QUARTERLY

Banking Digest

Q4-2016

BMA
BERMUDA MONETARY AUTHORITY

NEW BASEL III REQUIREMENTS

- Basel III adoption became effective 1st January 2016 with Basel II reporting discontinued as at the same date.
- Beginning 1st January 2016, the phased-in Basel III Liquidity Coverage Ratio (LCR) requirement was 70.0%, an increase from 60.0% (2015 requirement). A fully phased-in LCR minimum of 100.0% will be in place by 1st January 2019.
- As of 1st January 2016, all banks were required to hold additional capital in the form of a Capital Conservation Buffer (CCB). The phased-in CCB for 2016 was 0.63% for all banks.
- Banks deemed to be systemically important to the island's economy have been allocated Domestic Systemically Important Banks (D-SIB) buffer which can range from 0.0% to 3.0%.

BANKING SECTOR INSIGHT

- The US Federal Reserve's December announcement to raise its short-term interest rate from the 0.25 to 0.50 percent to a range of 0.50 and 0.75 percent, has prompted some Bermudian banks to follow suit by adjusting their base lending rate by 25 basis points.

PERFORMANCE HIGHLIGHTS

- **Overall capital position was stable in Q4.** The Basel III Risk Asset Ratio (RAR) stood at 20.4%, down from 21.9% in the prior quarter, while the CET 1 ratio had a modest increase from 18.2% to 18.6%. The sector's leverage ratio decreased to 7.2%, though was higher than the 5.0% minimum requirement.
- **The sector's balance sheet grew 1.3 percent to $22.7 billion following three quarters of steady decline.** The majority of asset growth was led by investments, which grew by 6.8% to $9.6 billion and interbank deposits, which increased by 4.0% to $ 3.6 billion. However, loans and advances fell by 4.9% to $8.8 billion, offsetting some of the aforementioned increases.
- **Q4 profitability was driven by lower operating costs.** Bank earnings were 1.8% lower than Q3-2016, yet operating and non-operating costs declined at a faster rate, falling by 22.1% during the quarter. The increase in Q4 profits led to favourable returns, as (annualised) Return on Equity (RoE) and Return on Assets (RoA) rose to 2.7% and 0.3%, respectively.
- **Banks posted lower loan loss provisions for the fifth consecutive quarter.** Provisions as a percentage of total loans fell to 1.7% for the quarter, down from 2.2% a year ago.

SUMMARY INDICATORS

Table I below is a summary of selected indicators, including capital, earnings and asset quality.

Table I: Selected Indicators

	2016				2015
(Ratios in %)	Dec	Sep	Jun	Mar	Dec
Capital Position					
Basel III – RAR (8.0%)	20.4	21.9	21.4	21.0	19.1
Basel III – CET I ratio (5.1%)	18.6	18.2	17.8	17.7	15.9
Basel III – Leverage Ratio (5.0%)	7.2	8.0	7.7	7.6	7.4
Liquidity					
Cash/cash equivalents to total deposits liabilities	18.1	18.0	24.5	18.0	18.2
Loan-to-deposit ratio	43.4	47.3	45.9	43.9	42.5
Funding gap [a)]	-50.4	-45.9	-47.7	-49.3	-51.1
Profitability					
Interest margin to interest income	93.3	93.1	92.4	92.2	91.5
Return on assets (annualised)	0.3	0.2*	0.2*	0.2*	0.2*
Return on equity (annualised)	2.7	2.2*	2.6*	2.2*	2.0*
Loan Book					
Provisions to Non-Performing Loans (NPLs)	21.4	25.9	24.1	23.5	23.5*
NPLs to total loans	7.2	6.9	7.2	7.6	8.0
NPLs to regulatory capital [b)]	34.7	31.9	34.0	35.2	35.7
Other					
Change in BD$ money supply (RU)	0.0	-0.3	1.3	1.6	0.8
Change in assets	1.3	-6.2	-1.3	0.6	2.8
Change in RWAs [c)]	-2.2	-4.6	-0.8	-8.0	-2.0
Change in customer deposits	3.7	-7.4	-1.1	-0.4	3.4

**Restated*

a) Loans, less deposits; divided by total assets
b) As of Q1-2016, Basel III capital will be used to calculate ratio
c) Basel III Risk-weighted assests (RWAs) from Q1-2016

BALANCE SHEET

Aggregate Balance Sheet

Table II below provides a summary of key balance sheet trends in the sector.

Table II: Aggregate Balance Sheet

(BD$ blns)	2016				2015	Change (In %)	
	Dec	Sep	Jun	Mar	Dec	QoQ	YoY
Assets							
Cash	0.1	0.1	0.1	0.1	0.1	*18.8*	*28.4*
Deposits	3.6	3.4	5.1	3.8	3.8	*4.0*	*-6.5*
Loans & advances	8.8	9.2	9.7	9.3	9.1	*-4.9*	*-3.3*
Investments	9.6	9.0	8.3	10.3	10.4	*6.8*	*-7.9*
Other assets	0.7	0.7	0.8	0.7	0.7	*-2.4*	*-1.1*
Total assets	**22.7**	**22.4**	**23.9**	**24.2**	**24.1**	***1.3***	***-5.6***
Liabilities							
Savings deposits	6.6	6.3	6.5	7.1	6.5	*4.5*	*1.9*
Demand deposits	10.6	10.3	11.5	11.4	11.7	*2.8*	*-9.1*
Time deposits	3.0	2.9	3.1	2.8	3.2	*5.1*	*-6.5*
Total deposits	**20.2**	**19.5**	**21.1**	**21.3**	**21.4**	***3.7***	***-5.4***
Other liabilities	0.6	0.7	0.6	0.7	0.6	*-19.7*	*-0.7*
Total liabilities	**20.8**	**20.2**	**21.6**	**22.0**	**21.9**	***2.9***	***-5.3***
Equity and subordinated debt	1.9	2.2	2.3	2.2	2.1	*-12.6*	*-9.6*
Total liabilities and equity	**22.7**	**22.4**	**23.9**	**24.2**	**24.1**	***1.3***	***-5.6***

Totals may not add due to rounding.

- The sector's consolidated balance sheet grew in Q4 by 1.3% (or $299.3 million) but was 5.6% (or $1.4 billion) lower compared to a year ago. This increase was led by steady growth in investments (up 6.8% or $612.0 million) to $9.6 billion, followed by interbank deposit (up 4.0% or $135.9 million) to $3.6 billion. Conversely, loans and advances declined by 4.9% (or $449.0 million) to $8.8 billion following four quarters of steady growth. The analysis of the asset composition shows that investments (42.3%) and loans (38.6%) continued to generate the majority of earnings for the sector.

- Total liabilities increased by 2.9% (or $577.2 million) to $20.8 billion, though remained 5.3% (or $1.2 billion) lower than amounts reported one year ago. Increases in deposit liabilities were driven by higher inflows in demand deposits (up 2.8% or $286.3 million) to $10.6 billion, savings (up 4.5% or $284.4 million) to $6.6 billion and time deposits (up 5.1% or $144.5 million) to $3.0 billion.

Summary of Balance Sheet Ratios

Table III provides a summary of balance sheet ratios measuring asset quality and capital.

Table III: Summary of Balance Sheet Ratio

(In % unless indicated otherwise)	2016				2015
	Dec	Sep	Jun	Mar	Dec
Asset allocation					
Investments	42.3	40.1	34.7	42.7	43.3
Loans	38.6	41.1	40.4	38.6	37.7
Deposits	15.7	15.3	21.2	15.5	15.8
Other assets	3.0	3.1	3.3	2.9	2.8
Deposits allocation					
Savings	32.7	32.5	30.7	33.2	30.4
Demand	52.5	52.9	54.4	53.5	54.6
Time	14.8	14.6	14.9	13.4	15.0
Capital position					
Basel III – Risk Asset Ratio*	20.3	21.9	21.4	21.0	19.1
Basel III – Leverage Ratio	7.2	8.0	7.7	7.6	7.4

Totals may not add due to rounding.
*** Basel III requirements as per the Final Rules, subject to the phase-in period with full implementation commencing in 2019.***

Capital Adequacy

Chart I below shows the movement in the Risk Asset Ratio (RAR) and the leverage ratio over the last two years.

Chart I: Risk Asset Ratio and Leverage Ratio

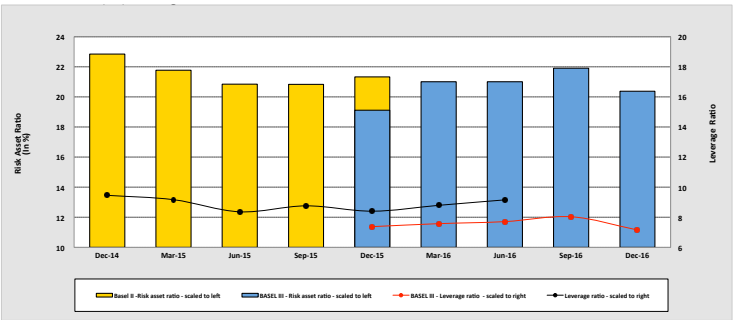
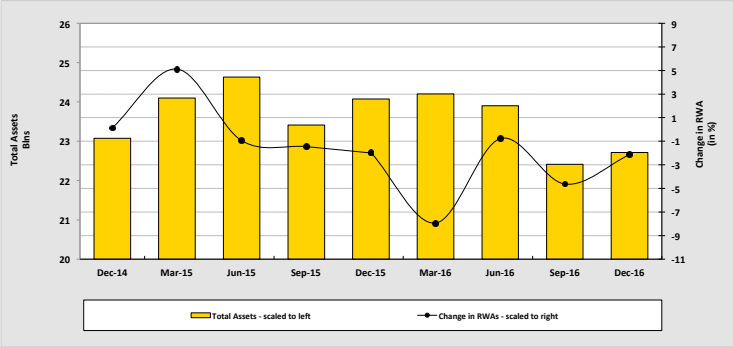


Chart II below reflects the movement in total assets and the change in Risk-Weighted Assets (RWAs) over the last two years.

Chart II: Total Assets and Change in RWAs



- The sector's Q4 capital adequacy position was slightly lower when compared to Q3, but remained higher than levels reported a year earlier. The Risk Asset Ratio was down quarter-on-quarter, falling to 20.4%, while the Common Equity Tier 1 (CET 1) ratio rose to 18.6%, and was 270 bps higher over the past year. The CET 1 measure is more than double the minimum regulatory requirement of 5.1%. Despite an increase in total assets during the period, the overall credit risk exposure was down as banks shifted towards lower risk weights.

- The sector's aggregate leverage ratio fell to 7.2%, but continued to be above the 5.0% minimum regulatory requirement.

Asset Quality

Loan Book

Table IV is a summary of ratios measuring the composition and quality of the loan book for the last five quarters.

Table IV: Quality of the Loan Book

(In %)	2016				2015
	Dec	Sep	Jun	Mar	Dec
Loans and advances quarter-over-quarter growth rate	-4.9	-4.5	3.4	2.9	6.5
Residential mortgages to total loans	45.8	42.7	41.4	43.8	46.0
Loan impairments					
NPLs to total loans (net)	7.2	6.9	7.2	7.6	8.0
NPLs to Basel III capital	34.7	31.9	34.0*	35.2*	35.7
Net charge-offs to loans (annualised)	0.2	0.1	0.1	0.2	0.1
Loan provisioning					
Provisions to NPLs	21.4	25.9	24.1	23.5	23.5
Specific provisions to NPLs	12.0	16.8	16.0	16.1	16.0
Provisions to total loans (net)	1.7	2.1	2.0	2.1	2.2

** Restated*

- Non-performing loans (NPLs) decreased by $5.7 million (or 0.9%) during the quarter. The percentage of NPLs to total loans increased to 7.2% in Q4, largely due to the faster decline in total loans (down 4.9%) relative to the decrease in NPLs (down 0.9%).

- Provisions to total loans declined to 1.7%, falling to its lowest level for the year. Quarterly loan loss provisions reported by banks amounted to $153.2 million in Q4-2016, compared to $202.1 million in Q4-2015.

Sectoral Distribution of Loans

Charts III and IV reflect the sectoral distribution of loans during the quarter and the variation of lending to the different sectors over the last five quarters.

Chart III: Sectoral Distribution of Loans and Advances

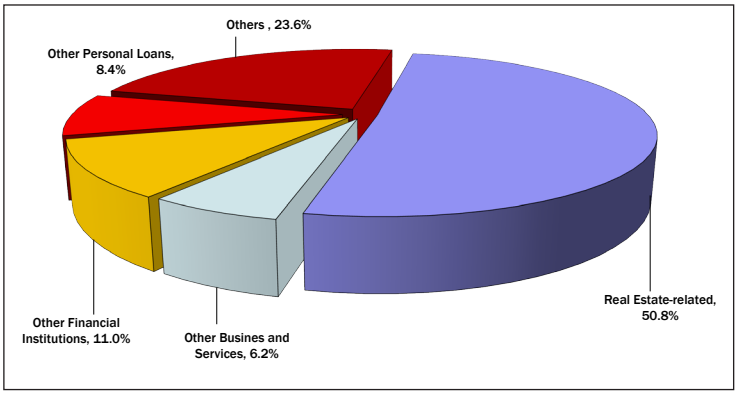
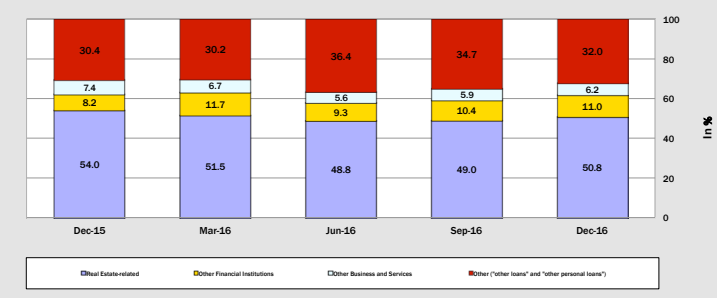


Chart IV: Sectoral Distribution of Loans and Advances

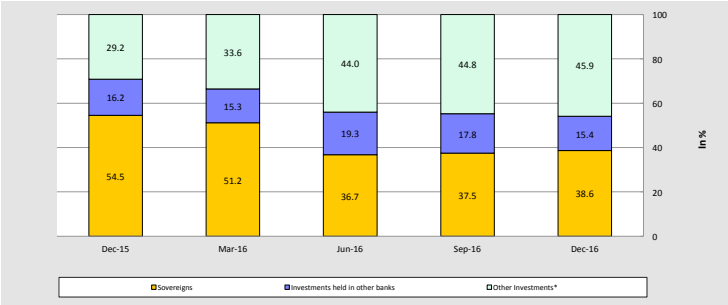


- Sectoral credit growth remained stable in Q4. The real estate market continued to be the dominant sector, rising marginally to 50.8% of total loans. Lending to core business sectors classified as "Other" experienced the only decline during the quarter, falling from 34.7% to 32.0% of total loans during the quarter.

Investment Book

Chart V below shows the structure of the aggregate investment book during the quarter.

Chart V: Sectoral Structure of the Investment Book*



** Includes: public sector entities (PSEs), securitised (non-equity tranches) investments, securitised (equity tranche) investments, investments in the capital of other banks, and investments in subsidiaries and associated companies.*

- The sector's investment book remained relatively unchanged in Q4. The small net increase was largely driven by the 8.0% increase in quality rated securitised (non-equity) investments, which comprises 88.0% of 'Other' investments. Sovereign exposures also experienced growth, rising from 37.5% to 38.6% in Q4; though remained significantly lower than amounts reported a year earlier.

Liquidity and Liquidity Coverage Ratio (LCR)

Table V shows the liquidity condition of the banking sector over the last five quarters.

Table V: Liquidity Indicators

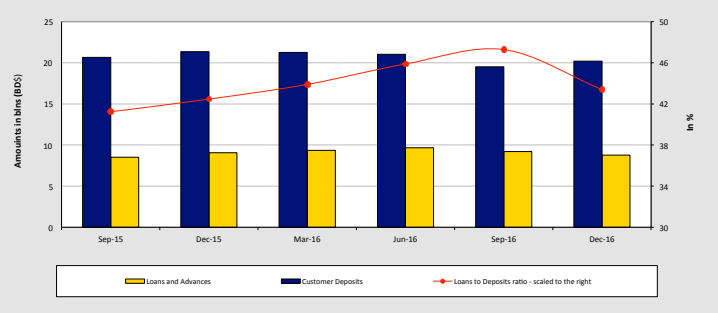
(In %)	2016				2015
	Dec	Sep	Jun	Mar	Dec
Cash and deposits to total assets	16.1	15.7	21.6	15.8	16.2
Cash and cash equivalents to total deposit liabilities	18.1	18.0	24.5	18.0	18.2
Loan-to-deposit ratio	43.4	47.3	45.9	43.9	42.5
Loans-to-total assets	38.6	41.1	40.4	38.6	37.7
Funding gap*	-50.4	-45.9	-47.7	-49.3	-51.1

** The difference between total loans and total deposits divided by total assets.*

- As of the end-December 2016, all regulated financial institutions met the 70.0% LCR minimum requirement.

Chart VI shows the change in total loans, customer deposits and the consolidated loan-to-deposit ratio (for both BD$ and FX) over the last five quarters.

Chart VI: Total Loans and Deposits



- The Loans-To-Deposits (LTD) ratio fell from 47.3% to 43.4% during the quarter, following four consecutive quarters of growth. Factors contributing to the LTD decline were attributed to a higher influx of customer deposits (up 3.7% or $715.2 million) relative to the decrease in total loans (down 4.9% or $448.8 million), resulting in a widening of the sector's funding gap.

PROFIT AND LOSS

Table VI below is a summary of profitability ratios for the sector for the last five quarters.

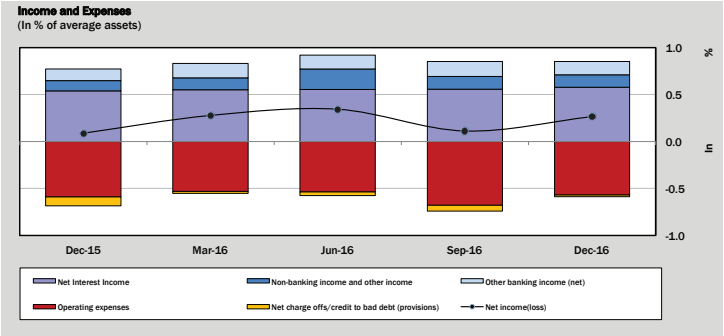
Table VI: Summary of Profitability Ratios

(In %)	2016				2015
	Dec	Sep	Jun	Mar	Dec
Net interest margin to total income	67.6	65.5	60.2	66.3	69.9
Annualised net interest margin to (average) earning assets**	2.3	2.2	2.2	2.2	2.2
Annualised interest income to (average) earning assets**	2.5	2.4	2.4	2.4	2.4
Banking income to total income	84.3	84.3	76.1	84.6	86.0
Non-interest income to total income	32.4	34.5	39.8	15.4	14.0
Non-interest expenses to total income	68.9	86.8	62.5	66.5	88.5
Personnel expenses to non-interest expenses	51.5	44.3	49.4	48.0	45.1
Annualised Return on Assets (RoA)**	0.3	0.2*	0.2*	0.2*	0.2*
Annualised Return on Equity (RoE)***	2.7	2.2*	2.6*	2.2*	2.0*

Restated
*** Earning assets are averaged over the last four quarters.***
**** Shareholders' equity is averaged over the last four quarters.***

Chart VII below shows the change in income and expense elements of the sector's aggregate profit and loss statement of the sector over the last five quarters.

Chart VII – Income and Expenses



Margin Analysis

- Banks reported higher profits in Q4, as net profits rose to $59.1 million during the quarter, up from $20.1 million a year earlier. Banks reported slightly lower earnings as non-interest income (down 7.6%) offset the marginal increase in net interest income (up 1.3%). Operating and non-operating expenses fell 22.1% in Q4. Operational costs were down $27.3 million (or 17.6%), while non-operating expenses declined by $10.1 million (or 71.3%).

- The improvement in the cost efficiency was mainly due to lower costs associated with banking operations. The ratio of non-interest expenses as a percentage of total income declined from 86.8% to 68.9%.

Chart VIII reflects the distribution of income sources as of end-September 2016.

Chart VIII: Distribution of Income Sources

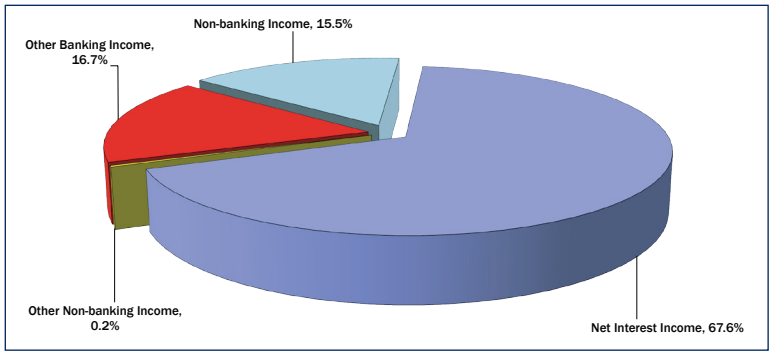
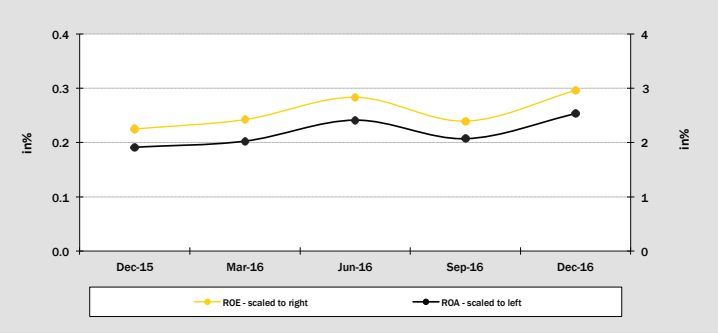


Chart IX shows the trend in RoE and RoA over the last five quarters.

Chart IX: Annualised Return on Assets and Return on Equity*

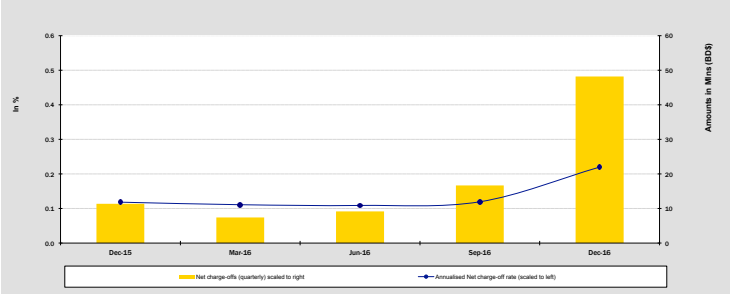


Restated

- The improvement in quarterly profits resulted in better returns, as profitability indicators showed that annualised RoA and RoE increased to 0.3% and 2.7%, respectively.

Chart X shows the actual net charge-offs and the annualised change relative to total loans over the last five quarters.

Chart X: Net Charge-off Amount and Proportion of Annualised Charge-offs to Loans*



Restated

- The sector's net charge-offs was $48.2 million during the quarter and $81.4 million for the year. The proportion of (annualised) net charge-offs to total loans was 0.2% for Q4, which is only slightly higher compared to a year ago (0.1%).

Foreign Currency (FX) Balance Sheet

Table VII below shows the aggregate FX balance sheet of the sector over the last five quarters.

Table VII: Foreign Currency Balance Sheet

(In BD$ blns)	2016				2015	Change (In %)	
	Dec	Sep	Jun	Mar	Dec	*QoQ*	*YoY*
Loans and advances	5.1	5.5	5.9	5.5	5.2	-7.4	*-1.8*
Total assets	18.6	18.2	19.6	19.9	19.7	*1.9*	*-5.8*
Deposit liabilities	16.8	16.1	17.6	17.9	18.0	*4.4*	-6.9

- The foreign currency asset base rose by 1.9% to $18.6 billion in Q4. The net increase was largely due to the quarterly increase in foreign currency investments (up 6.8% or $612.1 million) and interbank deposits (4.0% or $135.9 million); while the decline in FX currency loans and advances (down 7.4% or $410.6 million) negated some of the overall growth.

- Foreign currency deposits grew by 4.4% to $16.8 billion in Q4, driven by increases in funding sources from foreign currency time deposits (up 7.4%), saving deposits (up 5.3%) and demand deposits (up 3.3%). At quarter-end, the dominance of the US dollar continued to be strong, representing 76.3% of foreign currency denominated assets.

Table VIII below shows the foreign currency position for the sector for the last five quarters.

Table VIII: Foreign Currency Positions

(In %)	2016				2015
	Dec	Sep	Jun	Mar	Dec
FX-denominated assets to total assets	81.8	81.4	82.0	82.2	81.9
FX-denominated loans to total loans	58.3	59.9	61.1	59.3	57.4
FX-denominated deposits to total deposits	83.0	82.4	83.7	84.0	84.4
Changes in FX assets	1.9	-6.9	-1.5	1.0	3.7
Changes in FX loans and advances	-7.4	-6.3	6.5	6.3	13.3
Changes in FX customer deposits*	4.4	-8.8	-1.4	-0.9	3.9

**** Percentage change based on absolute numbers.***

Table IX is a summary of ratios measuring the liquidity of the FX$-denominated bank balance sheet for the last five quarters.

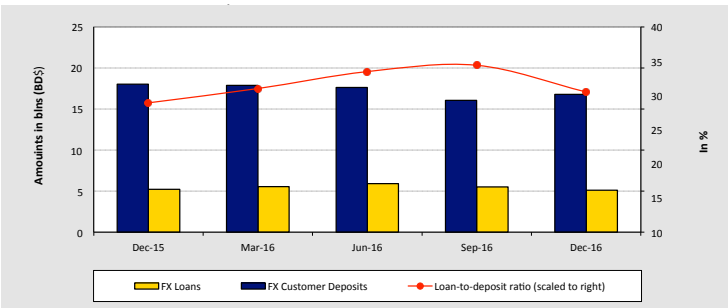
Table IX: Liquidity Indicators (FX Positions)

(In %)	2016				2015
	Dec	Sep	Jun	Mar	Dec
Cash and deposits to total assets	19.4	18.9	25.9	18.9	19.4
Cash and cash equivalents to total deposit liabilities	21.5	21.5	28.8	21.0	21.2
Loan-to-deposit ratio	30.5	34.4	33.5	31.0	28.9
Loans to total assets	27.5	30.3	30.1	27.8	26.4
Funding gap*	-62.8	-57.8	-59.8	-61.9	-65.0

**** The difference between total loans and total deposits divided by total assets***

Chart XI shows the movement in FX$-denominated loans and deposits, and the ratio of FX$-denominated loans to customer deposits, for the last five quarters.

Chart XI: FX Loans and Customer Deposit



- The FX loans-to-deposit ratio declined in Q4, decreasing from 34.4% to 30.5%. The FX liquidity funding structure was mostly impacted by the outflow of foreign currency loans (down 7.4% or $410.6 million) compared to the increase in foreign currency customer deposit (up 4.4% or $709.9 million).

Bermuda Dollar Balance Sheet

Table X below shows the aggregate Bermuda Dollar balance sheet of the sector over the last five quarters.

Table X: Bermuda Dollar Balance Sheet

(In BD$ blns)	2016				2015	Change (In %)	
	Dec	Sep	Jun	Mar	Dec	QoQ	YoY
Loans and advances	3.7	3.7	3.8	3.8	3.9	*-1.0*	*-5.4*
Total assets	4.1	4.2	4.3	4.3	4.4	*-1.0*	*-5.2*
Deposit liabilities	3.4	3.4	3.4	3.4	3.3	*0.6*	*2.9*

Note: The BD$-denominated balance sheet of the sector aggregates data submitted on legal entity reporting basis, which is different from the presentation of the banking statistics in the Regulatory Update, which shows the consolidated sector balance sheet.

- The Bermuda dollar balance sheet was unchanged in Q4, with little movement occurring throughout the year.

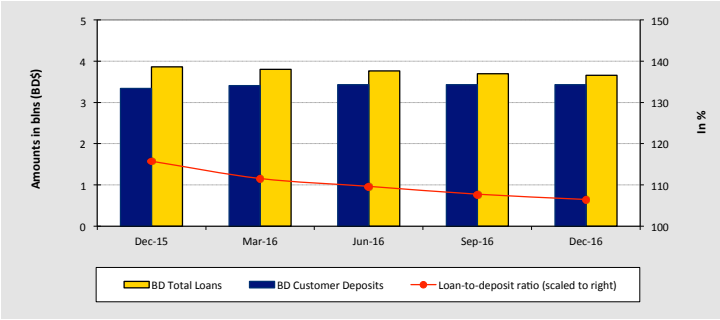
Table XI is a summary of ratios measuring the liquidity of the BD$-denominated balance sheet over the last five quarters.

Table XI: Liquidity Indicators (BD$ Positions)

(In %)	2016				2015
	Dec	Sep	Jun	Mar	Dec
Cash and deposits to total assets	1.5	1.5	1.6	1.6	1.6
Cash and cash equivalents to total deposit liabilities	1.8	1.8	2.0	2.0	2.1
Loan-to-deposit ratio	106.5	107.8	109.7	111.6	115.8
Loans to total assets	88.5	88.6	87.4	88.4	88.7
Funding gap to total BD$ Assets	5.4	6.4	7.7	9.2	12.1

Chart XII shows the movement in BD$-denominated loans and deposits, along with the ratio of BD$-denominated loans to deposits, for the last five quarters.

Chart XII: Bermuda Dollar Loans and Customer Deposits



- The Bermuda Dollar liquidity indicators show the loans-to-deposits ratio on a downward trajectory, falling to 106.5% for the quarter. BD$ denominated loans and advances have steadily decreased over the past several quarters, while BD$ denominated customer deposits have remained fairly even over the same period.

Monetary Aggregates

Table XII shows the trend in the domestic money supply over the last five quarters.

Table XII: Bermuda Money Supply (Unconsolidated)

(In BD$ mln)	2016				2015
	Dec	Sep	Jun	Mar	Dec
Notes and coins in circulation	137	128	129	125	133
Deposit liabilities	3,448	3,450	3,458	3,416	3,359
Banks and deposit companies	**3,585**	**3,578**	**3,587**	**3,541**	**3,492**
less: cash at banks and deposit companies	46	38	39	38	45
Bermuda Dollar money supply	**3,540**	**3,539**	**3,548**	**3,503**	**3,447**
% Growth on previous period	0.0	-0.3	1.3	1.6	0.8
% Growth y-o-y	2.7	3.5	3.6	2.6	3.1

The table includes the supply of Bermuda dollars only.

- The Bermuda Dollar money supply remained stable at $3.5 million quarter-on-quarter; yet was 2.7% higher when compared to the $3.4 million amount reported a year ago.

SELECTED INTERNATIONAL DEVELOPMENTS

This section lists important publications issued during the last quarter by international organisations and national supervisory authorities. The listing does not reflect endorsement by the Bermuda Monetary Authority.

Bank for International Settlements (BIS)

In October, the Basel Committee on Banking Supervision (BCBS) published two papers on how accounting provisions under IFRS 9 interact with Basel III. The first paper was issued for consulting on the proposal to retain for the interim period the current regulatory treatment of provisions under both the standardised and internal ratings-based approaches. The second paper takes into consideration the regulatory treatment of accounting provisions under the Basel III regulatory capital framework.

http://www.bis.org/bcbs/publ/d385.pdf

http://www.bis.org/bcbs/publ/d386.pdf

The BCBS published its eleventh progress report on the adoption of the Basel regulatory framework for each of its member jurisdiction as of end-September 2016.

https://www.bis.org/bcbs/publ/d388.pdf

Bank of England (BoE)

In November, the BoE published the results of its 2016 bank stress test. The report reveal that that the UK banking system was in aggregate sufficiently capitalised to withstand a severe stress, the impact of the stress scenario varied substantially across seven participating banks.

http://www.bankofengland.co.uk/financialstability/Documents/fpc/results301116.pdf

European Banking Authority (EBA)

In December, the EBA release its ninth report on risks and vulnerabilities in the EU banking sector. The report describes the main developments and trends that have affected the EU banking sector since the end of 2015 and provides the EBA's outlook on the main micro-prudential risks and vulnerabilities looking ahead.

http://www.eba.europa.eu/documents/10180/1315397/EBA+Risk+Assessment+Report_December+2016.pdf

The EBA published its third impact assessment report of EU banks' compliance with the Liquidity Coverage Ratio (LCR). The report revealed that the average LCR has constantly increased since 2011 and now stands at 134%.

http://www.eba.europa.eu/documents/10180/1700800/EBA+report+on+liquidity+measures+and+the+review+of+the+phase-in+of+the+liquidity+coverage+requirement+%28EBA-Op-2016-22%29.pdf

Financial Stability Board (FSB)

In December, the FSB released two proposals for guidance on the implementation of its resolution standards which form part of the overall policy framework to end "too-big-to-fail".

http://www.fsb.org/wp-content/uploads/Guiding-Principles-on-the-Internal-Total-Loss-absorbing-Capacity-of-G-SIBs.pdf

http://www.fsb.org/wp-content/uploads/Continuity-of-Access-to-FMIs-Consultation-Document-FINAL.pdf

The FSB released its latest progress report on the implementation of its four-point action to assess and address the decline in correspondence banking. The four-point action plan includes:

- Further examining the dimensions of the problem, and its causes and effects;
- Clarifying regulatory expectations, as a matter of priority, including through guidance by the Financial Action Task Force (FATF);
- Domestic capacity-building in jurisdictions that are home to affected respondent banks;
- Strengthening tools for due diligence by correspondent banks

http://www.fsb.org/wp-content/uploads/FSB-action-plan-to-assess-and-address-the-decline-in-correspondent-banking.pdf

Prudential Regulatory Authority (PRA)

In December, the PRA released its paper proposing changes to regulatory reporting requirements arising from the introduction of International Financial Reporting Standard 9 (IFRS 9) from 1 January 2018.

http://www.bankofengland.co.uk/pra/Documents/publications/cp/2016/cp4616.pdf

GLOSSARY

Adjusted return on assets is the return on assets computed using net income excluding extraordinary items.

Adjusted return on equity is the return on equity computed using net income excluding extraordinary items.

Additional Tier 1 Capital (AT1) is represented by allowable components of Tier One Capital other than Common Equity.

Annualised is expressing (a quantity such as an interest rate, profit, expenditure etc.) as if it applied or were measured over one year.

Common Equity Tier 1 Capital (CET 1) is the primary and predominant form of regulatory capital, and will be used as the primary capital adequacy measure for all Bermuda banks once Basel III becomes fully implemented.

CET 1 Ratio measures the bank's primary core equity capital compared with its total Risk-Weighted Assets. The measurement is used to determine the financial strength of a bank.

Coverage Ratio (Provisions to NPLs) is the ratio that shows the extent to which non-performing loans are already covered by provisions.

Earning assets includes deposits with other financial institutions, loans, advances and leases, and investments.

Equity refers to the shareholder equity.

Fees and commissions consist of net income from banking fees, charges and commissions, investment management fees, trust and company administration fees, trustee and custodian fees, and fund management fees.

Foreign currency is any currency other than the Bermuda dollar.

Funding gap is defined by the difference between total loans and total deposits divided by total assets.

General provisions are provisions not attributed to specific assets but to the amount of losses that experience suggests may be in a portfolio of loans.

Interest expenses to customer deposits is computed by dividing the annualised interest paid and payable by the average total customer deposit liabilities.

Interest income to earning assets is computed by dividing the annualised interest received and receivable by the average total earning assets.

Interest income includes interest received and receivable, and consists of interest from deposits with financial institutions, government securities, loans and other interest earning assets.

Interest margin is calculated as interest received or receivable less interest paid or payable.

Leverage is calculated as shareholder equity divided by total assets.

Leverage ratio (Basel III) is the ratio of Tier 1 Capital (including AT1) to total exposure (on-balance sheet exposures, derivative exposures, Securities Financing Transaction (SFT) exposures, and Off-Balance Sheet (OBS) items) as calculated per the Authority's Final Basel Rule.

Liquidity Coverage Ratio (LCR) is a calculated measure that ensures banks hold an adequate stock of unencumbered Highly-Quality Liquid Assets (HQLA) that can be converted easily and quickly into cash to meet their liquidity needs over a 30 calendar day liquidity stress scenario period.

Mortgages refer to financing for land and buildings for purchasing real estate estate/residential property.

Mortgages on residential property to total loans refer to mortgages secured by residential properties consisting of homes, apartments, townhouses, and condominiums as a percentage of total loans.

Net charge-offs for loan losses and impaired loans is the sum of general and specific profit and loss charge for doubtful debts and transfers made to suspended interest account (net of recoveries).

Net income is derived by netting off provision for taxation from gross profit, and takes into account extraordinary items.

Non-interest income includes all other income received by the bank. Included are fees and commissions from provision of services, gains and losses on financial instruments, and other income.
Non-interest expenses cover all expenses other than interest expenses, including fees and commissions.

Non-performing loans (NPLs) consist of those loans classified as substandard, doubtful and loss as per the BMA guidance on the completion of the prudential information return for banks. A loan is classified as substandard when the delay in repayment is between 31 and 90 days, as doubtful when the delay is between 91 and 180 days, and as loss when the delay exceeds 180 days.

Other income consists of changes in the book value of investments, other non-banking services income, profit or loss on fixed assets and any other income that cannot be classified into any other specific income line item.

Other operating expenses consist of services by external service providers and other operating expenses.

Provisions include both specific and general provisions.

Real estate is used to refer to lending to real estate operators, and owners and lessors of real property, as well as buyers, sellers, developers, agents and brokers.

Regulatory capital as provided by the banks in their quarterly prudential information returns is the sum of Tier 1 and Tier 2 capital net of applicable total capital deductions.

Regulatory capital to total assets is derived by dividing the regulatory capital by the total assets as provided in the prudential information returns.

Return on assets is calculated by dividing the net income by the average value of total assets over the same period. The average assets are obtained by averaging the total assets at the beginning and at the end of the quarter.

Return on equity is calculated by dividing net income by the average value of shareholder equity over the same period. The average shareholder equity is obtained by averaging the shareholder equity at the beginning and at the end of the quarter.

Risk Asset Ratio is calculated as total (net) regulatory capital divided by total risk-weighted assets.

Risk-weighted assets (RWAs) refer to a concept developed by the Basel Committee on Banking Supervision (BCBS) for the capital adequacy ratio. Assets are weighted by factors representing their riskiness and potential for default.

Specific provisions are the outstanding amount of provisions made against the value of individual loans, collectively assessed groups of loans and loans to other deposit takers.

Tier 1 capital consists of ordinary shares, perpetual non-cumulative preference shares, reserves verified by the auditors, current year's losses and minority interest (in Tier 1) adjusted for goodwill and other intangibles, and securitisation but before capital deductions.

Total income is the sum of net interest income and non-interest income.

Total loans include loans, advances, bills and finance leases.

Total risk-weighted assets (TRWA) is the sum of total credit risk-weighted assets, total operational risk-adjusted RWA and the total market risk-adjusted RWA.

Note: Please refer to the Guidance on Completion of the Prudential Information Return for Banks for a detailed description of the individual components of specific line items. A copy of the Guidance is available for download on the Authority's website: www.bma.bm.

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