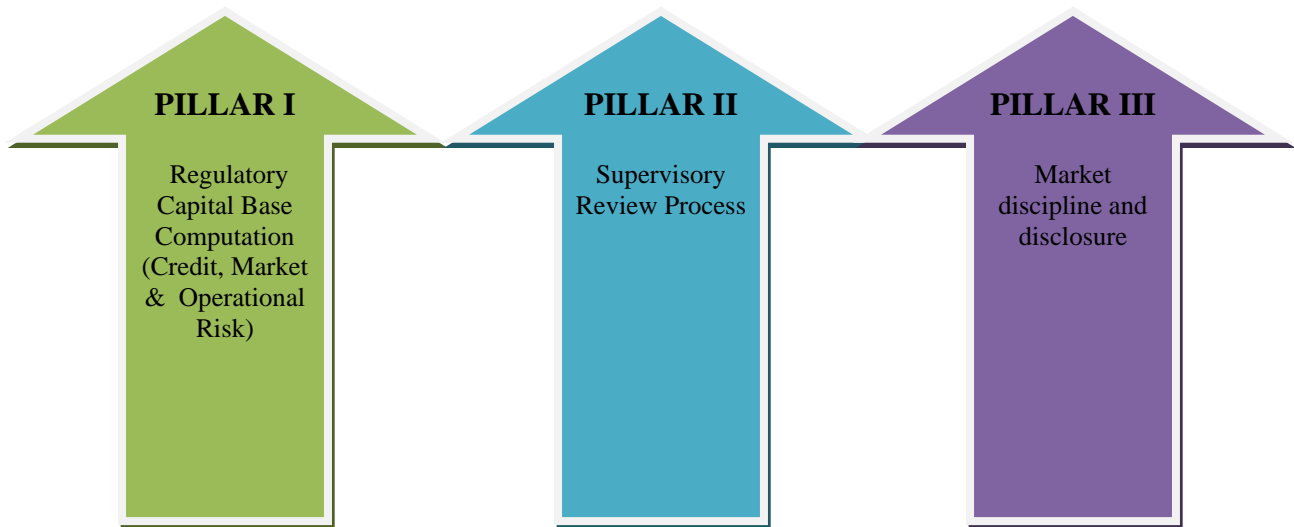
Gina Smith has joined the Actuarial Services unit as an Actuary.

Rick Shaw has joined the Actuarial Services unit as Director.

Leslie Robinson has joined the Insurance department as an Assistant Director.

Special Feature – Basel II Update

The Basel Committee on Banking Supervision, which sets International Standards for the banking sector, concluded discussions on the Basel II Capital Accord in June 2004. The Basel II Capital Accord seeks to improve risk management techniques within banking institutions by introducing an appropriate supervisory framework for well diversified, internationally active banks. The Basel II framework encompasses three main pillars as outlined in the schematic below:



The Bermuda Monetary Authority has been engaged in discussions with banks on various issues involved in the Basel II implementation process, as well as the implications for Bermuda since August 2005.

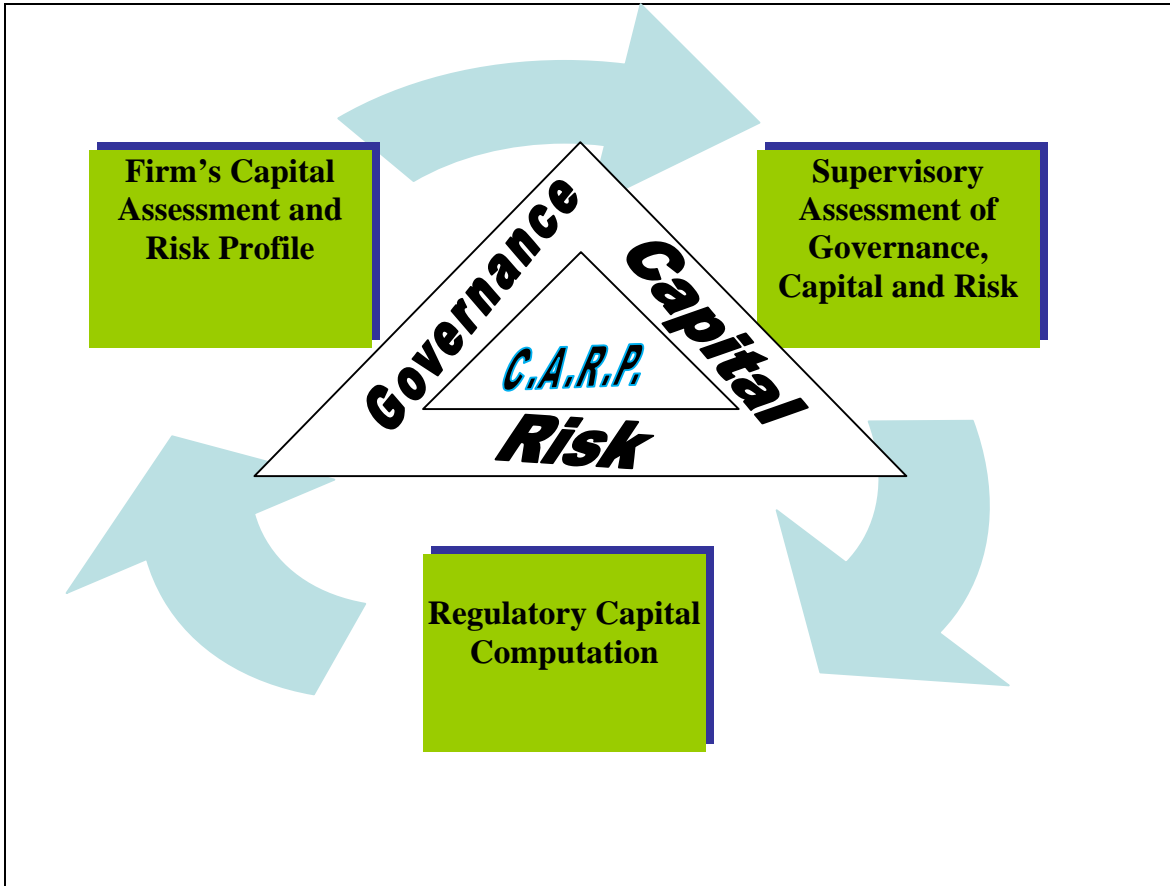
The Authority has already published several policy papers in relation to Pillar I. In addition, the Pillar II paper was published in August 2007, with the consultation period ending on October 31st 2007. The remaining consultation papers will be published early next year. This will include Pillar III consultation, scheduled for the second quarter of 2008; the Authority will also distribute final Basel II Rules and Guidance to the industry during that period.

Current emphasis is on Pillar II implementation, which is set for January 1st 2009, and in this regard, the Authority is well advanced in planning for this significant event. The Authority has established a Steering Committee and a Working Group to look at the strategic and tactical areas of the Pillar II Implementation project respectively. The Steering Committee is chaired by Graeme Dargie, Director, Banking Trust and Investments (BTI) and the Working Group is chaired by Courtney Christie-Veitch, Assistant Director, BTI.

Pillar II is essentially the Supervisory Review Process. This involves the regulator conducting a supervisory assessment of the firm's own assessment of its capital and risk

profile (CARP)¹. The regulators will use this supervisory assessment to determine the regulatory capital requirement for the firm. A diagrammatic representation of this process is outlined below:

The Pillar II Process



The Authority has identified several core functions for the effective management and execution of the Pillar II Implementation Project. These functions include policy development, training, revision of the reporting framework and ongoing consultation with industry.

The Authority has received some written feedback from the Pillar II consultation process and has already established dates for initial bilateral meetings with banks and large investment firms to discuss, inter alia, their implementation plans, resource requirements and timelines. Further, it is envisaged that regular meetings will be held with senior management of relevant financial institutions to monitor progress during 2008. The Authority will also monitor progress via scheduled on-site visits, off-site surveillance and quarterly meetings to discuss risk, compliance and internal controls.

¹ Capital Assessment and Risk Profile.

STATISTICAL ANNEXE

BERMUDA MONEY SUPPLY

(BD\$ millions)	2006-Q1	2006-Q2	2006-Q3	2006-Q4	2007-Q1	2007-Q2
Notes & Coins in Circulation*	99	106	106	121	107	111
Deposit liabilities:						
Banks and Deposit Companies (unconsolidated)	3,418	3,481	3,480	3,499	3,411	3,597
	3,517	3,588	3,586	3,620	3,518	3,709
Less: Cash at Banks and Deposit Companies	24	31	30	44	29	31
BD\$ Money Supply	3,493	3,557	3,557	3,575	3,489	3,677
% Growth on Previous Period	1.64%	1.84%	-0.02%	0.53%	-2.43%	5.41%
% Growth Year on Year	-4.20%	-2.11%	-0.75%	4.04%	-0.12%	3.38%

* 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.

BD\$ DEPOSIT PROFILE - COMBINED BANKS AND DEPOSIT COMPANIES (Unconsolidated)

(BD\$ Millions)	2006-Q1	2006-Q2	2006-Q3	2006-Q4	2007-Q1	2007-Q2
Deposit Liabilities	3,418	3,481	3,480	3,499	3,411	3,597
Less:						
Loans, Advances and Mortgages	(3,438)	(3,589)	(3,700)	(3,810)	(3,905)	(4,093)
Surplus deposits	(20)	(107)	(219)	(311)	(494)	(495)
Percentage of Deposit Liabilities Lent	100.6%	103.1%	106.3%	108.9%	114.5%	113.8%

§ 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)	2006 - Q1	2006 - Q2	2006 - Q3	2006 - Q4	2007 - Q1	2007 - Q2
Total Foreign Currency Assets	18,269	18,617	18,141	18,831	18,661	20,239
Less: Other Assets	516	495	498	644	549	653
Less: Foreign Currency Loans to Residents	1,109	1,074	1,085	1,189	947	945
Net Foreign Currency Assets	16,644	17,048	16,558	16,998	17,165	18,641
Foreign Currency Liabilities	16,302	16,882	16,251	16,725	16,724	18,098
Add: BD\$ Deposits of Non-Residents	120	134	128	147	150	205
Net Foreign Currency Liabilities	16,421	17,016	16,379	16,872	16,874	18,304
Net Foreign Currency Position (consolidated)	223	32	179	126	291	338

Totals may not add due to rounding

COMPANIES PARTNERSHIPS PERMITS STATISTICS

APPLICATIONS APPROVED SUMMARY Q2-2007

	2006-Q1	2006-Q2	2006-Q3	2006-Q4	2007-Q1	2007-Q2
Exempted Companies (Bermuda companies exempted from the 60% Bermudian ownership requirement)	282	246	230	306	236	328
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	25	73	16	57	39	32
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	2	1	0	12	2	0
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	4	5	4	14	7	6
Unit Trusts	12	19	7	4	24	6
Continuation Companies (companies from other jurisdictions continuing into Bermuda as exempted companies)	6	10	9	3	8	5
Unlimited Liability Companies	0	1	6	0	0	6
Local Companies	56	64	56	49	64	62
Total Applications Approved *	387	419	328	445	380	445
* Quarterly Numbers are amended to reflect more up-to-date consent information						

INVESTMENT FUND STATISTICS

	2006-Q1	2006-Q2	2006-Q3	2006-Q4	2007-Q1	2007-Q2
Mutual Funds	850	869	878	906	792	887
Umbrella Funds	62	62	63	67	68	68
Sub-Funds	293	284	279	283	270	269
Segregated Account Companies	61	64	67	69	75	77
Segregated Accounts	394	394	393	390	399	397
Total	1,660	1,673	1,680	1,715	1,604	1,698
Unit Trusts	107	108	108	109	108	106
Umbrella Trusts	122	139	151	151	134	138
Sub-Trusts	232	232	222	215	215	215
Total	461	479	481	475	457	459
TOTAL PORTFOLIOS	2,121	2,152	2,161	2,190	2,061	2,157
TOTAL NUMBER OF FUNDS	1,202	1,242	1,267	1,302	1,177	1,276
TOTAL NET ASSET VALUE (IN BILLIONS)	\$209.07	\$207.52	\$210.95	\$211.52	\$199.61	\$223.14

Note: Data reported for the periods Q1 2007 are to be restated given miscalculation in the aggregate reported NAVS.

ADDITIONS TO THE INSURANCE REGISTER

	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Q2
Class 1 Single-parent captive insuring only risks of its owners or affiliates of the owners	3	6	2	2	3	2
Class 2 (a) a multi-owner captive insuring risks of its owners or affiliates of the owners; (b) a single-parent and multi-owner captive: (i) insuring the risks related to or arising out of the business or operations of the owners and affiliates, and/or (ii) deriving up to 20 percent of its net premiums from unrelated risks	2	1	1	0	0	1
Class 3 Insurers not included in Class 1, 2 or 4, such as i) Reinsurers writing third party business; ii) Insurers writing direct policies with third party individuals; iii) Single parent, group, association, or joint venture captives where more than 20% of their net premiums written arises from risks which are unrelated to the business of the owners; iv) Finite reinsurers and rent-a-captives	8	12	4	26	6	14
Class 4 Insurers and reinsurers capitalised at a minimum of \$100 million underwriting direct excess liability and/or property catastrophe reinsurance risk	0	1	0	2	0	1
Long-Term Insurers Insurers writing long-term (or life) business	4	0	3	2	4	2
Composites Insurers writing combination of long-term (or life) business and Class 1, 2, 3 or 4 business	0	0	1	2	0	2
Total additions during quarter	17	20	11	34	13	22

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