QUARTERLY

Banking Digest

Q2-2016

BMA
BERMUDA MONETARY AUTHORITY

NEW BASEL III REQUIREMENTS

- Basel III adoption became effective 1st January 2015 with a phasing-in period for capital requirements commencing from 2016 to 2019 (full implementation). Basel II reporting was discontinued from 1st January 2016.

- 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 until 1st January 2019 due to the phasing-in of the Capital Conservation Buffer (CCB). This year the phase-in requirement is 0.6% which resulted in the minimum Common Equity Tier 1 (CET 1) ratio increasing from 4.5% to 5.1%. The 2019 fully phased-in CCB will be 2.5%.

PERFORMANCE HIGHLIGHTS

- **The banking sector's overall capital position remained high with capital levels surpassing the new minimum regulatory capital requirements.** The Basel III Risk Asset Ratio (RAR) increased marginally from 21.0% to 21.4%, while the CET 1 and leverage ratios remained steady at 17.8% and 7.7%, respectively.

- **Balance sheet growth falls in Q2.** Total assets fell by 1.3%, as a significant decline in investment holdings (down 19.8%) nullified quarterly growth in interbank deposits (up 35.2%), loans and advances (up 3.4%), as well as other types of assets (up 14.0%).

- **Sector profits rose for second consecutive quarter.** Earnings from non-interest income, coupled with fairly even operating expenses helped boost overall net income levels for the quarter (up 22.8%). Quarterly returns were also higher, as Return on Assets (RoA) and Return on Equity (RoE) increased to 1.4% and 15.3%, respectively.

- **Credit quality of the loan book continues to improve.** The Non-Performing Loans (NPL) ratio stood at 7.2% in Q2, its lowest point in over four years (down from 9.5% a year earlier). Loan losses written-off by banks equalled $8.7 million in Q2, $1.6 million lower than loans written-off a year earlier.

SUMMARY INDICATORS

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

Table I: Selected Indicators

(Ratios in %)	2016		2015		
	Jun	Mar	Dec	Sep	Jun
Capital Position					
Basel III – RAR (8.0%) [a)]	21.4	21.0	19.1*	18.7*	18.6*
Basel III – CET I ratio (5.1%) [a)]	17.8	17.7	15.9	15.6	15.6*
Basel III – Leverage Ratio (5.0%)	7.7	7.6	7.4	7.7	7.4*
Liquidity					
Cash/cash equivalents to total deposits liabilities	24.5	18.0	18.2	24.2	27.1
Loan-to-deposit ratio	45.9	43.9	42.5	41.2	39.3
Funding gap[b)]	-47.7	-49.3	-51.1	-51.9	-54.4
Profitability					
Interest margin to interest income	92.4	92.2	91.5	92.2	91.5
Return on assets	1.4	1.1	0.4	1.0	0.8
Return on equity	15.2	12.6	4.0	11.2	8.4
Loan Book					
Provisions to Non-Performing Loans (NPLs)	24.1	23.5	23.5*	20.7	19.7
NPLs to total loans	7.2	7.6	8.0	9.4	9.5
NPLs to regulatory capital [c)]	42.4	42.5	35.7	39.6	40.3
Other					
Change in BD$ money supply (RU)	1.3	1.6	0.8	-2.4	0.4
Change in assets	-1.3	0.6	2.8	-4.9	2.2
Change in RWAs[d)]	-0.8	-8.0	-2.0	-1.5	-0.9
Change in customer deposits	-1.1	-0.4	3.4	-6.3	3.2

**Restated*
a) Basel III requirements as per the Final Rules, subject to the phase-in period with full implementation commencing in 2019.
b) Loans, less deposits; divided by total assets
c) As of Q1-2016, Basel III capital will be used to calculate ratio
d) Basel III Risk-weighted assests (RWA) 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 %)	
	Jun	Mar	Dec	Sep	Jun	QoQ	YoY
Assets							
Cash	0.1	0.1	0.1	0.1	0.1	*3.6*	*6.7*
Deposits	5.1	3.8	3.8	4.9	5.9	*35.2*	*-13.9*
Loans & advances	9.7	9.3	9.1	8.5	8.7	*3.4*	*11.5*
Investments	8.3	10.3	10.4	9.2	9.3	*-19.8*	*-10.6*
Other assets	0.8	0.7	0.7	0.7	0.7	*14.0*	*10.6*
Total assets	**23.9**	**24.2**	**24.1**	**23.4**	**24.6**	***-1.3***	***-3.0***
Liabilities							
Savings deposits	6.5	7.1	6.5	6.0	6.2	*-8.4*	*4.3*
Demand deposits	11.5	11.4	11.7	11.1	12.2	*0.7*	*-5.7*
Time deposits	3.1	2.8	3.2	3.5	3.7	*10.2*	*-15.4*
Total deposits	**21.1**	**21.3**	**21.4**	**20.7**	**22.1**	***-1.1***	***-4.5***
Other liabilities	0.6	0.7	0.6	0.6	0.4	*-19.3*	*47.4*
Total liabilities	**21.6**	**22.0**	**21.9**	**21.2**	**22.5**	***-1.7***	***-3.6***
Equity and subordinated debt	2.3	2.2	2.1	2.2	2.2	*2.7*	*3.7*
Total liabilities and equity	**23.9**	**24.2**	**24.1**	**23.4**	**24.6**	***-1.3***	***-3.0***

Totals may not add due to rounding.

- Total assets contracted in Q2, falling by 1.3% over the quarter (or $305.4 million) and 3.0% (or $730.2 million) year-on-year. The composition of the sector's balance sheet experienced notable changes during the period mostly due to banking activity associated with a planned business sale. The negative movement was led by investments, which fell by 19.8% (or $2.1 billion) during the quarter, negating the growth in interbank deposits (up 35.2% or $1.3 billion) and loans (up 3.4% or $320.0 million). Credit expansion, mainly from foreign currency lending, has steadily increased over the past four quarters, rising by 11.5% (or $994.6 million) compared to a year ago. Interbank deposits picked up during the period, but remained lower than levels reported in Q2-2015 (down 13.9%); whereas the quarterly decline in investments was mainly due to facilitate the aforementioned business transaction.

- Total liabilities were comparatively lower than the prior quarter, falling by 1.7% (or $365.5 million) and 3.6% (or $811.9 million) year-on-year. The combination of lower deposit liabilities (down 1.1% or $224.4 million) and "Other" liabilities (down 19.3% or $141.1 million) contributed to the overall quarterly decline in total liabilities. The net decrease in deposit liabilities was driven by higher outflow of saving deposits (down 8.4% or $594.6 million), negating increases in time deposits (up 10.2% or $289.6 million) and demand deposits (up 0.7% or $80.7 million).

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		
	Jun	Mar	Dec	Sep	Jun
Asset allocation					
Investments	34.7	42.7	43.3	39.2	37.7
Loans	40.4	38.6	37.7	36.4	35.2
Deposits	21.2	15.5	15.8	21.0	23.9
Other assets	3.3	2.9	2.8	3.0	2.9
Deposits allocation					
Savings	30.7	33.2	30.4	29.2	28.1
Demand	54.4	53.5	54.6	53.7	55.1
Time	14.9	13.4	15.0	17.1	16.8
Capital position					
Basel III – Risk Asset Ratio**	21.4	21.0	19.1*	18.7*	18.6*
Basel III – Leverage Ratio	7.7	7.6	7.4	7.7	7.4*

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

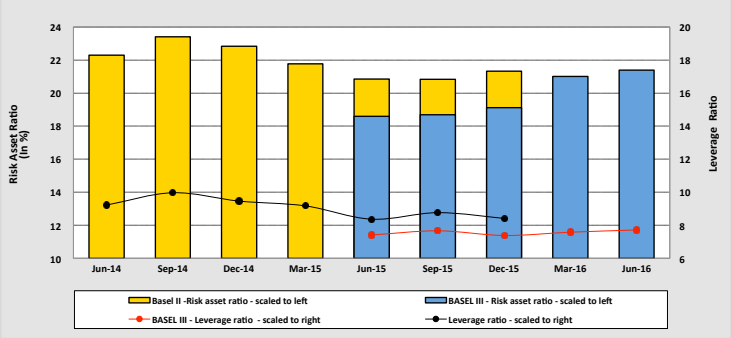
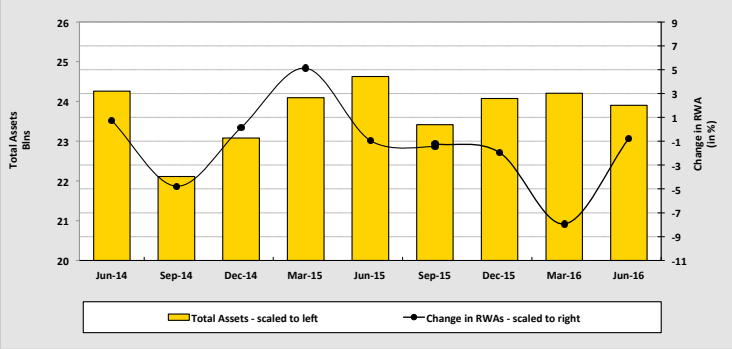


Chart II below reflects the movement in total assets and the change in Risk-Weighted Assets (RWAs) over the last two years.

Chart II: Total Assets and Change in RWAs



- Banks continued to exceed and maintain high levels of capital per the new regulatory capital requirements. The Basel III – RAR rose slightly (from 21.0% to 21.4%) and the CET 1 ratio remained fairly flat at 17.8%.

- The leverage position of the banking sector as measured by the Basel III Leverage Ratio was stable at 7.7% and remains above the regulatory requirement of 5.0%.

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		
	Jun	Mar	Dec	Sep	Jun
Loans and advances quarter-over-quarter growth rate	3.4	2.9	6.5	-1.7	2.0
Residential mortgages to total loans	41.4	43.8	46.0	49.0	48.7
Loan impairments					
NPLs to total loans (net)	7.2	7.6	8.0	9.4	9.5
NPLs to Basel III capital	42.4	42.5*	35.7	39.6	40.3
Net charge-offs to loans (annualised)	0.4	0.2	1.0	0.6	0.5
Loan provisioning					
Provisions to NPLs	24.1	23.5	23.5	20.7	19.7
Specific provisions to NPLs	16.0	16.1	16.0	14.0	12.7
Provisions to total loans (net)	2.0	2.1	2.2	2.3	2.1

** Restated*

- The quality of the loan book exhibited some signs of improvement, with Non-Performing Loans (NPLs) as a percentage of total loans falling steadily over the past year. The NPL ratio (NPLs to total loans) for Q2-2016 stood at 7.2%, down from 9.5% in the preceding year. Year-on-year, NPLs reported by banks decreased by 19.2% (or $132.3 million) compared to a rise in total loans (up 11.5% or $994.6 million).
- The percentage of net charge-offs of total loans remained below 1.0% for the first half of the year, rising marginally to 0.4% in Q2.
- Provision levels as a percentage of NPLs rose to 24.1% during the quarter and were higher than amounts reported a year earlier. However, specific provisions to NPLs remained fairly even as banks prudently manage their loan book.

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

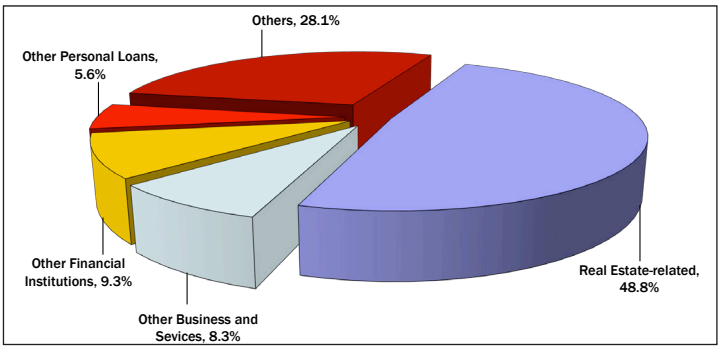
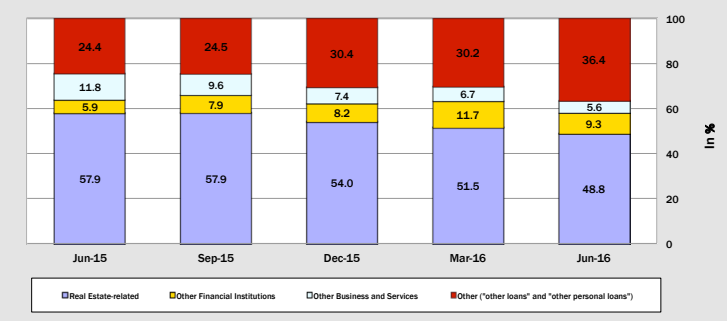


Chart IV: Sectoral Distribution of Loans and Advances

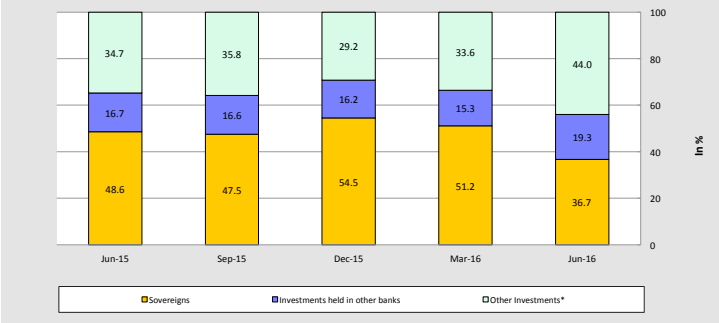


- Lending was impacted during the quarter. Loans to the real estate market continued to stagnate; falling below the 50.0% mark even as banks experience renewed loan appetite. Loans to the remaining sectors also fell, with the exception of lending to sectors classified as "Other" which rose from 30.2% to 36.4% due to increased lending to highly-rated sovereigns.

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.*

- Noticeable restructuring in the investment book was due mainly to a business sale occurring during the quarter. Highly-rated, low-risk sovereign investments were mostly affected, declining from 51.2% to 36.7% of total investments. Growth in "Other investments" rose from 33.6% to 44.0%, driven largely by the 8.9% increase in securitised (non-equity) investments.

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		
	Jun	Mar	Dec	Sep	Jun
Cash and deposits to total assets	21.6	15.8	16.2	21.4	24.2
Cash and cash equivalents to total deposit liabilities	24.5	18.0	18.2	24.2	27.1
Loan-to-deposit ratio	45.9	43.9	42.5	41.2	39.3
Loans-to-total assets	40.4	38.6	37.7	36.4	35.2
Funding gap*	-47.7	-49.3	-51.1	-51.9	-54.4

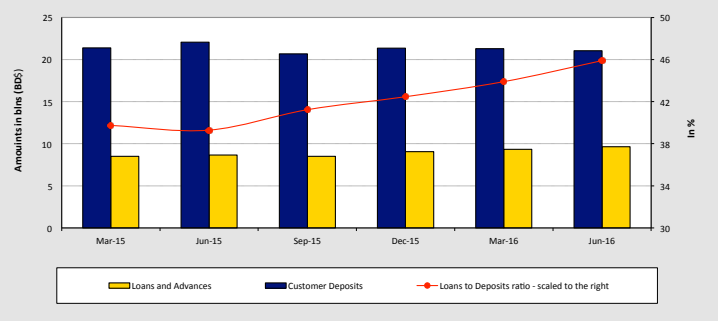
** The difference between total loans and total deposits divided by total assets.*

- All regulated financial institutions met the regulatory minimum liquidity requirements.

- As of end-June 2016, all regulated financial institutions have exceeded the new phased-in 70.0% LCR minimum requirement per the Authority's Final Rule.

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



- Liquidity funding structure is trending positive, with the sectoral loans to total deposit ratio rising for the fourth consecutive quarter, from 43.9% to 45.9%. Loans have grown at a much faster rate than deposits over the last few quarters. Quarterly loans increased by 3.4% compared to the small decline in customer deposits (down 1.1%), tightening 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.

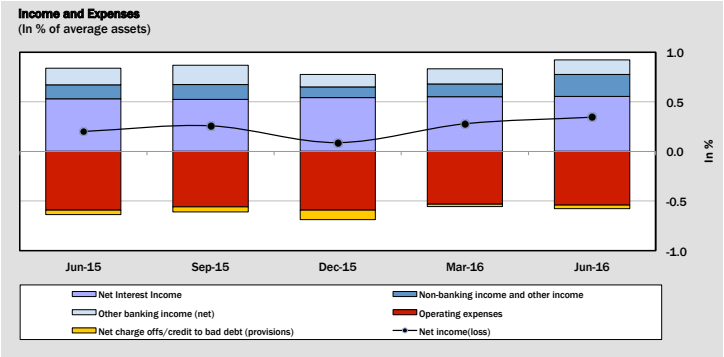
Table VI: Summary of Profitability Ratios

(In %)	2016		2015		
	Jun	Mar	Dec	Sep	Jun
Net interest margin to total income	60.2	66.3	69.9	60.4	63.4
Annualised net interest margin to (average) earning assets*	2.2	2.2	2.2	2.1	2.1
Annualised interest income to (average) earning assets*	2.4	2.4	2.4	2.3	2.3
Banking income to total income	76.1	84.6	86.0	82.5	83.4
Non-interest income to total income	39.8	15.4	14.0	17.5	16.6
Non-interest expenses to total income	62.5	66.5	88.5	70.2	76.0
Personnel expenses to non-interest expenses	49.4	48.0	45.1	49.7	48.5
Return on Assets (RoA)*	1.4	1.1	0.4	1.0	0.8
Return on Equity (RoE)**	15.2	12.6	4.0	11.2	8.4

**** 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

- Sector profitability remained positive, steadily improving each of the last two quarters. Net income levels reached $79.6 million (up 22.8%) during the period, which is also 75.7% higher than levels reported year-on-year. Earnings from non-banking services were up 67.6% (due to the business acquisition noted above) which contributed the most to quarterly growth in non-interest income (which rose from 15.4% to 39.8% of total income). All other sources of income were comparatively stable. Total operating expenses were flat, though non-operating expenses - mainly related to net charge-offs - increased by $3.5 million (or 66.6%) for the quarter.

- The sector's cost efficiency continued to improve in Q2, as non-interest expenses as a percentage of total income declined from 66.5% to 62.5%. Operating and non-operating costs rose at a slower rate (up 3.1%) compared to the increase in total income (up 9.7%).

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

Chart VIII: Distribution of Income Sources

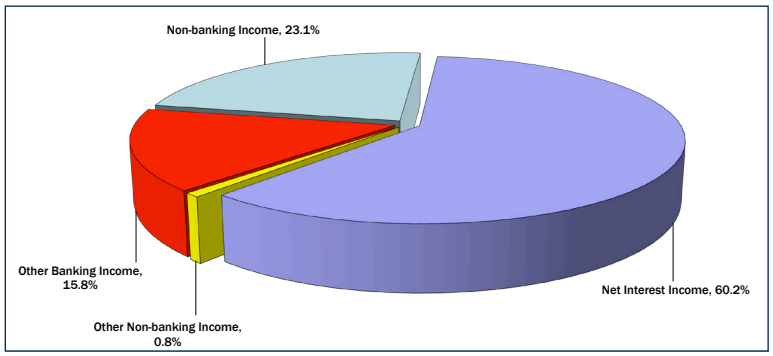
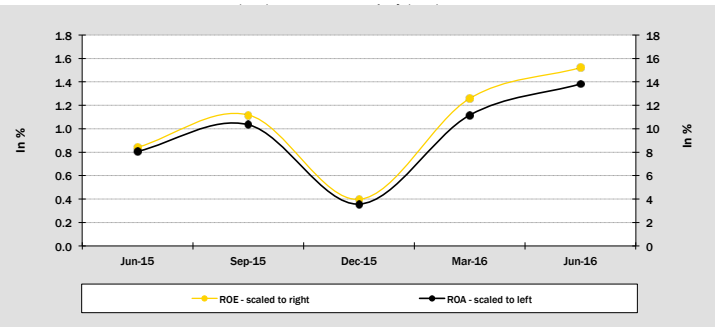


Chart IX shows the trend in RoE and RoA over the last five quarters.

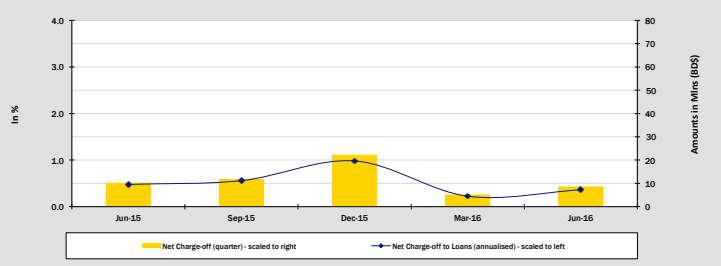
Chart IX: Annualised Return on Assets and Return on Equity



- Banks posted second consecutive quarterly increase in profits, resulting in better returns. The annualised RoA for the second quarter was 1.4%, up from 0.8% in Q2-2015. Annualised RoE increased to 15.2% during the quarter, compared to 8.4% a year earlier.

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



Charge-offs for Loan Losses and Loan Impairments

- Quarterly net charge-offs totalled $8.7 million in Q2, a decrease of $1.6 million (or 31.8%) compared to a year ago.

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 %)	
	Jun	Mar	Dec	Sep	Jun	QoQ	YoY
Loans and advances	5.9	5.5	5.2	4.6	4.6	*6.5*	*26.9*
Total assets	19.6	19.9	19.7	19.0	20.1	*-1.6*	*-2.5*
Deposit liabilities	17.6	17.9	18.0	17.4	18.7	*-1.4*	*-6.0*

- The FX$-denominated total assets declined by 1.6% during the quarter, and is 2.5% lower compared to the same period last year. The quarterly decrease in assets was driven by a 19.9% (or $2.1 billion) fall in FX$-denominated investments, which more than offset the increase in FX$-denominated interbank deposits (up 35.2% or $1.3 billion) and FX$-denominated loans (up 6.5% or $359.3 million).

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

Table VIII: Foreign Currency Positions

(In %)	2016		2015		
	Jun	Mar	Dec	Sep	Jun
FX-denominated assets to total assets	82.0	82.2	81.9	81.2	81.6
FX-denominated loans to total loans	61.1	59.3	57.4	54.0	53.6
FX-denominated deposits to total deposits	83.7	84.0	84.4	84.0	84.9
Changes in FX assets	-1.5	1.0	3.7	-5.4	3.2
Changes in FX loans and advances	6.5	6.3	13.3	-1.0	5.3
Changes in FX customer deposits*	-1.4	-0.9	3.9	-7.4	3.7

**** 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.

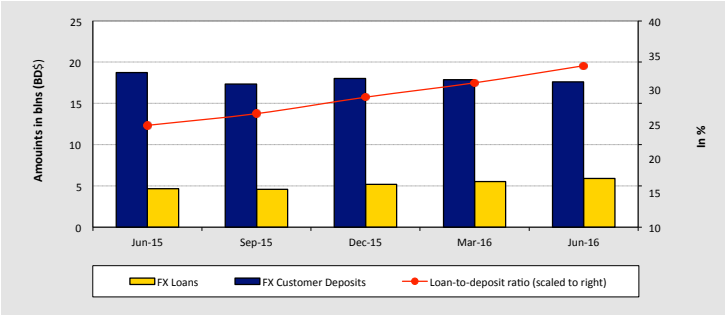
Table IX: Liquidity Indicators (FX Positions)

(In %)	2016		2015		
	Jun	Mar	Dec	Sep	Jun
Cash and deposits to total assets	25.9	18.9	19.4	26.0	29.3
Cash and cash equivalents to total deposit liabilities	28.8	21.0	21.2	28.5	31.4
Loan-to-deposit ratio	33.5	31.0	28.9	26.5	24.8
Loans to total assets	30.1	27.8	26.4	24.2	23.1
Funding gap*	-59.8	-61.9	-65.0	-67.1	-70.1

**** 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 sector's foreign currency liquidity funding ratio continued to trend upward reaching its highest point of 33.5%. Foreign currency loans increased by 6.5% (or $359.3 million) relative to the 1.4% (or $247.5 million) decline in foreign currency deposits.

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 %)	
	Jun	Mar	Dec	Sep	Jun	*QoQ*	*YoY*
Loans and advances	3.8	3.8	3.9	3.9	4.0	*-1.0*	*-6.4*
Total assets	4.3	4.3	4.4	4.4	4.5	*0.1*	*-5.2*
Deposit liabilities	3.4	3.4	3.3	3.3	3.3	*0.7*	*3.3*

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 BD$-denominated balance sheet was unchanged during the quarter, with very little movement occurring over the past year.

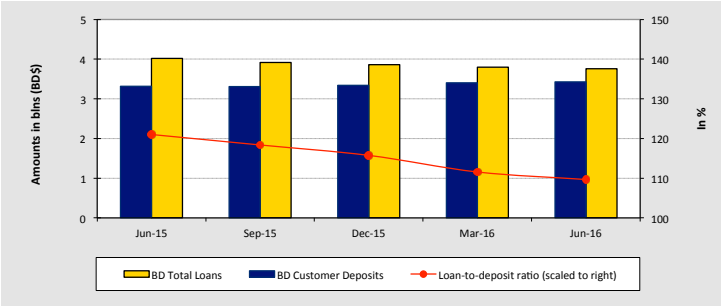
Table XI is a summary of ratios measuring the liquidity of the BD$-denominated balance sheet over the last five quarters.

Table XI: Liquidity Indicators (BD$ Positions)

(In %)	2016		2015		
	Jun	Mar	Dec	Sep	Jun
Cash and deposits to total assets	1.6	1.6	1.6	1.4	1.7
Cash and cash equivalents to total deposit liabilities	2.0	2.0	2.1	1.8	2.3
Loan-to-deposit ratio	109.7	111.6	115.8	118.4	121.0
Loans to total assets	87.4	88.4	88.7	89.0	88.5
Funding gap to total BD$ Assets	7.7	9.2	12.1	13.8	15.4

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



- BD$ liquidity position remained fairly liquid as the BD$ loan-to-deposit ratio continued to fall, declining from 111.6% to 109.7% in Q2. Domestic lending fell by 1.0% (or $39.3 million) relative to the 0.7% (or $23.2 million) rise in BD$ customer deposits. Subsequently, the BD$ liquidity funding gap fell from 9.2% to 7.7%.

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		
	Jun	Mar	Dec	Sep	Jun
Notes and coins in circulation	129	125	133	124	122
Deposit liabilities	3,458	3,416	3,359	3,333	3,340
Banks and deposit companies	**3,587**	**3,541**	**3,492**	**3,457**	**3,462**
less: cash at banks and deposit companies	39	38	45	38	36
Bermuda Dollar money supply	**3,548**	**3,503**	**3,447**	**3,419**	**3,426**
% Growth on previous period	1.3	1.6	0.8	-0.2	0.4
% Growth y-o-y	3.6	2.6	3.1	1.3	2.0

The table includes the supply of Bermuda dollars only.

- The BD$ money supply experienced a 1.3% increase during the second quarter and remained 2.8% higher year-on-year. Higher inflows in customer deposits (up 1.2% or $42.1 million) along with the seasonal increase in notes and coins in circulation (up 3.0% or $3.7 million) contributed to the overall net growth in domestic money supply.

SELECTED INTERNATIONAL DEVELOPMENTS

This section lists important publications issued during the last quarter by international organisations and national supervisory authorities. This section does not reflect the views of the Bermuda Monetary Authority (the Authority).

Bank for International Settlements (BIS)

In June, the BIS released its annual report, covering global economic developments, financial markets and monetary policy.

http://www.bis.org/publ/arpdf/ar2016e.pdf

In April, the BIS published a report on seven guiding principles to boost financial inclusion through aspects of payments. The report covers the regulatory framework that underpins financial inclusion, provided they address all relevant risks and protect consumers, while fostering innovation and competition.

http://www.bis.org/cpmi/publ/d144.pdf

European Banking Authority (EBA) and European Central Bank (ECB)

In May, the EBA published for consultation guidelines in order to harmonise and specify the disclosures which are required under general principles in the Capital Requirements Regulation on liquidity and particularly on the Liquidity Coverage Ratio.

http://www.eba.europa.eu/documents/10180/1460976/EBA-CP-201606+%28CP+on+GL+on+LCR+disclosure%29.pdf

The ECB published its semi-annual Financial Stability Review, highlighting such areas as the systemic stress of the Euro area, vulnerabilities arising from slowing EME growth, volatile oil prices and key risks to the financial stability of the Euro area.

http://www.ecb.europa.eu/pub/pdf/other/financialstabilityreview201605.en.pdf?b7c4d8d8e66d1c7c4851d64c37c72f38

European Securities and Markets Authority (ESMA)

In April, ESMA released a report on the risks and vulnerabilities in the EU financial system. The report highlights such areas as risks concerning the low profitability of financial entities in a low yield environment, and the increasing interconnectedness of bank and non-bank entities.

http://www.eba.europa.eu/documents/10180/1315397/JC+Risks+and+Vulnerabilities+Report+%28JC+2016+17%29%20-+Spring+2016.pdf

The Financial Stability Board (FSB)

In May, the FSB published its thematic peer review on the progress made by FSB member jurisdictions in implementing its framework for strengthening oversight and regulation of shadow banking entities. The principles included defining and updating the regulatory perimeter, collecting information and assessing shadow banking risks, and adopting appropriate policy tools to mitigate identified risks.

http://www.fsb.org/wp-content/uploads/Shadow-banking-peer-review.pdf

Financial Conduct Authority (FCA)

In May, the FCA published a report on the nature and scale of de-risking by banks. The report indicates that banks are closing accounts for firms operating in areas where there is a greater money laundering and terrorist financing risk.

https://www.fca.org.uk/static/documents/research/drivers-impacts-of-derisking.pdf

HM Treasury

In May, the HM Treasury released its fifth annual report on anti-money laundering and counter-terrorist financing. The report identified an increase in supervisory and enforcement activity.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525355/anti-money-laundering-counter-terrorist-report-2014-15.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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