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PRESS RELEASE

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BMA REQUIRES CAPITAL BUFFER FOR BERMUDA'S BANKS

Capital Buffer Introduced as Precautionary Measure to Withstand Severe Economic Downturn

As part of its continued monitoring of market conditions in Bermuda in relation to the global financial crisis and its implementation of the Basel 2 capital accord, the Bermuda Monetary Authority has been reviewing capital levels across Bermuda's banking sector. The results of this work show that Bermuda's banks are exceeding the Authority's current capital requirements. However, the Authority announced today that as a precautionary measure it is requiring banks to hold an additional capital buffer to withstand a severe economic downturn.

The announcement includes details of the new stress test capital buffer that the Authority has put in place. It also announced that agreement has now been reached with all of Bermuda's banks on the necessary levels of capital required to meet the stress test capital buffer and that, where necessary, banks are executing plans to ensure that additional capital is provided.

BMA CEO Matthew Elderfield commented:

"The measures we have announced today mean that the Bermuda banking system will be ready to withstand a severe economic downturn and still be in a strong financial position. This is a precautionary measure in line with the prudent and conservative approach to managing the financial crisis which has been taken by the Authority, government and banking sector."

A copy of the BMA statement is attached.

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BERMUDA MONETARY AUTHORITY STATEMENT ON BASEL 2 IMPLEMENTATION AND CAPITAL REQUIREMENTS FOR BERMUDA'S BANKS

As part of its continued monitoring of market conditions in Bermuda in relation to the global financial crisis and its implementation of the Basel 2 capital accord, the Bermuda Monetary Authority has been reviewing capital levels across Bermuda's banking sector. This has involved a programme of intensified supervision of the sector over the past 18 months.

The results of this work show that Bermuda's banks are exceeding the Authority's current capital requirements. However, the Authority is announcing that as a precautionary measure to be prepared for potential continued volatility in global markets, it is requiring banks to hold an additional capital buffer to withstand a severe economic downturn.

Over the past few months, banks have been asked to undertake stress tests as part of this process, requiring them to simulate the effects of a severe economic downturn on their investment portfolios and lending activities.

These stress tests have been reviewed by the Authority. The Authority has also conducted its own independent stress test to benchmark the results of the banks.

Based on the stress test results, the Authority and each bank have agreed on the level of capital that is required:

- (a) to absorb the losses simulated by the severe economic downturn; and
- (b) still maintain high quality Tier 1 capital of at least 6% of risk-weighted assets, based on Basel 2 capital rules.

This is a prudent and conservative capital requirement for Bermuda's banks designed as a precautionary measure in light of the continuing global financial crisis. Maintaining 6% Tier 1 capital even after a severe economic downturn ensures that even in the event of significant investment or lending losses, Bermuda's banks will continue to have a very strong capital position.

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The Authority's stress testing exercise to set capital buffers is similar to that initiated by the UK FSA and recently announced by the US banking authorities. The FSA has set a target capital level of 4% Tier 1. The US authorities have yet to set a target capital level. The Authority believes it is appropriate to set a conservative capital level for Bermuda's banks so that the banking sector has a highly prudent buffer against future losses.

All of Bermuda's banks have now agreed with the Authority on the necessary levels of capital required to meet the stress test capital buffer and, where necessary, are executing plans to ensure that additional capital is provided. This means that all Bermuda's banks will be in a stronger position to withstand a severe economic downturn and still remain strongly capitalized.

Given the prevailing unstable market environment, the capital buffer announced today will serve to support any potential losses that might occur in the banks' investment portfolios and lending books.

This action is taken in response to the continuing global financial crisis and part of the Authority's implementation of the Basel 2 capital accord. Basel 2 is the internationally accepted standard of bank capital regulation which has been implemented in Bermuda from the start of 2009.

The Authority is continuing its close monitoring of market conditions and the Bermuda financial sector.

Matthew Elderfield
Chief Executive Officer
March 6th 2009

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