BMA

BERMUDA MONETARY AUTHORITY

Regulatory Update October - December 2015

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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 is 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 December 2015.*

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Quarterly Synopsis

Bermuda's financial sector remained sound and resilient to global market fluctuations in the fourth quarter. The overall capital position of the banking sector improved in the final quarter of the year, total assets increased and profitability within the sector remained positive. Non-Performing Loans (NPLs), as a percentage of total loans, declined for the fifth consecutive quarter. Bermuda insurance and reinsurance groups remained well capitalised and profitable despite a prolonged soft market and low investment returns.

Bermuda banks' overall capital position improved in the final quarter of the year with the Risk Asset Ratio (RAR) increasing from 20.8% to 21.3%, keeping comfortably above minimum capital requirements. Under Basel III reporting, the RAR increased from 17.3% to 17.7%. The capital adequacy measure of Tier 1 to Risk-Weighted Assets also improved from 19.2% to 19.7%, while the Common Equity to Tier 1 (CET1) was marginally better than the previous quarter, rising from 15.6% to 15.9%. Total assets within the banking sector rose by 2.8% in the quarter and were higher than levels reported a year ago (up 4.3% or $995.0 million). The fourth quarter rise in the asset base was largely driven by investment growth (up 13.5% or $1.2 billion) followed by loans and advances (up 6.5% or $554.5 million), while the decline in interbank deposits (down 22.5%) offset most of the increase in total assets. The leverage ratio for the banking sector was fairly stable as both Basel III and regulatory leverage ratios experienced marginal declines, falling to 7.4% and 8.4%, respectively.

Banking sector profitability remained positive but sector profits declined in the quarter, despite better reported margins. Overall net income levels fell during the quarter with earnings from banking income and non-banking income decreasing by 5.8% and 21.6%, respectively. Costs associated with bank operations and non-operating expenses rose by 13.9%. Profits were also 50.0% lower than amounts reported by banks a year ago. The banking sector's cost efficiency deteriorated during the quarter as non-interest expenses as a percentage of total income jumped from 70.2% to 88.5%. The noticeable decline in bank profits resulted in lower quarterly returns as both the annualised Return on Equity (RoE) and Return on Assets (RoA) decreased from 11.2% to 4.0% and from 1.0% to 0.4%, respectively. Banks made steady progress in managing their banking books as various asset quality indicators showed improvements. NPLs as a percentage of total loans improved for five consecutive quarters with the NPL ratio falling to 8.0% at the end of 2015 compared to 10.4% at the end of 2014. Provisions to NPLs also rose, reaching 23.7% during the quarter compared to 20.7% in the previous quarter and 19.1% in the same period last year.

Liquidity conditions within the banking sector remained relatively stable with loan demand picking up modestly in the final quarter of the year. Quarterly loan activity reflected a continuation of the decline in residential mortgages with loans in this sector falling to the lowest level since the first quarter of 2009. Lack of demand following the economic recession was a contributing factor behind the soft residential mortgage data. Loans to "other" sectors picked up, increasing from 24.5% to 30.4% during the period while loans to "other business and services" fell for the second successive quarter from 9.6% to 7.4%. The sector's liquidity funding structure remained positive with the ratio of loans to total deposits rising for the third consecutive quarter from 41.2% to 42.5%. Higher quarterly loan activity (up 6.5%), compared to an increase in customer deposits (up 3.4%), resulted in a further narrowing in the sector's funding gap. The banking sector's foreign currency liquidity funding ratio continued to trend higher, rising from 26.5% to 28.9%. The sharp increase in FX$-denominated lending (up 13.0%) outpaced the rise in FX$-denominated customer deposits (up 4.0%).

The overall money supply experienced a marginal increase of 0.8% (or $28.7 million) during the final quarter of the year and increased 3.1% year-on-year. A rise in deposit liabilities (up 0.8% or $26.6 million) and notes/coins in circulation (up 7.1% or $8.8 million) was partially offset by higher levels of cash held in banks (up 18.4% or $7.0 million).

The total market capitalisation of the Bermuda Stock Exchange (BSX) (excluding funds) was $349.2 billion at the end of Q4-2015, up by $13.4 billion from $335.8 billion reported in the third quarter. This increase was primarily due to changes in the trading values of several large, international companies. Total trading volume in the quarter was 6,256,102 shares (up from 5,070,316 shares in the previous quarter), with a corresponding total market value of $22.9 million (up from $18.8 million in Q3-2015). The valuation of domestic firms constituted 0.53% of the total market, with capitalisation amounting to $1.85 billion, up by $112.7 million from the previous quarter. At the end of Q4-2015, market capitalisation of Insurance-Linked Securities (ILS) on the BSX stood at $18.2 billion, representing 69.0% of the global stock of outstanding ILS deals. Global market capitalisation of ILS rose to $26.3 billion as $1.6 billion in new issuances outpaced $914.0 million in maturing bonds during the quarter.

The (re)insurance industry remained profitable and well-capitalised despite ongoing competitive pressures. Despite increased claims, Bermuda (re)insurers were still able to produce a positive gross profit of $1.3 billion, which was lower by 8.9% quarter on quarter (q/q) due to higher losses and marginally increased expenses. The aggregate combined ratio stood at 86.8% compared to 84.2% in Q4-2014. Investment returns continued to be pressured by historically low interest rates. The investment portfolios of Bermuda (re)insurers produced a low Return on Investment (RoI) close to 0.6%, a slight increase of 0.1% q/q. RoE in Q4-2015 was 1.8% compared to 3.1% for the same period last year, with the decline attributed to a significantly drop in net income by 43.7%.

The Bermuda (re)insurance market continued to face soft market challenges and declining investment yields. Increased pricing competition from alternative capital and the lack of major catastrophes were some of the factors behind the extended soft market. Investment yields came under further pressure over the quarter and turbulence in the financial markets led to investors seeking safety in government bonds.

While the United States' outlook remained positive for continued economic recovery, the outlook for the global economy weakened over the last few months. Efforts to stimulate growth and combat disinflationary trends led some central banks to expand their use of unconventional monetary policy tools, including lowering policy rates further into negative territory. In turn, this drove long-term yields to historically low levels. There was increasing focus on the impact on individuals and financial institutions if interest rates were to decline further into negative territory or remain negative for a prolonged period.

Market Analysis and Quarterly Statistics

A) BERMUDA MONEY SUPPLY

The Banking sector's money supply rose by 0.8% (or $28.7 million) despite physical cash in circulation having risen by 17.6% (or $6.7 million) during the quarter. A rise in deposit liabilities was the main driver in money supply increases as it represented 93.0% of the quarterly change. When compared to a year earlier, the overall money supply rose by 3.1% (or $105.0 million) as deposit liabilities rose by 3.1% (or $100.6 million) from a year earlier.

Bermuda Money Supply

(BD$ mln)	Q4-2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014	Q3-2014
Notes & Coins in Circulation*	133	124	122	118	127	112
Deposit Liabilities	3,359	3,333	3,340	3,329	3,259	3,294
Total	**3,492**	**3,457**	**3,462**	**3,447**	**3,386**	**3,406**
Less: Cash at Banks and Deposit Companies	45	38	36	33	44	32
BD$ Money Supply	3,447	3,419	3,426	3,414	3,342	3,374
% Change on Previous Period	0.84%	-0.22%	0.36%	2.14%	-0.93%	0.46%
% Change Year-on-Year	**3.14%**	**1.33%**	**2.02%**	**-1.91%**	**-2.34%**	**-3.22%**

Totals may not add due to rounding.

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

B) DOMESTIC AND FOREIGN CURRENCY POSITION

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

(BD$ mln)	Q4-2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014	Q3-2014
Deposit Liabilities	3,359	3,333	3,340	3,329	3,259	3,294
Less: Loans, Advances and Mortgages	(3,971)	(3.975)	(4,125)	(4,188)	(4.255)	(4,337)
Surplus/(deficit) Deposits	(611)	(643)	(785)	(859)	(996)	(1,043)
Percentage of Deposit Liabilities Loaned	**118.2%**	**119.3%**	**123.5%**	**125.8%**	**130.6%**	**131.7%**

Totals may not add due to rounding.

The deficit continued to decline during the quarter, down 4.8% (or $31.0 million) as a reduction in loan balances was offset by growth in the sector's deposit base. As a result, the loan-to-deposit ratio fell from 119.3% to 118.2%. The improvement in the ratio was the result of the 0.8% (or $27.0 million) growth in the domestic denominated deposit liabilities while the domestic loan book fell by 0.1% (or $5.0 million). In comparison to a year earlier, the movement within the ratio was amplified largely by a 6.7% (or $284.0 million) decline in the sector's loan portfolio. Conversely, deposit liabilities were up 3.1% (or $101.0 million) from a year earlier.

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

(BD$ mln)	Q4-2015	Q3-2015*	Q2-2015	Q1-2015	Q4-2014	Q3-2014
Total Foreign Currency Assets	19,715	19,009	20,091	19,459	18,349	17,073
Less: Other Assets	183	201	212	218	239	410
Less: Foreign Currency Loans to Residents	999	944	825	873	804	716
Net Foreign Currency Assets	18,533	17,864	19,054	18,368	17,306	15,947
Foreign Currency Liabilities	18,313	17,644	18,804	18,166	17,256	16,215
Add: BD$ Deposits of Non-Residents	116	193	174	172	172	161
Net Foreign Currency Liabilities	18,429	17,837	18,978	18,338	17,428	16,376
Net Foreign Currency Position	**104**	**27**	**76**	**30**	**(121)**	**(429)**

Totals may not add due to rounding.
**Restated*

The net foreign currency position remained positive during the final quarter of 2015, improving by approximately $77.0 million during the period largely driven by growth in the level of foreign currency loans to residents. Foreign currency assets rose by 3.7% (or $706.0 million) while foreign currency loans to residents grew at a rate of 5.8% (or $55.0 million). Foreign currency liabilities increased by 3.8% (or $669.0 million) while domestic denominated deposits of non-residents decreased by 40.0% (or $77.0 million).

C) BANKING

Banking Sector Assets and Deposits

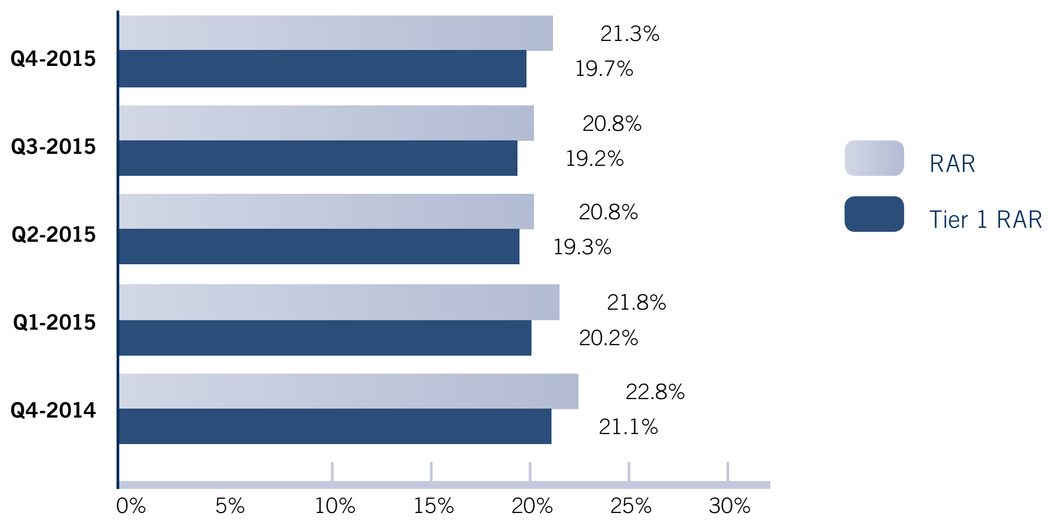
(BD$ mln)	Q4-2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014	Q3-2014
Total Assets	24,072	23,416	24,631	24,097	23,078	22,110
Quarterly Change (%)	2.8%	-4.9%	2.2%	4.4%	4.4%	-8.9%
Total Deposits	21,365	20,662	22,052	21,378	20,347	18,833
Quarterly Change (%)	3.4%	-6.3%	3.2%	5.1%	8.0%	-12.4%

The sector's asset bases rose by 2.8% (or $657.0 million) and were outpaced by a declining level of creditor deposits which rose by 3.4% (or $703.0 million) during the same period. The growth was driven by an influx in deposit liabilities, up some $677.0 million, that was then invested in both investments, up 13.5% (or $1.2 billion) and loans, which grew by 6.5% (or $554.0 million).The sector experienced a $1.1 billion decline in cash and deposit balances when compared to the prior quarter, which represented the remaining increase in asset classes noted previously. With currency shifts, much of the growth was experienced in non-domestic currencies.

When compared to a year earlier, deposit liabilities increased by 5.0% (or $1.0 billion) largely on growth of both savings and demand-type products. Total assets climbed by 4.3% (or $995.0 million).

Regulatory Capital to Risk-Weighted Assets (RWAs)

The sector's net capital improved during the final quarter of 2015 with levels rising by 0.3% (or $6.0 million) and RWAs levels declining by 2.0% (or $193.0 million). This movement resulted in improvement to the sector's aggregate RAR from 20.8% to 21.3%, although it remained 1.5% behind levels reported 12 months earlier. Capital levels within the sector continued to be well above all applicable capital requirements. The table below shows the movement of both capital ratios over the last five quarters.



RAR	Period	Tier I RAR	RAR Change
21.3%	**2015 Q4**	**19.7%**	**0.5%**
20.8%	**2015 Q3**	**19.2%**	**0.0%**
20.8%	**2015 Q2**	**19.3%**	**-1.0%**
21.8%	**2015 Q1**	**20.2%**	**-1.0%**
22.8%	**2014 Q4**	**21.1%**	**-0.6%**

Basel III adoption became effective 1st January 2015 with a phase-in period for capital requirements commencing in 2016 to 2019 (full implementation). The sector's capital adequacy was reported on a parallel basis under both Basel II & III until Q4-2015. As of 1st January 2016, the Basel III capital adequacy and liquidity reporting is permanent and Basel II reporting discontinued.

As at 31st December 2015, the sector's Basel III risk asset ratio was 17.7% while CET I was reported at 15.9%.

Basel III – the risk-based capital requirements were reported in Q4-2015 which included the new capital ratios and fully implemented leverage ratio. The Basel III leverage ratio was reported at 7.4%.

Basel III - Liquidity Coverage Ratio (LCR) reporting was in effect starting 1st January 2015 for all banks.

Combined Balance Sheet Of Bermuda Banks And Deposit Companies (Consolidated)

(BD$ mln)	Q4-2015 Total	Q4-2015 BD$	Q4-2015 Other	Q3-2015 Total	Q3-2015 BD$	Q3-2015 Other	Q2-2015 Total	Q2-2015 BD$	Q2-2015 Other
Assets									
Cash	81	45	36	82	38	44	76	36	40
Deposits	3,813	25	3,788	4,919	21	4,898	5,891	40	5,851
Investments	10,425	39	10,386	9,185	40	9,145	9,277	58	9,219
Loans & Advances	9,073	3,862	5,211	8,520	3,919	4,600	8,665	4,017	4,648
Premises & Equipment	406	294	112	425	304	121	431	309	121
Other Assets	274	92	183	285	84	201	291	79	212
Total Assets	**24,072**	**4,357**	**19,715**	**23,416**	**4,406**	**19,009**	**24,631**	**4,540**	**20,091**
Liabilities									
Demand Deposits	11,668	1,049	10,619	11,101	1,021	10,080	12,151	1,021	11,130
Savings	6,493	1,489	5,004	6,035	1,487	4,548	6,199	1,495	4,704
Time Deposits	3,204	799	2,405	3,526	802	2,723	3,702	803	2,899
Sub Total - Deposits	**21,365**	**3,337**	**18,028**	**20,662**	**3,311**	**17,351**	**22,052**	**3,320**	**18,733**
Other Liabilities	567	281	286	585	291	293	400	329	71
Sub Total - Liabilities	**21,931**	**3,618**	**18,313**	**21,247**	**3,602**	**17,644**	**22,453**	**3,649**	**18,804**
Equity & Subordinated Debt	2,141	1,797	344	2,169	1,793	376	2,178	1,829	349
Total Liabilities and Capital	**24,072**	**5,415**	**18,657**	**23,416**	**5,395**	**18,021**	**24,631**	**5,478**	**19,153**

(BD$ mln)	Q1-2015 Total	Q1-2015 BD$	Q1-2015 Other	Q4-2014 Total	Q4-2014 BD$	Q4-2014 Other	Q3-2014 Total	Q3-2014 BD$	Q3-2014 Other
Assets									
Cash	70	33	36	76	44	32	68	32	36
Deposits	5,332	48	5,284	5,281	27	5,254	3,978	39	3,939
Investments	9,431	51	9,380	8,641	52	8,590	9,210	229	8,981
Loans & Advances	8,496	4,081	4,415	8,291	4,146	4,145	7,840	4,225	3,615
Premises & Equipment	444	318	126	453	365	89	472	380	92
Other Assets	325	107	218	335	96	239	543	133	410
Total Assets	**24,097**	**4,638**	**19,459**	**23,078**	**4,729**	**18,349**	**22,110**	**5,037**	**17,073**
Liabilities									
Demand Deposits	11,393	1,002	10,391	10,540	879	9,662	9,038	888	8,150
Savings	6,395	1,503	4,892	6,038	1,486	4,552	5,475	1,506	3,969
Time Deposits	3,589	813	2,776	3,768	838	2,930	4,321	846	3,475
Sub Total - Deposits	**21,378**	**3,319**	**18,059**	**20,347**	**3,203**	**17,144**	**18,833**	**3,239**	**15,594**
Other Liabilities	392	285	107	430	318	112	956	335	621
Sub Total - Liabilities	**21,770**	**3,604**	**18,166**	**20,777**	**3,521**	**17,256**	**19,789**	**3,575**	**16,215**
Equity & Subordinated Debt	2,327	1,935	392	2,301	1,928	373	2,321	1,975	345
Total Liabilities and Capital	**24,097**	**5,539**	**18,558**	**23,078**	**5,449**	**17,629**	**22,110**	**5,550**	**16,560**

Premises and Equipment and Other Assets have been restated to reclassify equipment and other fixed assets that were previously recorded under Other Assets.

D) BERMUDA STOCK EXCHANGE (BSX)

The total market capitalisation of the BSX (excluding funds) was $349.2 billion at the end of Q4-2015, up by $13.4 billion from $335.8 billion in Q3-2015. This increase was primarily due to changes in the trading values of several large international companies. Total trading volume in the quarter was 6,256,102 shares (up from 5,070,316 shares in the previous quarter) with a corresponding total market value of $22.9 million (up from $18.8 million in Q3-2015). The valuation of domestic firms constituted 0.53% of the total market with capitalisation amounting to $1.85 billion, up by $112.7 million from the previous quarter.

At the end of Q4-2015, market capitalisation of ILS on the BSX stood at $18.2 billion, representing 69.0% of the global stock of outstanding ILS deals. At quarter-end, a total of 82 ILS deals (comprising 103 tranches) were listed on the BSX with an aggregate nominal value of approximately $18.2 billion, of which $1.1 billion (or 6.0%) was attributable to six ILS deals (comprising six classes) originated by Special Purpose Insurers (SPIs) domiciled outside Bermuda. Global market capitalisation of ILS rose to $26.3 billion as $1.6 billion in new issuances outpaced $914.0 million in maturing bonds during the quarter.

Selected Stock Market Performance Indicators*

In % unless indicated otherwise

	Q4-2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014	Q3-2014
Price Return[1/]						
BSX	2.43	0.81	-4.35	0.00	-0.72	-0.27
BSX - Insurance	1.88	-0.27	0.64	0.42	1.35	0.14
DJII	2.43	-3.03	-0.01	0.34	1.32	0.51
Return Volatility						
Annualised Standard Deviation[2/]						
BSX	3.14	2.65	1.69	2.28	3.27	3.22
BSX - Insurance	2.23	1.64	1.55	1.59	1.97	2.22
DJII	2.83	2.44	2.08	2.11	1.98	1.47
Normalised Squared Returns (in standard deviations)[3/]						
BSX	0.92	0.10	2.09	-0.11	-0.26	-0.19
BSX - Insurance	0.06	-0.02	-0.11	-0.07	-0.10	-0.14
DJII	1.97	0.82	-0.59	-0.42	0.92	-0.46
Trading Volume/Market Capitalisation[4/]						
BSX	0.25	0.24	0.37	0.37	0.38	0.64
DJII	8.92	9.49	7.62	7.66	7.22	5.89
Real Dividend Yield[5/]						
BSX	1.89	1.83	1.43	1.70	1.43	1.61
DJII	2.02	2.35	2.32	2.29	0.94	0.39

Sources: Bloomberg, BSX and the Authority's staff calculations.

** The figures for the BSX and the BSX - Insurance cover the domestic listings only.*

Notes:
1/ Quarterly average of month-on-month change of last prices.

2/ Quarterly average of annualised standard deviation of month-on-month change of last prices.

3/ Quarterly average of the six-month moving average of squared month-on-month changes of last prices, normalised over a rolling window of four years (16 quarters); a positive (negative) value indicates above (below) average performance conditional on market volatility.

4/ Cumulative quarterly trading volume relative to the average market capitalisation during the same time period.

5/ Quarterly average of month-on-month dividend yield adjusted for headline inflation in Bermuda and the United States, respectively.

The overall performance of the BSX was positive during the quarter. The table (p.9) provides a summary of selected indicators of stock market performance over the last six quarters (Q3-2014 to Q4-2015), comparing the recent development of the BSX to that of the Dow Jones Industrial Average (DJIA) as the global equity market benchmark (which proxies the impact of US capital market performance on Bermuda's international business sector). Over the last quarter, the BSX index recorded a positive return of 2.43% (up from 0.81% in Q3-2015) amid higher annualised volatility of 3.14% (up from 2.65% in Q2-2015), while trading volume rose modestly to 0.25% of market capitalisation. Following an improved risk-return trade-off, the BSX index matched global standards, relative to the DJIA, which also recorded a quarterly return of 2.43% (up from negative 3.03% in Q3-2015) amid higher annualised return volatility of 2.83% (up from 2.44% in Q3-2015). The risk-return trade-off was less favourable for the insurance sub-index (BSX-Insurance). The total return performance was 1.88% during the quarter (up from negative 0.27% in Q3-2015), while volatility rose to 2.23 % (up from 1.64% in Q3 2015).

The following charts show the BSX quarterly closing levels (indexed to Q1-2005 as base year), the annualised return volatility, the dividend yield (in both nominal and real terms) and the trading volume up to Q4-2015 (Charts 1-4). While capital gains of the BSX have turned negative since the beginning of 2009, dividend pay-outs remain high despite being lower than international markets for a fourth consecutive quarter. The aggregate dividend yield of stocks listed on the BSX over the last quarter stood at 1.89% (up from 1.83% in Q3-2015) after adjusting for headline inflation which was lower than comparable yields generated by stocks included in the DJIA (at 2.02%). At the same time, the annualised return volatility (as a measure of risk) was modestly higher than that of the DJIA (although below the long-term average over the last four years for a second quarter, as indicated by the positive value of normalised squared returns in the table below).

Chart 1. Price Level, indexed (Q1-2005=100)

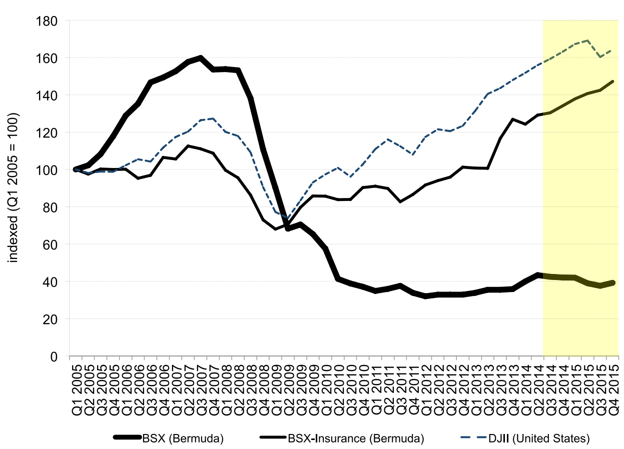


Chart 2. Annualised Return Volatility

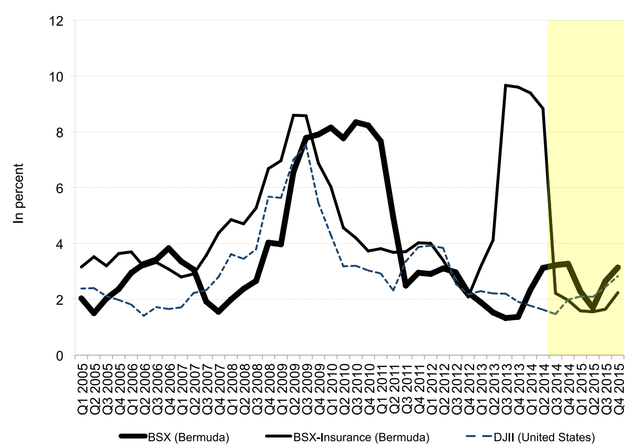


Chart 3. Dividend Yield (nominal and inflation-adjusted)

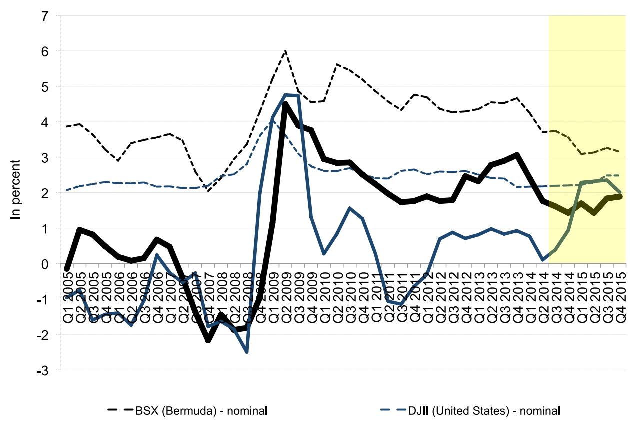
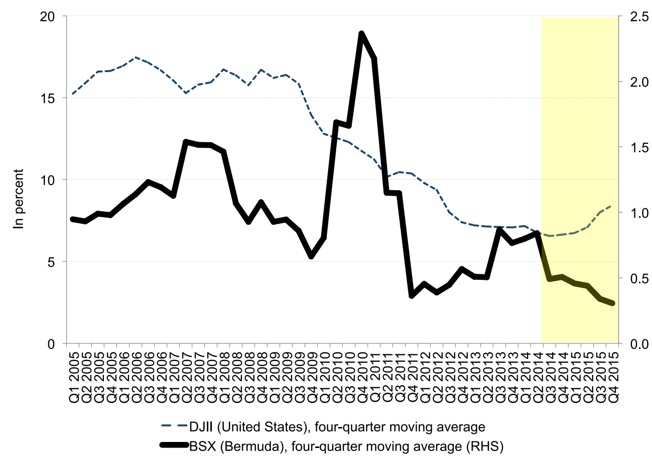


Chart 4. Ratio Between Trading Volume and Market Capitalisation



E) INVESTMENT FUNDS

Investment Fund Statistics

	Q4-2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014	Q3-2014
Mutual Funds	429	434	434	433	438	457
Umbrella Funds	38	39	39	38	38	40
Segregated Accounts Companies (SAC)	69	70	69	69	70	65
Unit Trusts	52	50	49	50	54	52
Umbrella Trusts	36	37	37	37	47	47
Total Number of Funds	624	630	628	627	647	661
Net Asset Value (in US$ bln)	**$144.22**	**$145.06**	**$152.57**	**$166.65**	**$164.82**	**$175.02**

During the period Q3-2015 to Q4-2015, the total number of funds decreased minimally by six from 630 to 624. Q4-2015 also experienced a decrease in the total Net Asset Value (NAV) by -0.5791% or -$0.84 billion, from $145.06 billion to $144.22 billion. This marginal decrease in the total NAV is a result of fund redemptions during the quarter.

F) COMPANY AUTHORISATIONS

Companies, Partnerships and Permits Statistics - Applications Approved

	Q4-2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014	Q3-2014
Exempted Companies (Bermuda companies exempted from the 60% Bermudian ownership requirement)	329	198	212	222	283	270
Exempted Partnerships (partnerships established in Bermuda to carry on business in or from within Bermuda)	38	17	36	18	31	7
Overseas Partnerships (overseas partnerships applying for permits to carry on business in or from within Bermuda)	8	5	2	2	0	0
Overseas Permit Companies (overseas companies applying for permits to carry on business in or from within Bermuda)	3	13	11	6	12	17
Unit Trusts	-	-	-	-	-	-
Total Applications Approved*	**378**	**233**	**261**	**248**	**326**	**294**

** 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 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.

G) INSURANCE

Insurance Registrations (Q4-2015)

During the quarter, the Authority registered 22 new insurers and one intermediary, compared to 17 new insurers and 11 intermediaries registered over the same quarter last year.

Type	Name	Date
	Registrations in October 2015	
SPI	Resilience Re Ltd.	1st October 2015
Class C	Legal & General SAC Limited	12th October 2015
Class 3A	BlueGreen Re Ltd.	19th October 2015
Class 1	Walbrook Fleet Limited	26th October 2015
	Registrations in November 2015	
Class 2	Yapa Re Ltd.	5th November 2015
Class E	Longitude Re Limited	6th November 2015
Class 3A	Sompo Japan Canopius Reinsurance AG	23rd November 2015
Class 1	CJES Insurance (Bermuda) Ltd.	24th November 2015
Class 4	Qatar Reinsurance Company Limited	24th November 2015
Class 3	Markel CATCo Re Ltd.	25th November 2015
Manager	Markel CATCo Investment Management Ltd.	27th November 2015
	Registrations in December 2015	
SPI	Norwood Re Ltd.	8th December 2015
Class 3A	Plymouth Guarantee, Ltd.	15th December 2015
Class 2	Aspre Insurance Limited	16th December 2015
SPI	Scimitar CAT Re, Ltd.	18th December 2015
Class C	Wing Yue Reinsurance Company Ltd.	18th December 2015
SPI	Securis Re VI Ltd.	21st December 2015
SPI	Securis Re VII Ltd.	21st December 2015
Class 3	XS Reinsurance Ltd	29th December 2015
Class 1	Greins Global Limited	29th December 2015
Class 2	Soundview Reinsurance Company, Ltd.	30th December 2015
Class 3A	EVANSTON INSURANCE COMPANY	31st December 2015
	Total Registrations	
Insurers: 22	Intermediaries: 1	

Descriptions of the various classes of insurer can be found in the Explanatory Notes section of this publication on page 19.

Quarterly Review of the Commercial (Re)insurance Sector – Bermuda (Re)insurance Groups (as of end Q4-2015)

The following section provides the main findings from a review of quarterly public US GAAP filings of (re)insurers that fall within the group-wide supervision by the Authority (Bermuda (re)insurance groups). These findings reflect general trends and developments of the sector in aggregate and do not imply changes in the supervisory assessment in relation to individual firm performance.

The fourth quarter of 2015 recorded higher losses for large commercial Bermuda (re)insurance groups[1] compared to Q4-2014 and the combined ratio increased by 3.1% q/q[2]. The absence of catastrophic or other significant events impacted loss developments over the past few quarters.

Bermuda (re)insurance groups improved their asset base by 7.1%. Despite increased claims, Bermuda (re)insurers were still able to produce a positive gross profit of $1.3 billion which was lower by 8.9% q/q due to higher losses and marginally increased expenses. The aggregate combined ratio stood at 86.8% compared to 84.2% in Q4-2014. The loss ratio increased by 4.0% q/q due to higher losses while the expense ratio increased by 1.6% q/q. Investment income represented 63.2% of net income, an increase from a share of 36.2% in Q4-2014. The main reason for the increase in the ratio was the reduction of the aggregate net income as a result of the realisation of capital losses[3].

Reserve leverage decreased by 2.1% q/q and financial leverage increased by 0.1% q/q. Total equity increased by 6.9% q/q while reserves increased by 4.7%, thus decreasing the reserve leverage. Likewise, faster asset growth compared to equity increased the financial leverage. Net Written Premiums to Equity, an approximate inverse measure of solvency, dropped by 7.3% q/q reaching 55.5%.

Investment portfolios of Bermuda (re)insurance groups produced a low RoI close to 0.6%, a slight increase of 0.1% q/q. RoE dropped significantly due to lower net income by 43.7% q/q. As a proxy for liquidity, the sum of cash and high quality "AAA"-rated securities represents 210.4% of claims for Q4-2015, a decrease of 0.9% q/q.

The outlook for interest rates remained uncertain in the quarter with major economies' monetary policies on divergent paths. The Federal Reserve increased its policy rates in December 2015 for the first time in seven years and the outlook for US interest rates, based upon futures markets, would suggest further increases in policy rates by the Federal Reserve in 2016. By contrast, weak growth and external vulnerabilities in many other major economies prompted some central banks to both expand their use of unconventional monetary policy tools and lower already negative policy rates.

[1] *The information presented in this section relates to public filings under US GAAP of publicly traded insurance groups that have an entity registered as a Class 4 or 3B commercial (re-)insurer and fall within the group wide supervision by the Authority ("Bermuda groups"). The presented information is based on aggregated individual firm data.*

[2] *Note that the quarter-on-quarter (q/q) change compares the change in a value between the current quarter and the corresponding quarter of the previous year, e.g., Q4-2015 and Q4-2014.*

[3] *Capital losses have decreased compared to Q3-2015.*

Table 1. Select Financial Soundness Indicators (FSIs)

(In % unless indicated otherwise)	2015 Q4	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2014 FY	2013 FY	Change (%) QoQ	Change (%) YoY
Capital Adequacy and Asset Quality									
Assets (In US$ bln)	**133.8**	137.4	134.5	131.8	125.0	**125.0**	121.3	7.1	3.1
Reserves to Assets (Reserve Ratio)	**52.6**	53.2	54.4	53.8	53.8	**53.8**	55.3	-2.2	-2.7
Reserves to Equity (Reserve Leverage) 1/	**154.4**	164.2	168.2	160.4	157.8	**157.8**	166.3	-2.1	-5.1
Assets to Equity (Financial Leverage) 2/	**293.7**	308.5	309.5	298.4	293.4	**293.4**	300.9	0.1	-2.5
Net Written Premiums to Equity 3/	**55.5**	56.8	58.1	57.3	59.9	**59.9**	60.3	-7.3	-0.6
Profitability and Actuarial Issues									
Gross Profit (excl. capital gains) (In US$ bln)	**1.3**	1.2	1.1	1.4	1.5	**5.4**	5.5	-8.9	-2.0
Investment Income to Net Income	**63.2**	148.1	130.4	35.3	36.3	**38.6**	46.9	74.4	-17.7
Combined Ratio	**86.8**	88.8	91.2	85.4	84.2	**85.9**	85.2	3.1	0.8
Average Claims to Reserves 4/	**2.5**	2.3	2.3	2.3	2.5	**2.3**	2.3	0.0	-0.3
Return on Equity	**1.8**	0.7	0.9	3.3	3.1	**11.9**	11.1	-43.7	7.4
Return on Investment	**0.6**	0.5	0.6	0.6	0.6	**2.3**	2.6	0.1	-9.8
Cash and "AAA" Assets to Claims 5/	**210.4**	201.3*	197.0	214.9	212.3	**201.2**	199.3	-0.9	1.0

Source: the Authority staff calculations.

Note: numbers may not add up due to rounding.

1/ Reserve leverage is the ratio between reserves and shareholder's equity (defined as share capital plus additional paid-in capital and retained earnings).

2/ Financial leverage is based on total assets divided by total common equity.

3/ The quarterly values contain the cumulative amount of Net Written Premiums over the last four quarters as numerator.

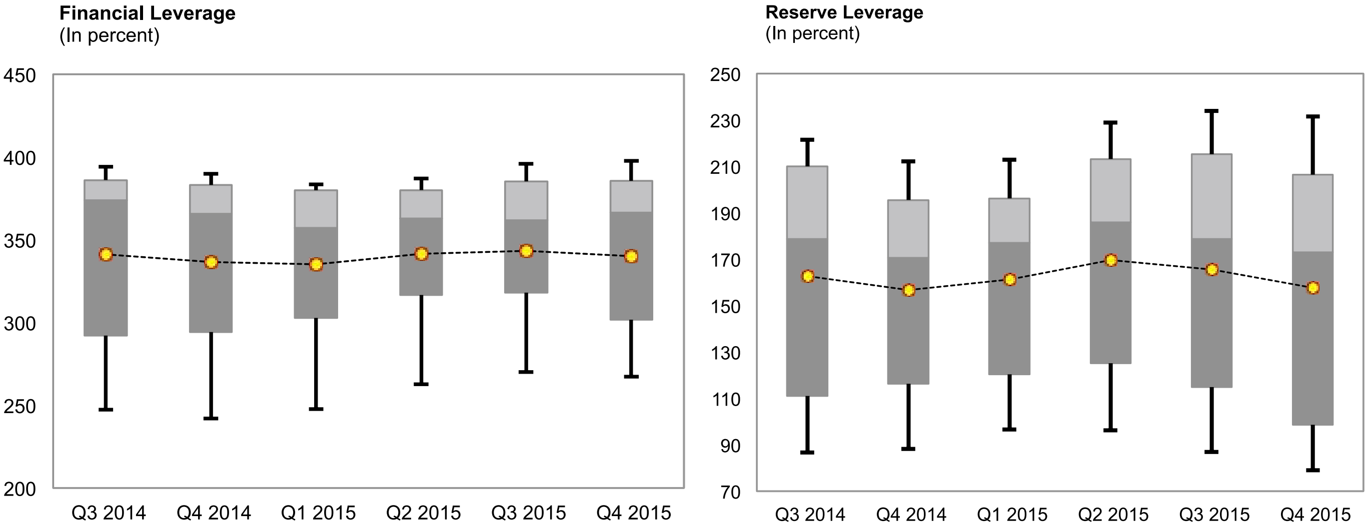
4/ Three-quarter average.

5/ Due to frequent revisions of the components of the ratio from Bloomberg, the series is stated only for firms without restatements. The general picture with the past does not change from a qualitative point of view.

Due to mergers the current table is not directly comparable to the previous Regulatory Update tables.

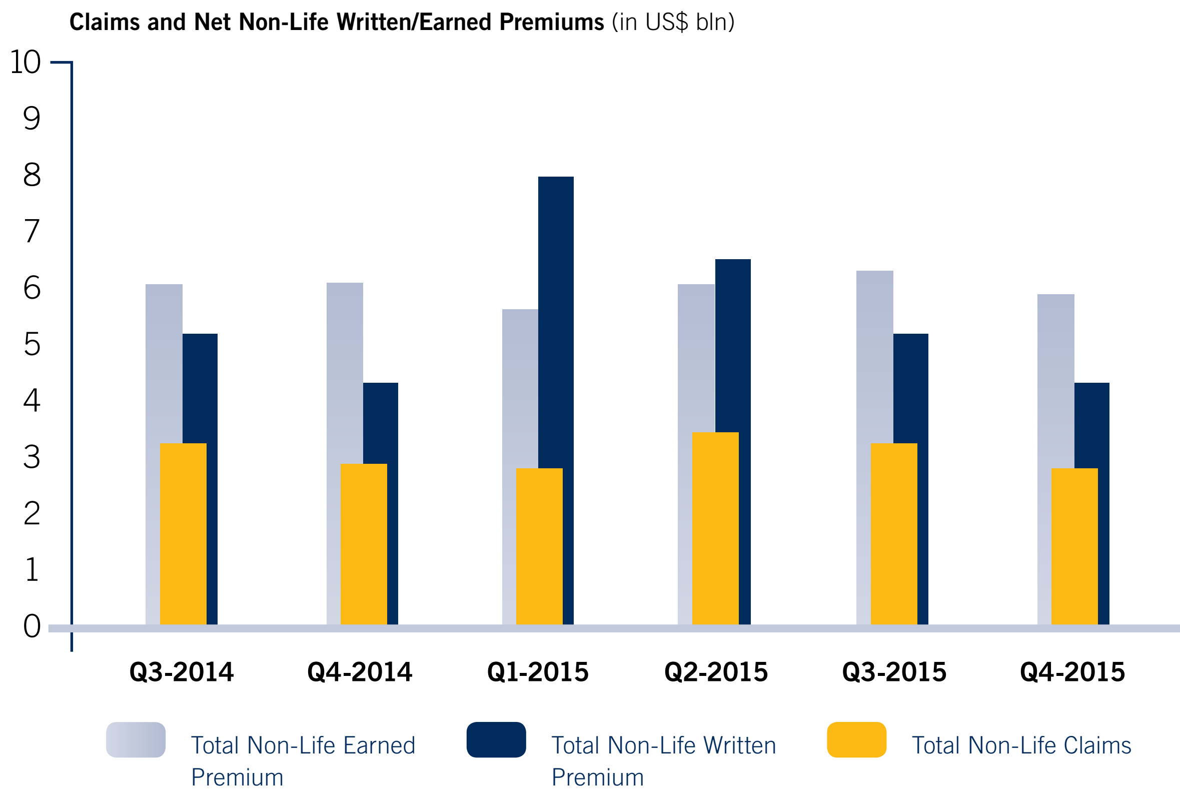
**Restated*

Figure 1. Dispersion of Financial and Reserve Leverage



Source: the Authority staff calculations. Note: Boxplots include the mean (yellow dot), the 25th and 75th percentiles (grey box, with the change of shade indicating the median), and the 10th and 90th percentiles (whiskers).

Figure 2. Claims Volume and Premium Income (Q3-2014 to Q4-2015)



Source: the Authority staff calculations.

Regulatory and Legislative

SUPERVISION

Solvency II Equivalence FAQs Published

In December, the Authority published "Solvency II Equivalence FAQs" on its website. The FAQs provided background on Europe's Solvency II initiative and explained how Europe had acknowledged that Bermuda's regulatory regime had achieved the same outcomes-based results as the Solvency II framework. On 26th November 2015, the European Commission (EC) adopted a Delegated Act recommending full equivalence for Bermuda. As a result of this recommendation, Bermuda's commercial (re)insurers and insurance groups would not be disadvantaged when competing for and writing business in the European Union. The European Parliament and Council were entitled to object to the EC decision for a three-month period. When officially confirmed, the decision will be applied retroactively to 1st January 2016. (N.B. – Bermuda's full equivalence with Solvency II was officially confirmed on 24th March 2016.)

Consultation Paper issued for Actuary's Opinion on Economic Balance Sheet (EBS)

The Authority released a Consultation Paper and a draft Guidance Note in December regarding an Actuary's Opinion for Economic Balance Sheet (EBS) technical provisions. EBS requirements apply to Classes 3A, 3B, 4, C, D, E and insurance groups. The EBS does not have a formal audit requirement and as such, the provision of a formal actuarial opinion gives the Authority assurance as to the reasonableness of the insurance technical provisions contained in the EBS.

Amendments Made to Reporting Regime for Commercial (Re)insurers and Groups

In November, the Authority published its response to comments received on proposed amendments to reporting regimes for commercial (re)insurers and insurance groups. Among the key changes made following the consultation process were:

- Removing a requirement from final legislation related to amalgamations for a combined entity to report for the entire fiscal period, regardless of when the amalgamation took place, considering the difficulties companies and auditors might have in completing this. However, the pro-forma combined information might still be requested from insurers on a case-by-case basis as part of the Authority's prudential review of the insurer.
- Delaying implementation of certain proposals to allow time to more comprehensively study issues raised.
- Not to legislate requirements that an insurer's approved auditor be based in Bermuda. In addition, the Authority revised the requirement for audit working papers to be maintained in Bermuda. This requirement is now restricted to Statutory Financial Statements (SFS), where there will be a Bermuda-based Approved Auditor. The scope of the working papers is those that the approved auditor relied upon for providing assurance on the SFS.

Refined reporting proposed for Bermuda's Captives and Special Purpose Insurers (SPIs)

In October, the Authority issued a stakeholder letter in respect of a Consultation Paper and draft legislation which intends to enhance reporting requirements in relation to the statutory financial return for Class 1, 2, 3, A and B insurers, and SPIs. Based on industry discussions, the Authority amended the cover sheet, and the proposed own risk assessment and supporting schedules, to provide greater clarity to the reporting requirements and avoid duplication of consolidated items within the schedules.

Authority Issues Reporting Forms and Guidelines for Commercials and Groups

In December, the Authority published the 2015 EBS Bermuda Solvency Capital Return (BSCR) templates for Classes C, D and E, followed shortly by the Authority issuing Group Capital and Solvency Return, General Business Capital and Solvency Return, and Long-Term Business Capital and Solvency Return instruction handbooks. In addition, Class 3A, C, D and E instructions on stress and scenario testing were published alongside year-end filing requirements for Classes 3A, 3B, 4, E and Insurance groups. Classes C and D also followed shortly that month.

Draft Alternative Investment Fund Managers (AIFM) Rules Released

Following the Discussion Paper on the European Union's Alternative Investments Fund Managers Directive (AIFMD) published by the Authority in 2014, efforts continued with the development of a regime for alternative investment asset managers. A copy of the Authority's draft Rules and an accompanying Consultation Paper were released and subsequently shared with the European Securities and Markets Authority (ESMA) as part of the phase two assessment regarding extension of the AIFM passport to third countries.

Consultation Paper Published on Proposed Fee Changes for 2016

In November, the Authority published a Consultation Paper on proposed fee increases to be implemented in two phases. For the first phase, the Authority proposed additional fees for 2016 in respect of insurers in Classes 3B, 4 and insurance groups. Then in Q2-2016, the Authority plans to review and consult on a fee increase for the remaining classes of the insurance sector to be implemented in 2017. The proposed fee increases have been driven by the impact of changing international global standards and ensure the Authority can meet its financial demands while achieving its strategic objectives.

INTERNATIONAL

Senior members of the Authority helped develop international regulatory policy by attending key international meetings during Q4-2015.

In November, the Authority met with representatives from the UK's Prudential Regulation Authority to discuss topics ranging from the practical application of Solvency II and equivalency, and a number of mutual registrants.

In September (and November), the International Association of Insurance Supervisors' (IAIS) Macroprudential Policy and Surveillance Working Group met in Basel, Switzerland. The Authority also attended the IAIS Index-based Insurance Working Group in October in Washington DC and the Association of Latin American Insurance Supervisors' Regional Seminar in December in Santiago, Chile.

The Authority participated in the National Association of Insurance Commissioners' (NAIC) National meetings held in Washington, D.C. in November. Also held in Washington, DC that month was the European Union US Insurance Project update meeting.

A series of meetings were held by the Financial Stability Board which were attended by representatives from the Authority, including the Regional Consultative Group Americas (RCGA) Workshop on Shadow Banking monitoring in November (Cayman Islands), and the RCGA Plenary Meeting and Correspondent Banking Roundtable, both held in December (Barbados).

The Authority attended a three day Group of International Finance Centre Supervisors (GIFCS) Plenary in Macao, China in November 2015. Seminars were held on Supervising Systemically Important Banks (SIBs) from a Host Country Perspective along with a visit to the China (Guangdong) Pilot Free Trade Zone in the Hengqin area of Zhuhai to discuss the development of financial services in international markets. Bank recovery and resolution was also a topic reviewed by facilitators focusing on international guidance for recovery and resolution, cross-border co-operation and crisis management, and resolution with a review of the remaining issues still to be decided.

In October, the Authority participated in an International Organisation of Securities Commissions (IOSCO) Seminar in Zurich focusing on the implementation of the IOSCO principles for stock exchanges, self-regulated organisations (SROs) and national regulators. Topics discussed included the role and responsibility shared between the national regulator and SRO, in particular issues such as identifying market abuse, market surveillance, inspection and disciplinary actions.

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 20.0% of its net premiums from unrelated risks.
- Class 3: Captive insurers underwriting more than 20.0% and less than 50.0% unrelated business.
- Class 3A: Small commercial insurers whose percentage of unrelated business represents 50.0% or more of net premiums written, or loss and loss expense provisions and where the unrelated business net premiums are less than $50.0 million.
- Class 3B: Large commercial insurers whose percentage of unrelated business represents 50.0% or more of net premiums written, or loss and loss expense provisions and where the unrelated business net premiums are more than $50.0 million.
- Class 4: Insurers and reinsurers capitalised at a minimum of $100.0 million underwriting direct excess liability and/or property catastrophe reinsurance risk.
- Long-Term – Class A:
  A single-parent Long-Term (life) captive insurance company underwriting only the Long-Term business risks of the owners of the insurance company and affiliates of the owners.
- Long-Term – Class B:
  Multi-owner Long-Term captives which are defined as Long-Term insurance companies owned by unrelated entities, provided that the captive underwrites only the Long-Term business risks of the owners, and affiliates of the owners and/or risks related to or arising out of the business or operations of their owners and affiliates. A Class B license will also apply to single-parent and multi-owner long-term captives writing no more than 20.0% of net premiums from risks which are not related to, or arising out of, the business or operations of their owners and affiliates.
- Long-Term – Class C:
  Long-Term insurers and reinsurers with total assets of less than $250.0 million, and not registrable as a Class A or Class B insurer.
- Long-Term – Class D:
  Long-Term insurers and reinsurers with total assets of $250.0 million or more but less than $500.0 million, and not registrable as a Class A or Class B insurer.
- Long-Term – Class E:
  Long-Term insurers and reinsurers with total assets of more than $500.0 million, and not registrable as a Class A or Class B insurer.
- SPI: A Special Purpose Insurer (SPI) assumes insurance or (re)insurance risks and typically fully funds its exposure to such risks through a debt issuance or some other financing.
- Intermediaries: Insurance managers, insurance brokers, insurance agents and insurance salesmen, as defined in Section 10 of the Insurance Act 1978.

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