



Regulatory Update October 2010

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Preface

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 30th June 2010.

The Regulatory Update is published in print and electronic formats. The electronic version is available on the Authority’s website www.bma.bm and can be downloaded as a PDF file. If you wish to receive an email notice when the electronic version is available, you may sign-up to our e-subscriptions service by emailing your request to enquiries@bma.bm. If you currently receive the print version and would like to receive the electronic version instead, please indicate this in your request.

Regulatory and Legislative Developments

1. BANKING

Consultation on Revised Liquidity Policy Completed

The Authority has completed industry consultation on its revised liquidity framework for Bermuda's banks and is currently reviewing comments received from interested parties on its proposals. In keeping with the Authority's commitment to maintain consistency with international regulatory standards, the revised liquidity framework is in line with core principles on liquidity set by the Basel Committee of Banking Supervision.

The proposals seek to strengthen both the liquidity risk and institutional frameworks for Bermuda's banks by addressing high-level principles, including the setting of liquidity tolerance at the board level; processes for managing liquidity risk; funding diversification; contingency planning; stress-testing and maintenance of liquidity buffers. The Authority intends to issue its revised policy paper at the end of 2010.

Consultation on Deposit Insurance Scheme Underway

After completing extensive consultation with representatives from the Ministry of Finance and Bermuda's banks, the Authority issued its Consultation Paper, "Securing Enhanced Protection for Depositors - Proposals for Introducing Deposit Insurance in Bermuda" for stakeholder comment. The Paper outlines twelve recommendations regarding the structure and key features of a deposit insurance scheme (DIS) in Bermuda, which are designed to ensure it is prudently implemented. The paper is accompanied by a draft bill.

The Authority is proposing a DIS be established in Bermuda to provide an additional pillar of depositor protection to complement the existing prudent and effective supervision of Bermuda's banking sector. A DIS provides protection to depositors of a bank by guaranteeing that they will be compensated up to a maximum specified amount of their deposits upon failure of that institution. The addition of a DIS for Bermuda's banking industry will add a layer of protection, further strengthening the sector and the financial safety net for depositors.

A copy of the Consultation Paper is available on the Authority's website: www.bma.bm.

2. INVESTMENT

Investment Funds Act 2006 Review On going

The Authority recently published its response to the feedback received on the Consultation Paper entitled "Securing Enhanced Protection for Investors: Proposed Amendments to the Investment Funds Act 2006" published on 31st May. A copy of both the Paper and the response are available on the Authority's website: www.bma.bm. The Authority expects amendments to the Act to be tabled in November 2010 for consideration by the Legislature.

3. INSURANCE

Authority Consults on Long-Term Insurers Framework

As part of its on going programme of regulatory framework enhancements, the Authority has issued a Consultation Paper, "A Solvency Framework for Long-Term Insurance". The Paper outlines an enhanced risk-sensitive regime for Bermuda's Long-Term (life) insurers, to be implemented in a proportionate manner in accordance with the nature, scale and complexity of these entities. The Authority is proposing to introduce a class system to assign Long-Term firms to captive and commercial classes to ensure appropriate solvency and reporting standards.

An industry taskforce with broad market representation assisted in the development of the Paper, which includes a draft risk-based capital model, to be initially applied to the higher, commercial class insurers. The Paper outlines both a modelled approach and a standard approach to determining regulatory capital for Long-Term insurers. This will accommodate the range of modelling capabilities that exists within companies in the Bermuda market, where some already employ sophisticated modelling tools and techniques, while others may not yet have the capacity to develop a regulator-approved internal model. The standard approach will use the same principles as the Bermuda Solvency Capital Requirement (BSCR) model for general insurers.

Draft enabling legislation was also published for industry comment. Both the Consultation Paper and the

draft legislation are available on the Authority's website: www.bma.bm.

Discussion Paper on Economic Balance Sheet and Proposed Changes to Regulatory Reporting Published

The Authority published its "Discussion Paper on Economic Balance Sheet and Proposed Changes to Regulatory Reporting" on 3rd September 2010. In this Paper, the Authority is considering the introduction, for solvency purposes, of an economic balance sheet framework for the Bermuda market. The proposed framework embraces an economic valuation of all assets and liabilities that reduces or eliminates (where possible) accounting mismatches where there are no underlying economic mismatches, thus providing a more accurate representation of the solvency position of an entity.

As an initial step, the Authority proposes to replace the current statutory financial statements with general purpose financial statements, subject to specified prudential filters and/or fair value disclosures or adjustments. The proposals in the Paper will apply to the Bermuda commercial insurers (Class 4, Class 3B, Class 3A insurers and insurance groups for which the Authority would be the Group-wide Supervisor). In addition, the concepts in the Paper would also be considered for the Long-Term commercial classes. A copy of the Discussion Paper is available on the Authority's website: www.bma.bm.

Groups Framework Update

The Authority continues to move forward with implementation of its group-wide regulatory and supervisory frameworks. Enabling legislation was passed by Parliament in Q1 2010, which gave the Authority the ability to supervise groups and to become a Group-wide Supervisor. The legislation also gave the Authority the ability to draft rules governing matters on governance and risk management; financial assessment and group solvency; and supervisory reporting and disclosures. The Authority is currently drafting a Group Code of Conduct as well as Group rules, which cover matters such as:

- Statutory filings for insurance groups
- Group solvency self-assessment

- Group BSCR to calculate group solvency

The Authority intends to finalise these rules by Q4 2010. The Group Code of Conduct will become effective as of 31st December 2010. Insurance groups for which the Authority is the Group-wide Supervisor will be required to be fully compliant with the Code by 1st July 2011.

The Authority Extends Insurance Code of Conduct Compliance Date for Captive Sector

The Authority introduced the Insurance of Conduct effective 1st July 2010. The date for the commercial sector to be compliant with the Code is 31st December 2010. However, to ensure that insurance managers are adequately prepared, the Authority has extended the compliance date for the captive sector to 31st March 2011.

Updated Solvency II Roadmap Published

The Authority published its updated 'Bermuda's Insurance Solvency Framework' (Solvency II Roadmap) in September 2010. The Roadmap outlines the Authority's progress towards establishing a leading insurance framework that is recognised as being equivalent with other key regimes around the world. In particular, the Authority's equivalency efforts are currently focused on achieving this status under Europe's Solvency II directive.

The Roadmap describes the core priorities for the Authority's on going regulatory change programme related to capital adequacy, governance, risk management, and transparency and disclosure. It also provides key initiatives under each priority, as well as implementation and other milestones to be met in the short-medium term as the Authority continues its framework developments.

A copy of the Roadmap is available on the Authority's website: www.bma.bm.

Legislation Passed to Impose Special Assessment on Class 4 firms for Solvency II Framework Enhancements

After a period of broad consultation with the market, the Insurance Companies (Special Fees) Act 2010 was passed by Parliament in July, and came into force on 10th August. The Act imposes a one-time fee on Class 4 (re)insurers to assist the Authority in funding the

additional resources required to enable it to conduct its programme of enhanced supervision associated with Solvency II equivalence.

The fee, which was due on 30th September, is being applied on a sliding scale, ranging from \$80,000 to \$230,000 depending on the amount of gross premiums written by an (re)insurer.

4. ANTI-MONEY LAUNDERING

Authority Applies First Penalty Under Wider Anti-Money Laundering / Anti-Terrorism Financing Powers

The Authority has fined deposit-taking firm First Bermuda Group (FBG) \$100,000 for a number of compliance failings related to the Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing) Regulations 2008 (the Regulations). An on-site inspection by the Authority found that the company's internal controls in relation to anti-money laundering fell well below the standards set by the Regulations. No evidence of actual money laundering was uncovered and the security of customers' deposits are not threatened by the internal controls issues identified.

The decision to take enforcement action and the size of the penalty applied to FBG reflects the serious nature of the internal control failings, which occurred throughout a period of some 16 months after the Regulations became effective in January 2009. In setting the amount of the penalty, however, the Authority took into account the early admissions of the company and the work it has done since to remedy the deficiencies.

This is the first such action the Authority has taken using its wider powers under the Proceeds of Crime Regulations (Supervision and Enforcement) Act 2008, which include the ability to impose financial penalties on non-compliant firms.

Analysis of Anti-Money Laundering Self-Assessment Questionnaire Returns Near Completion

The Authority is currently in the final stage of collating and analysing responses to the Self-Assessment Questionnaire which closed at the end of the second quarter. The Questionnaire is part of the Authority's anti-money laundering/anti-terrorism financing (AML/ATF) regime, and is designed to determine the level of compliance of Bermuda's financial services market with the Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing) Regulations 2008.

International Outlook

Authority Lends Support to Business Bermuda's Annual Financial Services Conference

Jeremy Cox, CEO of the Authority participated as a panelist and keynote speaker at the recent Bermuda Financial Services Conference which took place at the Harvard Club of New York City on 30th September. The annual conference is organised by Business Bermuda, formally known as the Bermuda International Business Association. Business Bermuda aims to increase awareness of the jurisdiction as a premier domicile for international business in key markets overseas. The Authority's participation at the Conference focused on providing information on the regulatory environment in Bermuda and how it supports the jurisdiction's reputation as a domicile of choice. During the conference Mr. Cox participated as a panelist on the pre-conference Bermuda Summit, an opening session featuring representatives from the Ministry of Finance and industry. In addition, he also closed the event with a keynote speech on the latest regulatory developments in Bermuda and around the globe.

Authority participates in Biennial International Conference of Banking Supervisors

The biennial International Conference of Banking Supervisors (ICBS) was held from 20th – 23rd September in Singapore. Graeme Dargie, Director, Banking Trust and Investment Department attended the event, which brings together banking regulators from all over the world. The twin themes of the Conference were "building a more resilient banking sector" and "creating a stable financial environment for sustained economic growth". Much of the discussion was around the proposals relating to capital and liquidity, collectively referred to as "Basel III". There were separate sessions devoted to corporate governance and how to deal with systemically-important financial institutions.

Authority Participates in First Joint Cariforum Conference on Caribbean Financial Stability

The Authority was invited to participate at the First Joint EU-CARIFORUM Conference on Financial Services

in the Caribbean region. This Conference took place in Antigua from 9th -10th July 2010. The Conference sought to review the status of financial services and the regulatory environment for financial services in the Caribbean and to analyse an approach to moving forward in the current financial climate.

Yvette Pierre, Assistant Director (Risk), at the Authority participated in the opening session on "Caribbean Financial Stability - Next Steps" along with the Deputy Governor of the Barbados Central Bank, Governor of the Eastern Caribbean Central Bank and the Director Economics Department of the Caribbean Development Bank. Ms. Pierre spoke about the Authority's experience and proactive stance taken during the financial crisis, and provided perspective on how jurisdictions can learn from such experiences to engender economic stability in their various economies. A key discussion point highlighted during the proceedings was the need for regulatory and governmental dialogue and co-operation, especially where cross-border issues may arise.

Authority Participates in IAIS Meetings; Contributes to Drafting of Revised Insurance Core Principles

Craig Swan, Director, Policy, Research and Risk Assessment (PRRAD), and Kevin Anderson, Principal, PRRAD, participated in recent meetings of the Insurance Groups and Cross-sectoral Issues Subcommittee (IGSC) held in Switzerland and in Washington D.C. The IGSC is a working party of the IAIS that is primarily concerned with the effective supervision of insurance groups and cross-sectoral institutions. It is the main coordinating working party within the IAIS involved in all group-related issues and is particularly concerned with the risk to the financial system that these institutions pose due to the possibility of contagion. Bermuda holds the position of deputy chair of this Subcommittee and has a team contributing to the global development of group-wide supervision for the insurance sector. The team is actively participating in the drafting of certain revised Insurance Core Principles, as well as standards and guidance intended for all jurisdictions, and this work is in its final stages of development. Some of this work underwent further refinement at the 7th

– 9th September meeting in Washington, D.C., and is expected to be adopted by the IAIS at the October 2010 Triannual meeting. The Authority's team is also contributing to global debate on a range of other group-specific initiatives.

Marcelo Ramella, Assistant Director, PRRAD, participated in the meeting of the IAIS Reinsurance and Other Forms of Risk Transfer Subcommittee held in London on 29th – 30th September. The meeting addressed the results of a public consultation conducted by the IAIS on a new Insurance Core Principle on reinsurance, as well as looking at current work within the Reinsurance Transparency Subgroup, chaired by Jeremy Cox.

Authority Makes Presentation on Macroprudential Surveillance Trends at IAIS Financial Stability Institute Seminar

Marcelo Ramella delivered a presentation on 'International Standards, Financial Stability and Macroprudential Surveillance' at the Regional Seminar for Supervisors in Latin America on Reinsurance and Other Forms of Risk Transfer, organised by the Financial Stability Institute. The seminar took place in Mexico City on 21st-23rd September 2010.

Authority participates in Caribbean Financial Action Task Force Workshop

Thomas Galloway, Senior Legal Counsel, and head of the Authority's AML/ATF Compliance Unit, attended a Caribbean Financial Action Task Force (CFATF) and International Monetary Fund (IMF) "Pre-Assessment Workshop" in El Salvador during the week of 19th July.

The workshop was designed to help CFATF member countries prepare for their next mutual evaluation, which is a periodic evaluation of a country's AML/ATF provisions against the international standards set by the Financial Action Task Force (FATF). The workshop was conducted by technical specialists from the International Monetary Fund and the CFATF Secretariat.

Authority participates in 2010 Mexico Captive Summit

Shelby Weldon, Director, Insurance Licensing and Authorisations was part of a delegation from Bermuda that participated in the 2010 Mexico Captive Summit held in Mexico City from 19th – 21st July. Mr. Weldon participated in a joint presentation with the Ministry of Finance, where he presented an overview of Bermuda regulatory framework, with particular emphasis on Bermuda's insurance regime.

Reinsurance Transparency Subgroup Mid-year Report on Macroprudential Surveillance Published

The IAIS Reinsurance Transparency Subgroup (RTG), chaired by Jeremy Cox, CEO of the Authority, published its second mid-year edition of the Global Reinsurance Market Report (GRMR) in August. The Paper, entitled "Macroprudential Surveillance and (Re)insurance" is the first from the RTG to focus entirely on the issue of macroprudential surveillance practices in the insurance industry. Specifically, it looks at current issues and debates on the meaning, scope and value of macroprudential surveillance. It also discusses current macroprudential practices among insurance supervisors globally.

The IAIS, through its Financial Stability Committee and the work of the RTG, has committed to furthering the understanding of macroprudential surveillance practices in the insurance industry. The Report, which is part of their contribution to the global debate on these issues, was produced by a team of economists led by Dr. Sebastian Von-Dahlen (IAIS) and Dr. Marcelo Ramello, Assistant Director, Research at the Authority.

"Macroprudential Surveillance and (Re)insurance." is available on the IAIS's website: www.iaisweb.org.

Market Analysis and Statistics

1. BERMUDA MONEY SUPPLY

A reduction in Bermuda dollar deposit liabilities coupled with an increase in cash held by banks led to a contraction in the Bermuda dollar money supply by 0.89% during the quarter and by 2.64% from a year earlier. Bermuda dollar notes and coins in circulation increased by 5.51% during the quarter.

Bermuda Money Supply

(BD\$ millions)	2010-Q2	2010-Q1	2009-Q4	2009-Q3	2009-Q2	2009-Q1
Notes & Coins in Circulation*	134	127	137	123	127	126
Deposit Liabilities	3,719	3,748	3,840	3,858	3,816	3,802
Total	3,853	3,875	3,977	3,981	3,943	3,929
Less: Cash at Banks**	73	61	70	60	60	59
BD\$ Money Supply	3,780	3,814	3,907	3,921	3,883	3,870
% Growth on Previous Period	-0.89%	-2.37%	-0.36%	0.98%	0.33%	-0.76%
Growth Year on Year	-2.64%	-1.44%	0.18%	0.43%	0.44%	2.12%

Totals may not add due to rounding.

* This table includes the supply of Bermuda dollars only. United States currency is also in circulation in Bermuda but the amount has not been quantified.

** Includes deposit companies as well as banks.

2. DOMESTIC AND FOREIGN CURRENCY POSITION

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

(BD\$ millions)	2010-Q2	2010-Q1	2009-Q4	2009-Q3	2009-Q2	2009-Q1
Deposit Liabilities	3,719	3,748	3,840	3,858	3,816	3,802
Less:						
Loans, Advances and Mortgages	(5,390)	(5,214)	(5,148)	(5,205)	(5,097)	(5,039)
Surplus Deposits	(1,671)	(1,466)	(1,308)	(1,347)	(1,280)	(1,237)
Percentage of Deposit Liabilities Loaned	144.9%	139.1%	134.1%	134.9%	133.5%	132.5%

Totals may not add due to rounding.

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

The sector reported an increase in the proportion of Bermuda dollar lending relative to Bermuda dollar deposit liabilities during the quarter from 139.1% to 144.9%.

- Bermuda dollar loans, advances and mortgages increased by 3.4% during the quarter and 5.8% year-on-year, as compared to decreases in Bermuda dollar deposit liabilities of 0.8% during the quarter and 2.5% year-on-year.
- The shortfall in Bermuda dollar deposits over Bermuda dollar loans and advances continues to be financed by Bermuda dollar shareholders' funds.
- Taking into account other Bermuda dollar liabilities, in particular the banks' capital, there are more than sufficient Bermuda dollar liabilities to fund the sector's Bermuda dollar assets.

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

(BD\$ millions)	2010-Q2	2010-Q1	2009-Q4	2009-Q3	2009-Q2	2009-Q1*
Total Foreign Currency Assets	16,861	16,250	15,960	15,575	16,396	15,987
Less: Other Assets	433	386	478	501	518	604
Less: Foreign Currency Loans to Residents	1,219	1,067	1,172	1,128	1,110	1,089
Net Foreign Currency Assets	15,209	14,797	14,310	13,947	14,768	14,294
Foreign Currency Liabilities	15,749	14,964	14,940	14,262	14,889	14,597
Add: BD\$ Deposits of Non-Residents	195	189	176	204	350	348
Net Foreign Currency Liabilities	15,944	15,153	15,116	14,466	15,238	14,945
Net Foreign Currency Position (Consolidated)	(735)	(356)	(807)	(519)	(471)	(651)

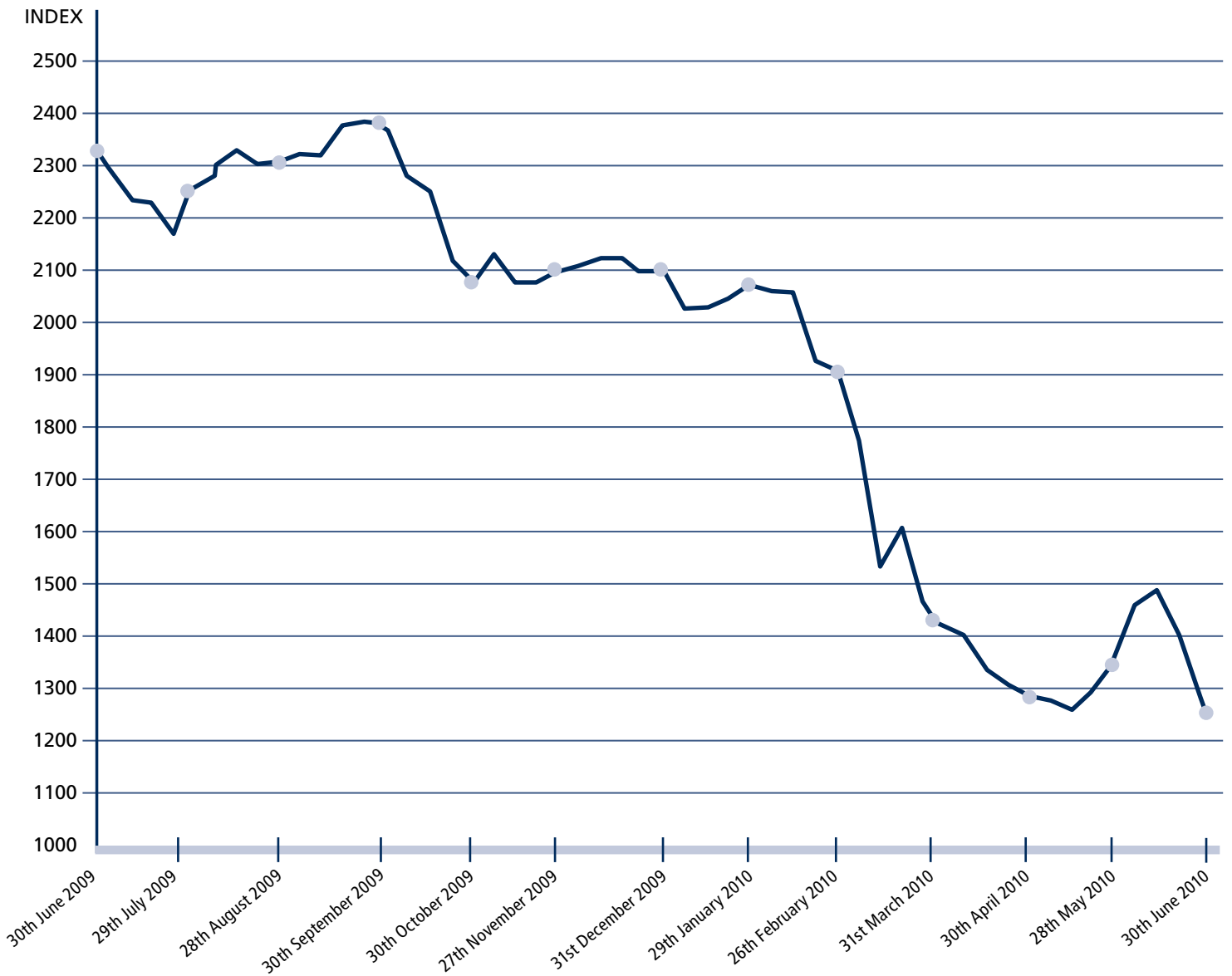
Totals may not add due to rounding.

*Restated based on submissions from the banks.

Bermudian banks' foreign currency liabilities continued to surpass foreign currency assets. The deficit in the net foreign currency position of the Bermuda banks and deposit taking sector increased by \$379 million during the quarter as a result of the faster growth in net foreign currency liabilities of 5.2%, as compared to increases in net foreign currency assets of 2.8%.

3. BERMUDA STOCK EXCHANGE (BSX)

Total market capitalisation, excluding funds, was \$291 billion as at 30th June, an increase of roughly \$59 billion primarily due to new fixed income, insurance linked and mezzanine issues. The domestic market (see chart below) was valued at \$1.69 billion as at 30th June, reflecting some leveling out in the index over the second quarter following a sharp decline in Q1.



Source: Bermuda Stock Exchange

4. BANKING

Total assets increased by 3.9% during the quarter from \$21.9 billion to \$22.8 billion. This growth primarily reflected an increase in foreign currency-denominated customer deposits.

Cash-on-hand and deposits with other banks increased by 5.6% during the quarter while total loans and advances increased by 3.7%. Total investments rose by 1.8% during the quarter but decreased by 12.9% year-on-year.

Customer deposit liabilities rose by 3.7% from \$18.4 billion in Q1 2010 to \$19.1 billion in Q2 2010. The quarter-on-quarter increase reflects an increase in both demand and time deposits of 3.5% and 9.8% respectively, partially offset by a 3.6% decline in savings deposits.

Shareholders' equity for the sector rose marginally by 5.2% or \$0.1 billion to \$3.1 billion over the quarter.

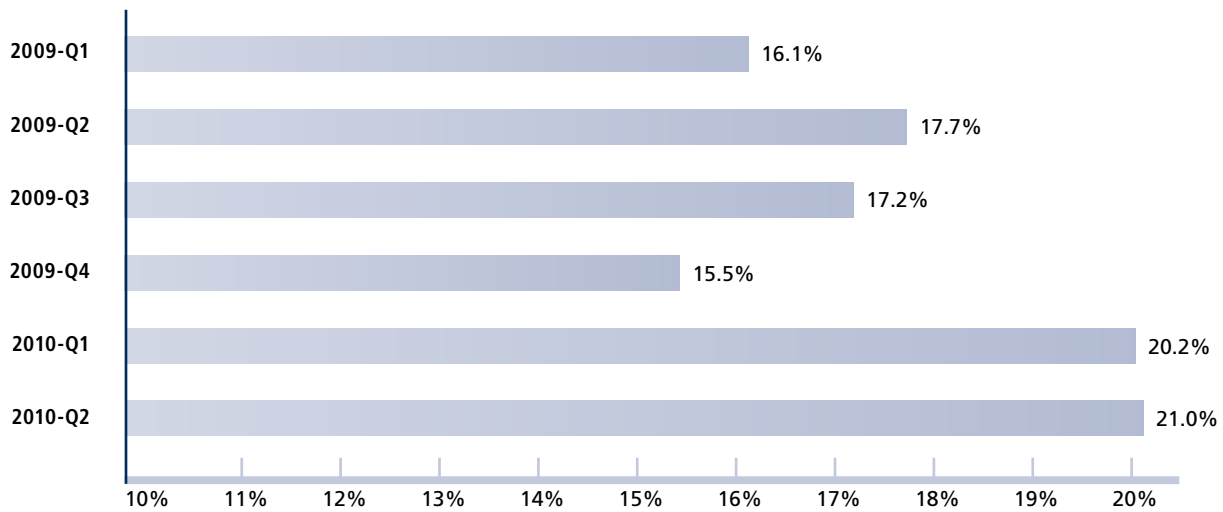
Banking Sector Assets and Deposits

	2010-Q2	2010-Q1	2009-Q4	2009-Q3	2009-Q2	2009-Q1
Total Assets (\$ millions)	22,779	21,933	21,627	21,284	21,933	21,456
Quarterly Change (%)	3.9	1.4	1.6	-3.0	2.2	-5.9
Total Deposits (\$ millions)	19,124	18,435	18,462	17,823	18,332	18,036
Quarterly Change (%)	3.7	-0.1	3.6	-2.8	1.6	-6.9

Regulatory Capital to Risk Weighted Assets

The aggregate risk asset ratio for the sector increased modestly in Q2 2010 from 20.2% to 21.0%.

The table below shows the movement in the risk asset ratio for the last six quarters.



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

(BD\$ millions)	2010-Q2			2010-Q1			2009-Q4		
	Total	BD\$	Other	Total	BD\$	Other	Total	BD\$	Other
Assets									
Cash	91	52	38	80	46	34	89	56	33
Deposits	6,633	39	6,594	6,289	37	6,252	5,651	60	5,591
Investments	6,240	44	6,196	6,131	24	6,106	6,457	43	6,413
Loans & Advances	8,730	5,244	3,486	8,422	5,063	3,358	8,341	5,009	3,332
Premises & Equipment	507	394	114	484	371	113	477	364	113
Other Assets	578	146	433	527	142	386	611	133	478
Total Assets	22,779	5,919	16,861	21,933	5,683	16,250	21,627	5,666	15,960
Liabilities									
Demand Deposits	8,036	857	7,178	7,761	878	6,883	8,110	866	7,244
Savings	4,580	1,433	3,147	4,750	1,445	3,304	4,461	1,445	3,017
Time Deposits	6,509	1,369	5,140	5,925	1,399	4,527	5,891	1,472	4,419
Sub Total - Deposits	19,124	3,660	15,465	18,435	3,722	14,714	18,462	3,783	14,679
Other Liabilities	534	249	285	530	279	251	570	309	261
Sub Total - Liabilities	19,658	3,909	15,749	18,965	4,001	14,964	19,032	4,092	14,940
Equity & Subordinated Debt	3,121	2,105	1,017	2,967	1,639	1,328	2,594	1,705	889
Total Liabilities and Capital	22,779	6,013	16,766	21,933	5,640	16,292	21,627	5,798	15,829

(BD\$ millions)	2009-Q3*			2009-Q2*			2009-Q1		
	Total	BD\$	Other	Total	BD\$	Other	Total	BD\$	Other
Assets									
Cash	83	42	41	83	43	40	77	43	34
Deposits	5,183	70	5,113	5,365	55	5,311	5,859	51	5,808
Investments	6,597	45	6,552	7,163	34	7,129	6,579	32	6,547
Loans & Advances	8,307	5,051	3,256	8,235	4,965	3,270	7,803	4,901	2,902
Premises & Equipment	487	375	112	473	344	129	453	362	91
Other Assets	626	125	501	613	95	518	683	80	604
Total Assets	21,284	5,708	15,575	21,933	5,537	16,396	21,456	5,469	15,987
Liabilities									
Demand Deposits	7,643	896	6,746	7,674	851	6,822	8,137	855	7,282
Savings	4,104	1,430	2,674	4,151	1,412	2,739	3,643	1,369	2,274
Time Deposits	6,076	1,479	4,596	6,507	1,503	5,005	6,257	1,553	4,703
Sub Total - Deposits	17,823	3,806	14,017	18,332	3,766	14,566	18,036	3,777	14,259
Other Liabilities	616	371	245	672	349	323	849	511	338
Sub Total - Liabilities	18,439	4,177	14,262	19,004	4,115	14,889	18,885	4,288	14,597
Equity & Subordinated Debt	2,845	1,886	959	2,928	2,023	906	2,571	1,953	618
Total Liabilities and Capital	21,284	6,063	15,221	21,933	6,138	15,794	21,456	6,241	15,215

Totals may not add due to rounding.

* Restated based on submissions from the banks.

5. INVESTMENT FUNDS

Quarterly Outlook

While the number of funds remained largely stable for the quarter, the total net asset value increased by \$8.98 billion or 5%, reflecting the fact that some funds experienced significant inflows during the reporting period.

Annual Outlook

The trend to date for 2010 is one of increasing total net asset value with less notable movement in the total number of funds. Comparison with the same period in 2009 shows an increase of \$26.62 billion in total net assets and a decrease of 94 in the total number of funds.

	2010-Q2	2010-Q1	2009-Q4	2009-Q3	2009-Q2	2009-Q1
Mutual Funds	661	654	662	697	712	774
Umbrella Funds	64	67	71	72	74	77
Sub-Funds	172	169	175	203	206	220
Segregated Account Companies	79	81	84	86	84	85
Segregated Accounts	229	273	317	343	335	331
Total	1,205	1,244	1,309	1,401	1,411	1,487
Unit Trusts	39	42	44	53	67	72
Umbrella Trusts	101	99	94	108	101	99
Sub-Trusts	175	174	25	201	198	198
Total	315	315	163	362	366	369
Total Portfolios	1,520	1,559	1,472	1,763	1,777	1,856
Total Number of Funds	944	943	955	1,016	1,038	1,107
Total Net Asset Value (In billions)	\$181.24	\$172.26	\$147.30	\$154.45	\$154.62	\$158.92

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

6. INSURANCE

Ten new insurers and intermediaries were registered in the Bermuda market during the second quarter of 2010. These numbers represent a decrease from the same period in 2009.

Insurance Company Registration Statistics¹

	2010-Q2	2010-Q1*	2009-Q4	2009-Q3	2009-Q2	2009-Q1
Class 1	1	1	1	3	1	4
Class 2	0	1	2	0	1	2
Class 3	0	4	1	3	1	4
Class 3A	0	1	3	2	3	2
Class 3B	1	0	0	0	0	0
Class 4	0	0	0	1	0	0
Long-Term	3	2	0	0	3	0
SPI ²	3	2	0	0	0	1
Dual Licence	0	1	0	0	0	0
Intermediaries	2	4	3	1	6	6
Total Additions	10	16	10	10	15	19

Explanatory Notes:

- Class 1 – Single-parent captive insuring the risks of its owners or affiliates of the owners.
- Class 2 – (a) a multi-owner captive insuring the risks of its owners or affiliates of the owners; or
(b) a single parent or multi-owner captive: (i) insuring the risks arising out of the business or operations of the owners or affiliates, and/or (ii) deriving up to 20 percent of its net premiums from unrelated risks.
- Class 3 – Captive insurers underwriting more than 20% and less than 50% unrelated business.
- Class 3A – Small commercial insurers whose percentage of unrelated business represents 50% or more of net premiums written or loss and loss expense provisions and where the unrelated business net premiums are less than \$50 million.
- Class 3B – Large commercial insurers whose percentage of unrelated business represents 50% or more of net premiums written or loss and loss expense provisions and where the unrelated business net premiums are more than \$50 million.
- Class 4 – Insurers and reinsurers capitalised at a minimum of \$100 million underwriting direct excess liability and/or property catastrophe reinsurance risk.
- Long-Term – Insurers writing long-term (or life) business.
- SPI – A special purpose, single transaction or single customer insurance company which assumes (re)insurance risks, and which typically fully funds its exposure to such risks through the proceeds of a debt issuance or some other financing mechanism, where the repayment rights of the providers of such debt or other financing mechanism are subordinated to the (re)insurance obligations of that vehicle.
- Dual Licence – Insurers writing a combination of long-term (or life) business and Class 1, 2, 3, 3A, 3B or 4 business.
- Intermediaries – Insurance managers, insurance brokers, insurance agents and insurance salesmen, as defined in Section 10 of the Insurance Act 1978.

¹ Effective Q1 2010, the presentation of this statistical data has been revised to provide details of those companies added to the Insurance Register during each quarter, i.e. those that have been granted an insurance licence by the Bermuda Monetary Authority. Previously, statistics for company incorporations were provided in this publication. Company incorporations are completed by the Bermuda Registrar of Companies (ROC) office; statistics on insurance company incorporations will now be available from the ROC.

² The Authority began accepting applications for the SPI class of insurer as of 2009-Q1.

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

Annual Market Survey on Captives 2010

In August, the Authority published its latest findings on the Bermuda captive insurance market in a report entitled, "Bermuda Captives at the Close of the Decade: A Global Reflection". The report is the latest product of the Annual Market Survey on Captives (AMSC), undertaken annually since 2007 by the Authority and the Bermuda Insurance Managers Association. The full AMSC report is available from the Authority's website: www.bma.bm.

The 2010 Report pointed to the similarities present between the Bermuda captive market and the global captive market, some of which are identified here:

(1) *Slower than normal market growth over the last two to three years, in soft market conditions.* Globally, this trend has impacted the top of the market - the largest captive domiciles. Since 2007, four of the top five captive domiciles have seen a reduction in captive numbers. Exhibit 1 provides a snapshot of the top five captive domiciles. Bermuda remained the most prolific with 885 captives in 2009. Year 2009 AMSC results¹ indicate a decline in the gross written premiums of Bermuda captives of 4.6% to about \$18.8 billion. On the balance sheet, assets rose 2.2% to about \$90.2 billion. These market figures are displayed in Exhibit 2.

(2) *Incorporation of captives by companies from a diverse mix of industries.* This was the first year that the AMSC collected data on the industries in which captive parents predominantly operate. The outcome, displayed in Exhibit 3, closely reflects the global mix of industries that utilise captive insurers. Recent international studies have shown that Financial Institutions, Health Care, Retail and Manufacturing are the top four industries by ownership share of the market. Each of these is present in Bermuda's top five

industries. Additionally, the broad population of other industries that comprise small portions of the market also resembles the worldwide landscape.

(3) *Business written in a variety of lines, the largest of which are commonly written lines that form fundamental kinds of coverage provided by captive insurance programmes.* Property business predominantly comprised property damage and business interruption (52%), followed by product warranty (12%), marine hull and cargo (9%) and agriculture (9%). Casualty business was focused on workers compensation/employers liability (36%) and general liability (33%), followed by auto liability (10%) and other professional liability (7%). The Bermuda market does not exhibit a spike in a particular line of business that is only written by a captive of a particular profile. The profile of business transacted and the industry makeup of the market differentiates Bermuda from domiciles that specialise in certain types of captives and kinds of business.

Additional data available in the full report includes: geographical location of risk assumption; composition of assets and liabilities; profitability ratios; and detailed breakouts of business underwritten.

¹ 2009 data is based on the management accounts of respondents and should be treated as estimations

Bermuda Captives

Exhibit 1: Top Captive Domiciles 2009

	Count ²	GWP ³ (\$ billions)
Bermuda	885	18.8
Cayman Islands	780	7.5
Vermont	560	16.2
Guernsey	355	3.4
British Virgin Islands	285	N/A

Exhibit 2: Gross Written Premiums and Assets (\$ billions)

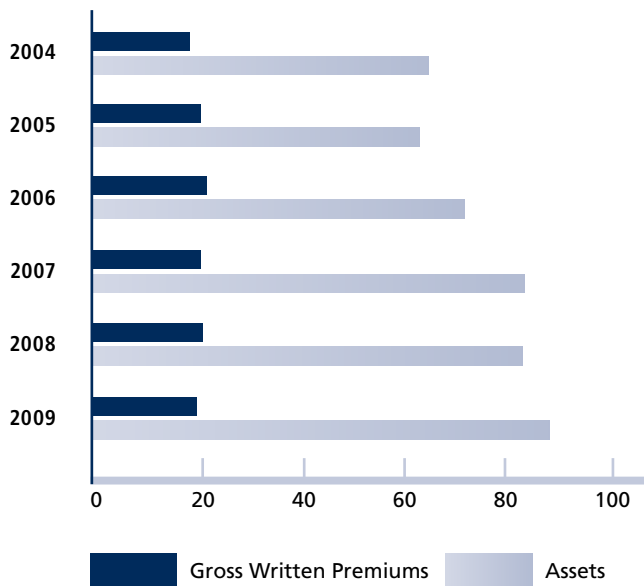
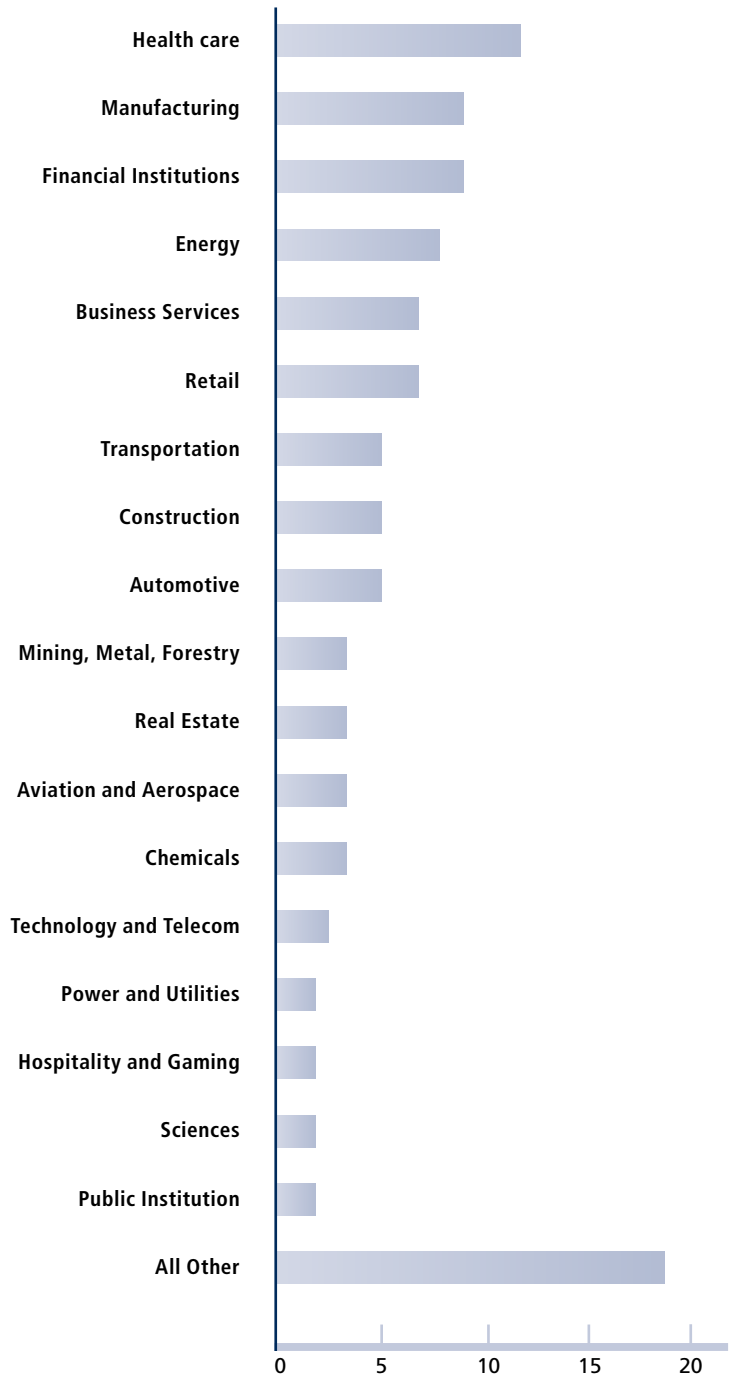


Exhibit 3: Industry of Parent Company (%)



² Source of captive numbers: Business Insurance

³ Source of GWP data: for Cayman Islands, Cayman Islands Monetary Authority (June 2010); for Vermont, Vermont Captive Insurance Association (year-end 2008); for Guernsey, Guernsey Financial Services Commission (year-end 2009).

7. COMPANY AUTHORISATIONS

Companies, Partnerships and Permits Statistics - Applications Approved

	2010-Q2	2010-Q1	2009-Q4	2009-Q3	2009-Q2	2009-Q1
Exempted Companies (Bermuda companies exempted from the 60% Bermudian ownership requirement)	183	227	231	145	194	195
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	18	14	27	7	12	28
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	1	1	3	1	0	1
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	7	10	18	3	4	1
Unit Trusts	8	7	41	13	4	12
Total Applications Approved *	217	259	320	169	214	237

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

The statistics shown above reflect the number of applications that have received vetting clearance from the Bermuda Monetary Authority. These figures do not reflect the actual number of entities incorporated in Bermuda during the period. Such statistics can be obtained from the Registrar of Companies.

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