

Regulatory Update July 2011

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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 31st March 2011.

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. INVESTMENT FUNDS

Guidance Notes on Islamic Investment Funds Issued

The Authority has published Guidance Notes to facilitate the establishment of Islamic investment funds in Bermuda. The Guidance Notes will help prospective applicants looking to establish such funds to comply with Bermuda's funds regulations, specifically the Investment Funds Act 2006. They also complement Bermuda's efforts to promote the jurisdiction as a domicile of choice for Islamic financial products.

The Authority published the Guidance Notes following a review to determine if the existing provisions of its investment funds regulatory framework could accommodate Islamic investment products. The Notes provide guidance on a number of issues that Islamic funds may need to consider, including required disclosures, notification of material changes and the role and responsibilities of the Shariah Supervisory Board (a body required under Islamic law to ensure such fund products conform to Islamic principles). A copy of the Guidance Notes entitled: "Islamic Collective Investment Schemes Guidance Notes" is available on the Authority's website, www.bma.bm.

2. INSURANCE

Bermuda Hosts Offshore Group of Insurance Supervisors Annual Meeting

From 11th to 13th May, the Authority hosted 16 participants from 13 jurisdictions to discuss important issues related to insurance supervision during the annual working group meeting of the Offshore Group of Insurance Supervisors (OGIS).

Items on the OGIS agenda included: an update on global regulatory issues; OGIS's input to the work being conducted by the International Association of Insurance Supervisors (IAIS) committees on international regulatory standards; roundtable discussions on supervisory issues; and country reports on significant jurisdictional regulatory developments.

Authority staff and representatives from Bermuda's insurance industry also conducted a training seminar for

the OGIS delegates that covered: a Bermuda insurance sector overview; an introduction to reinsurance; a presentation on reinsurance risk-based solvency and internal capital models; catastrophe reinsurance and special purpose insurers.

BMA Launches Series of Industry Awareness Sessions and Technical Workshops

In April, the Authority launched a series of industry awareness sessions and technical workshops for Bermuda's insurance sector. This outreach series is designed to ensure that the market remains fully aware of any new requirements resulting from the Authority's on going regulatory enhancements.

The first round of awareness sessions supported recent supervisory initiatives relating to BMA work to achieve regulatory equivalence under the European Commission's Solvency II Directive for Bermuda's insurance regime. Sessions were held on the Class 3A Bermuda Solvency Capital Requirements/Small and Medium Sized Entities (BSCR/SME) trial run and Long-Term Class E trial run currently in progress, which will test application of the Authority's enhanced standard capital adequacy model within these sectors.

In addition, the Authority developed an online Question and Answer (Q&A) resource available via its website. The Q&A webpages include fact sheets containing information on the Authority's enhanced supervisory regimes, as well as responses to frequently asked questions from market participants. As it introduces additional regime elements, the Authority will update the Q&A webpages, and also intends to expand the section in due course to cover all financial sectors under its remit.

Secondary Insurance Legislation Published for Consultation

The Authority has published two pieces of draft legislation for consultation with industry:

Insurance (Prudential Standards) (Class 4 and Class 3B Solvency Requirement) Amendment Rule 2011 (the "Rule") – makes provision for amending the filing requirements of registered Class 4 and Class 3B insurers and clarifies certain provisions regarding annual regulatory reporting. It also gives the Authority

power to revoke any approved internal capital model should it no longer fit the Authority's enhanced capital requirements. Where the Authority has not been appointed group wide supervisor, the Rule also makes provision for registered Class 4 and Class 3B insurers to submit quarterly financial returns to the BMA.

Insurance (Prudential Standards) (Class 3A Solvency Requirement) Rules 2011 ("3A Prudential Rules")

– states that, provided certain conditions are met, Class 3A insurers can apply to use an approved internal model in the place of the standard BSCR-SME model. Class 3A insurers would also be required to submit copies of their capital and solvency return before a specified filing date.

3. ANTI-MONEY LAUNDERING (AML)

Authority Conducts New Round of AML Outreach Seminars

The next phase of the Authority's anti-money laundering (AML) on-site programme will focus on those institutions that hold trust or investment business licences. However, the Authority has advised trust and investment business companies that it will hold additional outreach seminars on AML topics relevant to such businesses prior to starting the on-site programme. The Authority also intends to issue guidance notes to assist trustees in understanding and complying with their AML obligations.

The Authority's AML Unit has to date in 2011 conducted three successful outreach seminars, dedicated to the trust industry, with a total of 81 participants. Positive feedback was received from all participants. As suggested by market participants who attended the 2010 outreach seminars, attendees this year have found the addition of practical examples to demonstrate application of the AML regulations in the seminar presentations to be very helpful.

BMA Staff Busy at IAIS Events

As part of the BMA's active contribution to international regulatory developments, staff attended four International Association of Insurance Supervisors (IAIS) events between March and May 2011.

From 22nd to 24th March, the Authority hosted a joint IAIS Reinsurance and Other Forms of Risk Transfer Subcommittee/ Reinsurance Transparency Group (RTG) meeting.

Additionally, from 4th to 6th April, three representatives from the Authority's Risk Analytics team and Policy, Research & International Affairs team attended the IAIS Financial Stability Committee (FSC) and Insurance Groups Subcommittee meetings in Basel, Switzerland.

From 3rd to 6th May, members of the Authority's Risk Analytics, Insurance and Policy, Research & International Affairs teams attended the FSC, Technical Committee, Executive Committee, Reinsurance and Other Forms of Risk Transfer Subcommittee/RTG and Insurance Groups Subcommittee meetings in Kansas City. In these meetings, two members of the Insurance Supervision and Complex Institutions teams participated in a round-table session for international supervisors on how to improve the effectiveness of supervisory colleges.

William Kattan, Senior Advisor to the Authority, attended the Joint Meeting of the IAIS Supervisory Working Group (SWG) and Supervisory Coordination Subcommittee in Basel, Switzerland from 4th to 5th May. The purpose of the joint meeting was for members of both subcommittees to review various documents regarding enhancement of international cooperation and information exchange among insurance supervisors.

Authority Attends IOSCO Annual Conference

Marcia Woolridge-Allwood, Director, Banking, Trust & Investment, attended the 36th Annual Conference of the International Organisation of Securities Commissions (IOSCO) in Cape Town, South Africa from 17th to 21st April. Participating along with other IOSCO members, such representation facilitated the Authority, in discussions related to key developments and regulatory issues for world securities and futures markets.

BMA Provides AML Insight at CFATF Plenary Meeting

From 16th to 20th May, Thomas Galloway, the Authority's Senior Legal Counsel, attended the 2011 Caribbean Financial Action Task Force (CFATF) Plenary Meeting in St. Pedro Sula, Honduras on behalf of the Authority, and as part of the Bermuda delegation. The CFATF conference focused on matters relating to the existing anti-money laundering standards of various jurisdictions and the requirements each needed to implement in order to meet Financial Action Task Force (FATF) Standards. Mr. Galloway made a presentation to the meeting on recent developments regarding Recommendation 5 of the FATF Recommendations, which sets out regulations relating to customer due diligence to be implemented and adhered to by financial institutions.

Authority Presents to Geneva Association, NAIC International Forum

Marcelo Ramella, Deputy Director, Research & International Affairs, recently gave two presentations on macroprudential surveillance – the first at the Geneva Association Progress Seminar in Geneva, Switzerland on 7th April 2011 – and the second at the National Association of Insurance Commissioners' International Insurance Forum, Washington DC on 26th May 2011. The Authority continues to contribute to the IAIS's work on macroprudential surveillance at the international level.

Market Analysis and Statistics

1. BERMUDA MONEY SUPPLY

The Bermuda dollar money supply fell slightly over the quarter (0.8%), and was down by 3.2% over a year earlier, mostly due to a 3.0% decline in deposits.

Bermuda Money Supply

(BD\$ millions)	2011-Q1	2010-Q4	2010-Q3	2010-Q2	2010-Q1	2009-Q4
Notes & Coins in Circulation*	118	127	122	134	127	137
Deposit Liabilities	3,637	3,660	3,706	3,719	3,748	3,840
Total	3,755	3,787	3,828	3,853	3,875	3,977
Less: Cash at Banks and Deposit Companies**	62	65	60	73	61	70
BD\$ Money Supply	3,693	3,722	3,768	3,780	3,814	3,907
% Growth on Previous Period	-0.78%	-1.22%	-0.32%	-0.89%	-2.37%	-0.36%
Growth Year-on-Year	-3.17%	-4.73%	-3.90%	-2.64%	-1.44%	0.18%

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)	2011-Q1	2010-Q4	2010-Q3	2010-Q2	2010-Q1	2009-Q4
Deposit Liabilities	3,637	3,660	3,706	3,719	3,748	3,840
Less:						
Loans, Advances and Mortgages	(5,230)	(5,165)	(5,146)	(5,390)	(5,214)	(5,148)
Surplus Deposits	(1,593)	(1,505)	(1,440)	(1,671)	(1,466)	(1,308)
Percentage of Deposit Liabilities Loaned	143.8%	141.1%	138.9%	144.9%	139.1%	134.1%

Totals may not add due to rounding.

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

The BD\$ deposit-to-loan ratio was 143.8% at end-March 2011, up from 141.1% at end-December and from 139.1% a year earlier. Loans and advances increased by 1.3% quarter-on-quarter, and 0.3% year-on-year. BD\$ customer deposits declined by 1.3% over the previous quarter, and 3.0% year-on-year.

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

(BD\$ millions)	2011-Q1	2010-Q4	2010-Q3	2010-Q2	2010-Q1	2009-Q4
Total Foreign Currency Assets	17,324	17,693	16,616	16,861	16,250	15,960
Less: Other Assets	391	428	437	433	386	478
Less: Foreign Currency Loans to Residents	896	1,013	1,052	1,219	1,067	1,172
Net Foreign Currency Assets	16,036	16,251	15,127	15,209	14,797	14,310
Foreign Currency Liabilities	16,128	16,232	15,163	15,749	14,964	14,940
Add: BD\$ Deposits of Non-Residents	194	185	192	195	189	176
Net Foreign Currency Liabilities	16,321	16,418	15,355	15,944	15,153	15,116
Net Foreign Currency Position (Consolidated)	(285)	(166)	(228)	(735)	(356)	(807)

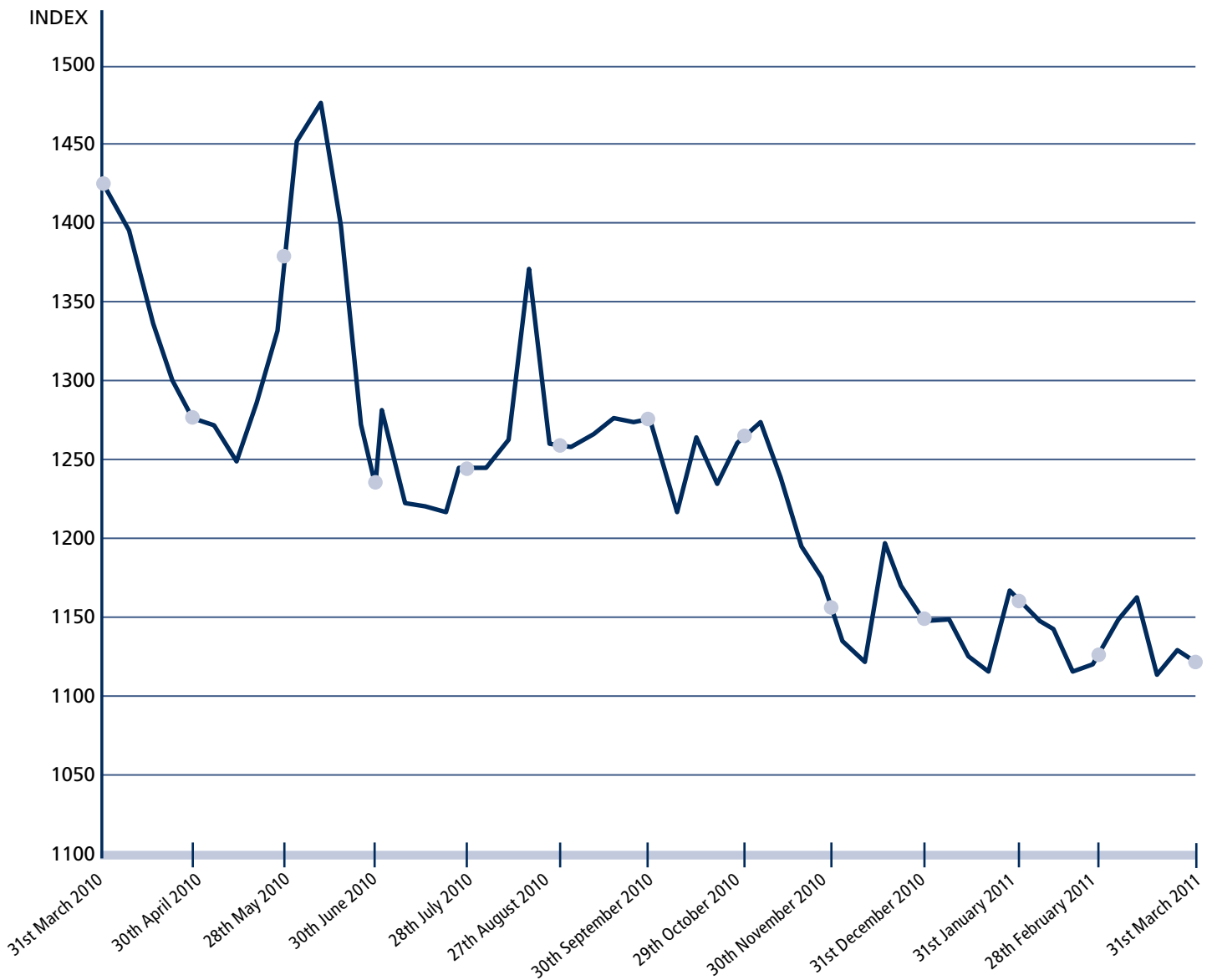
Totals may not add due to rounding.

Net foreign currency assets decreased by 1.3% in the first quarter but increased by 8.4% over a year earlier. Net foreign currency liabilities were also down by 0.6% and up 7.7% respectively over the same periods. As a result, the net foreign currency deficit increased by \$119 million (71.7%) in the first quarter and decreased by \$71 million (19.9%) over the year.

The local currency funding shortfall is offset by foreign currency denominated customer deposits (mostly in US dollars). After taking into account other BD\$ liabilities, there remains more than sufficient BD\$ liabilities to fund the sector's BD\$ assets.

3. BERMUDA STOCK EXCHANGE (BSX)

The total market capitalisation of the BSX as at 31st March 2011 (excluding funds) was \$388.8 billion, up just over \$10 billion during the quarter. The domestic market capitalisation totalled \$1.56 billion. This increase in total market capitalisation was primarily due to new bond issues listed during the quarter, as well as changes in the trading values of several large, international companies. Total trading volume in Q1 was 1,172,552 shares with a corresponding domestic market value of \$3,812,512.



Source: Bermuda Stock Exchange

4. BANKING

Total assets within the sector decreased 1.2% or \$278 million but increased 5.3% or \$1.2 billion from a year earlier. The quarterly decline was driven by declines in other non-capital liabilities within the sector, which fell by 23.3% or \$127.2 million.

Cash and deposits were down by 7.5% or \$545 million. Loans and advances rose by 0.7%, or \$62.1 million. There was a 3.2% increase, or \$206.9 million, in the sector's investment holdings.

The deposit base declined by 0.5%, or \$99.8 million, when compared to the prior quarter and increased by 5.9%, or \$1.1 billion, from a year earlier. Over the quarter there was a shift from both demand and time deposits towards savings deposits.

Shareholders' equity declined by 1.6%, or \$50.8 million, over the quarter.

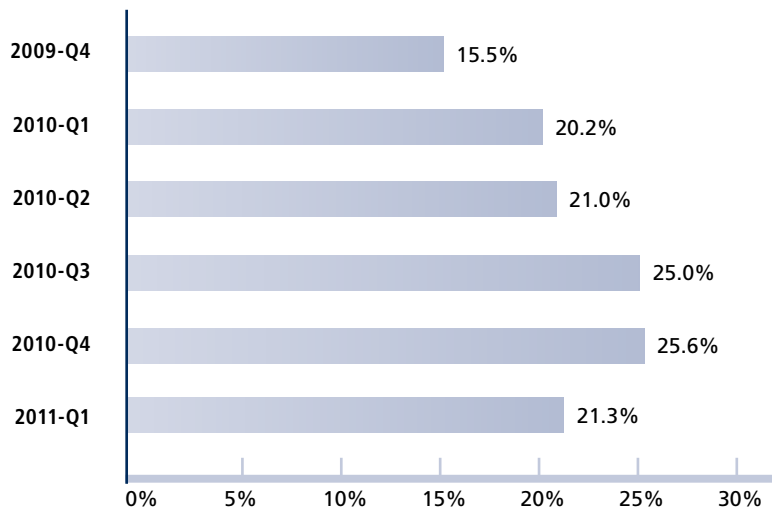
Banking Sector Assets and Deposits

	2011-Q1	2010-Q4	2010-Q3	2010-Q2	2010-Q1	2009-Q4
Total Assets (\$ millions)	23,091	23,369	22,275	22,779	21,933	21,627
Quarterly Change (%)	-1.2%	4.9%	-2.2%	3.9%	1.4%	1.6%
Total Deposits (\$ millions)	19,531	19,631	18,632	19,124	18,435	18,462
Quarterly Change (%)	-0.5%	5.4%	-2.6%	3.7%	-0.1%	3.6%

Regulatory Capital to Risk Weighted Assets

The aggregate risk asset ratio for the sector decreased from 25.6% to 21.3% during the first quarter of 2011, however, the quality of capital remains high with a Tier 1 capital ratio of 22.6%.

The below table shows the movement in the risk asset ratio.



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

(BD\$ millions)	2011-Q1			2010-Q4			2010-Q3		
	Total	BD\$	Other*	Total	BD\$	Other*	Total	BD\$	Other*
Assets									
Cash	85	41	45	88	47	41	80	40	39
Deposits	6,660	52	6,608	7,202	57	7,145	6,433	53	6,380
Investments	6,593	36	6,557	6,386	37	6,350	6,256	28	6,228
Loans & Advances	8,693	5,085	3,608	8,631	5,027	3,604	8,423	5,005	3,418
Premises & Equipment	508	394	114	505	380	125	512	399	113
Other Assets	553	161	391	557	129	428	572	135	437
Total Assets	23,091	5,768	17,324	23,369	5,676	17,693	22,275	5,659	16,616
Liabilities									
Demand Deposits	8,050	838	7,213	8,127	821	7,306	7,279	842	6,437
Savings	4,888	1,493	3,395	4,813	1,442	3,371	4,792	1,434	3,357
Time Deposits	6,593	1,249	5,344	6,690	1,335	5,355	6,561	1,367	5,194
Sub Total - Deposits	19,531	3,580	15,951	19,631	3,599	16,032	18,632	3,644	14,988
Other Liabilities	420	244	176	547	347	200	432	257	175
Sub Total - Liabilities	19,951	3,823	16,128	20,178	3,946	16,232	19,064	3,901	15,163
Equity & Subordinated Debt	3,141	2,016	1,125	3,191	2,109	1,082	3,211	2,065	1,146
Total Liabilities and Capital	23,091	5,839	17,252	23,369	6,055	17,314	22,275	5,966	16,308

(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

* Other includes USD and other currencies.

5. INVESTMENT FUNDS

The aggregate Net Asset Value (NAV) at the end of March 2011 decreased by \$2.4 billion, or 1.4%, year-on-year while aggregate NAV value at the end of March 2011 reflected a decrease of \$6.5 billion or 3.6 %. There was little change in the total number of funds over the quarter.

	2011-Q1	2010-Q4	2010-Q3	2010-Q2	2010-Q1	2009-Q4
Mutual Funds	650	657	656	661	654	662
Umbrella Funds	49	58	59	64	67	71
Sub-Funds	118	142	157	172	169	175
Segregated Account Companies	70	76	78	79	81	84
Segregated Accounts	245	248	215	229	273	317
Total	1,132	1,181	1,165	1,205	1,244	1,309
Unit Trusts	41	40	43	39	42	44
Umbrella Trusts	74	69	102	101	99	94
Sub-Trusts	150	150	166	175	174	25
Total	265	259	311	315	315	163
Total Portfolios	1,397	1,440	1,476	1,520	1,559	1,472
Total Number of Funds	884	900	938	944	943	955
Total Net Asset Value (In billions)	\$171.97	\$178.44	\$175.59	\$180.35	\$174.38	\$147.30

Note: The calculation of the Bermuda net asset value data has been revised and restated for 2010.

6. INSURANCE

Eight new insurers and intermediaries were registered in the Bermuda market during the first quarter of 2011, which compares to 13 in the previous quarter. The majority of the new entities were Class 3 captive insurers and Special Purpose Insurers.

Insurance Company Registration Statistics¹

	2011-Q1	2010-Q4	2010-Q3	2010-Q2	2010-Q1	2009-Q4
Class 1	0	3	0	1	2	1
Class 2	0	1	0	2	1	2
Class 3	2	0	2	0	2	1
Class 3A	1	1	0	0	1	3
Class 3B	0	1	0	0	0	0
Class 4	0	2	0	0	0	0
Long-Term	1	0	2	3	2	0
SPI	2	3	0	3	2	0
Dual Class	1	0	0	0	2	0
Intermediaries	1	2	3	2	4	3
Total Additions	8	13	7	11	16	10

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.

7. COMPANY AUTHORISATIONS

Companies, Partnerships and Permits Statistics - Applications Approved

	2011-Q1	2010-Q4	2010-Q3	2010-Q2	2010-Q1	2009-Q4
Exempted Companies (Bermuda companies exempted from the 60% Bermudian ownership requirement)	226	256	188	183	227	231
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	15	24	5	18	14	27
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	1	2	1	1	1	3
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	2	15	7	7	10	18
Unit Trusts	5	2	6	8	7	41
Total Applications Approved	249	299	207	217	259	320

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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