BMA
BERMUDA MONETARY AUTHORITY

Quarterly Banking Digest

Q4 – 2018

BASEL III REQUIREMENTS

- As of 1 January 2018, Bermuda's banks are required to meet a Net-Stable Funding Ratio (NSFR) as part of the Authority's implementation of Basel III standards. The NSFR is a measure used to ensure that banks maintain a minimum amount of Available Stable Funding (ASF) that is not less than the amount of its Required Stable Funding (RSF) over a one-year horizon.
- The phased-in Basel III Liquidity Coverage Ratio (LCR) requirement for 2018 is 90%. A fully phased-in LCR minimum of 100% will be in place by 1 January 2019.
- All banks are required to hold additional capital in the form of a Capital Conservation Buffer (CCB). The phased-in CCB for 2018 was 1.88% for all banks, raising the minimum Common Equity Tier 1 (CET1) plus CCB to 6.38% of Risk-Weighted Assets (RWAs).
- Banks deemed to be systemically important to the island's economy are required to maintain a Domestic Systemically Important Banks (D-SIB) buffer which can range from 0.0% to 3.0%, depending with bank's balance sheet size.

PERFORMANCE HIGHLIGHTS

- Banking sector capital levels remained steady in Q4.
- Total banking assets fell by 5.3% to $20.6 billion from a year earlier.
- Profitability was higher compared to the same quarter last year.
- The ratio of non-performing loans to total loans has remained steady during the fourth quarter.

SUMMARY INDICATORS

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

Table I: Selected Financial Soundness Indicators

(Ratios in %)	2018				2017
	Dec	Sep	Jun	Mar	Dec
Capital Position					
Basel III – RAR	24.1	24.7	23.1	21.5	21.0
Basel III – CET I ratio (5.75%)	22.6	23.1	21.5	21.5	19.9
Basel III – Leverage ratio (5.0%)	8.9	9.2	8.4	8.2	7.8
Liquidity					
Cash/cash equivalents to total deposit liabilities	20.5	12.5	17.7	15.2	17.4
Loan-to-deposit ratio	43.9	47.1	44.1	45.5	44.5
Funding gap a)	-49.1	-45.9	-49.3	-47.9	-48.9
Profitability					
Net Interest income to interest income	87.9	91.0	92.1	93.1	93.3
Return on assets (Quarterly)	0.4	0.4	0.4	0.4	0.4
Return on assets (Annualised)	1.7	1.4	1.8	1.6	1.5
Return on equity (Quarterly)	4.3	3.7	4.6	4.1	4.0
Return on equity (Annualised)	17.0	14.7	18.5	16.6	15.9
Loan Book					
Provisions to non-performing loans (NPLs)	29.5	29.5	29.5	30.6	32.1
NPLs to total loans	6.0	5.9	5.9	6.2	6.3
NPLs to regulatory capital	23.9	23.9	24.9	28.2	28.8
Other					
Change in BD$ money supply (QoQ)	-0.8	0.2	1.0	0.0	-2.1*
Change in assets (QoQ)	3.6	-7.9	1.3	-1.9	1.8
Change in RWAs (QoQ)	1.9	-5.9	-0.3	-1.3	0.5
Change in customer deposits (QoQ)	4.5	-9.4	1.4	-1.9	1.9

*restated

a) Loans, less deposit liabilities; divided by total assets.

QoQ – percentage change over prior quarter

Aggregate Balance Sheet

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

Table II: Aggregate Balance Sheet

(BD$ bln)	2018				2017	Change (In %)	
	Dec	Sep	Jun	Mar	Dec	QoQ	YoY
Assets							
Cash	0.1	0.1	0.1	0.1	0.1	-3.9	-4.0
Deposits (Interbank)	3.6	2.1	3.3	2.8	3.2	74.4	11.2
Loans & advances (net)	7.9	8.1	8.4	8.6	8.5	-2.5	-7.0
Investments	8.4	9.0	9.2	9.3	9.3	-6.7	-9.7
Other assets	0.6	0.6	0.7	0.6	0.6	-2.9	-1.3
Total assets	**20.6**	**19.9**	**21.6**	**21.3**	**21.8**	3.6	-5.3
Liabilities							
Saving deposits	5.9	5.7	6.5	6.5	6.4	2.6	-8.7
Demand deposits	8.8	8.4	9.7	9.1	9.7	3.8	-9.7
Time deposits	3.4	3.1	2.9	3.2	3.0	9.9	12.8
Total deposits	**18.0**	**17.3**	**19.1**	**18.8**	**19.2**	4.5	-5.8
Other liabilities	0.5	0.6	0.5	0.6	0.6	-13.8	-17.0
Total liabilities	**18.6**	**17.9**	**19.6**	**19.4**	**19.8**	3.9	-6.2
Equity and subordinated debt	2.1	2.0	2.0	2.0	2.0	1.0	3.7
Total liabilities and equity	**20.6**	**19.9**	**21.6**	**21.3**	**21.8**	3.6	-5.3

Totals may not add up due to rounding.

On an annual basis the banking sector's total assets decreased by 5.3% (or $714.4 million) from $21.8 billion at the end-December 2017 to $20.6 billion at the end-December 2018. The annual decline in total assets can be attributed to the decrease in investments, which fell by 9.7% to $8.4 billion, and the decrease in loans and advances, down 7.0% to $7.9 billion. Conversely, the interbank deposits grew by 11.2% to $3.6 billion over the same period. The industry's total asset structure continues to be dominated by investments (representing 40.8% of total assets as of December 2018) and loans (representing 38.4% of total assets as of December 2018), although interbank deposits have shown an increase over the same period (17.5% of total assets as of December 2018).

Total liabilities contracted by 6.2% (or $1.7 billion) from $19.2 billion to $18.0 billion compared to the same quarter last year. The annual decline was attributed mainly to the decrease in deposit liabilities as outflows from demand deposits (down 9.7% or $939.4 million) to $8.8 billion and saving deposits (down 8.7% or $562.9 million) to $5.9 billion offset the growth in time deposits (up 12.8% or $385.7 million) to $3.4 billion. Total deposits remained the largest funding source for the banking sector, as deposits funded 87.3% of total assets for the end-December 2018.

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 Ratios

(In %)	2018				2017
	Dec	Sep	Jun	Mar	Dec
Asset allocation					
Investments	40.8	45.3	42.6	43.6	42.8
Loans	38.4	40.8	38.8	40.1	39.1
Deposits (Interbank)	17.5	10.4	15.2	13.0	14.9
Other assets	2.9	3.1	3.0	3.0	2.8
Deposits allocation					
Savings	32.6	33.2	34.1	34.7	33.6
Demand	48.5	48.9	50.9	48.3	50.6
Time	18.8	17.9	15.1	17.0	15.7
Capital position					
Basel III – RAR	24.1	24.7	23.1	21.5	21.0
Basel III – Leverage Ratio	8.9	9.2	8.4	8.2	7.8

Totals may not add up due to rounding.

Capital Adequacy

Chart I shows movement in the RAR and Leverage Ratio over the last two years.

Chart I: RAR and Leverage Ratio

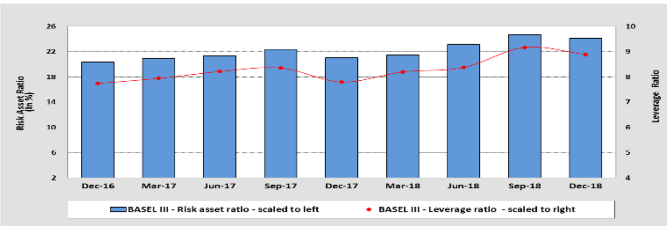
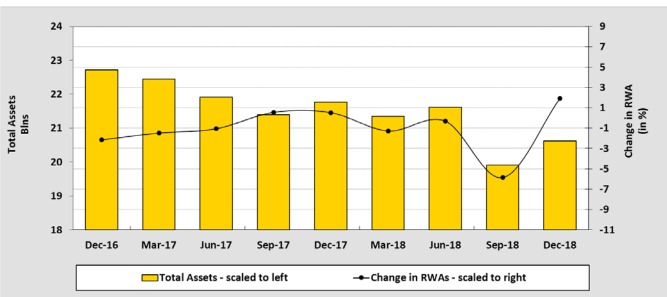


Chart II reflects the movement in total assets and the change in Risk Weighted Assets (RWAs) over the last two years.

Chart II: Total Assets and Change in RWAs



The capital levels within the banking sector remained steady in Q4, with the Risk-Asset Ratio (RAR) falling slightly by 0.6 percentage points to 24.1% over the prior quarter, yet remain higher than the 21.0% ratio reported a year ago. The CET 1 ratio was also lower during the quarter, falling from 23.1% to 22.6%, though remained higher than the 19.9% ratio reported a year earlier. For the quarter, the regulatory capital levels were marginally lower, declining by 0.4% (or $7.5 million) to $2.0 billion; compared with the risk-weighted assets (RWAs) which increased by 2.0% (or $156.6 million) to $8.3 billion. The majority of regulatory capital held by the sector consists mainly of Tier 1 capital, representing 93.7% of total regulatory capital.

The leverage position as measured by the supplemental leverage ratio stood at 8.9% for fourth quarter, exceeding 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 years.

Table IV: Quality of the Loan Book

In (%)	2018				2017
	Dec	Sep	Jun	Mar	Dec
Loans and advances quarter-over-quarter growth rate	-2.5	-3.3	-1.8	0.5	-4.2
Residential mortgages to total loans	53.3	51.5	49.2	48.6	48.5
Loan impairments					
NPLs to total loans (net)	6.0	5.9	5.9	6.2	6.3
NPLs to regulatory capital	23.9	23.9	24.9	28.2	28.8
Net charge-offs to loans (annualised)	0.3	0.0	0.0	0.1	0.1
Loan provisioning					
Provisions to Gross NPLs	29.5	29.5	29.5	30.6	32.1
Specific provisions to Gross NPLs	27.5	26.8	26.1	27.1	25.5
Provisions to total loans (net)	2.4	2.3	2.3	2.5	2.7*

**restated*

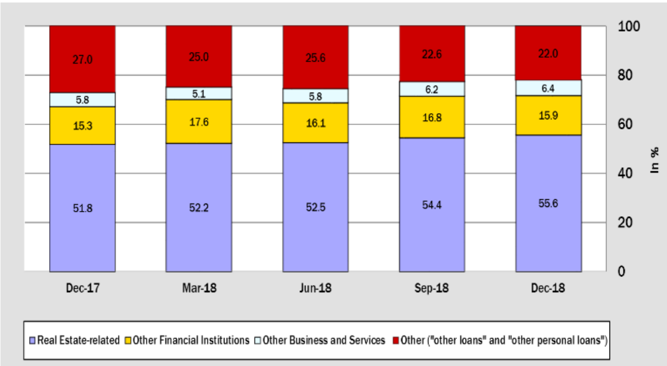
Banking sector's stock of net non-performing loans stood at $478 million, down 10.2% (or $54.4 million) from the same quarter last year. The current stock of NPLs shows that the ratio of net non-performing loans (NPLs) to total loans has remained stable throughout the year, reaching 6.0% during the fourth quarter. NPLs to regulatory capital was 23.9%, down 4.9 percentage points from a year earlier.

Provisions to total loans were fairly even in 2018, reaching 2.4% during the fourth quarter. Loan loss provisions amounted to $192.2 million relative to the stock of loans and advances of $7.9 billion.

Sectoral Distribution of Loans

Chart III reflects the sectoral variation of lending to the different sectors over the last five quarters.

Chart III: Sectoral Distribution of Loans and Advances



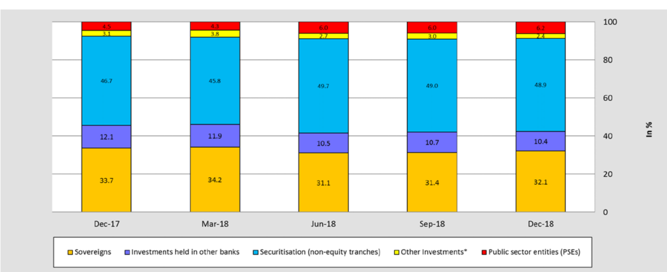
*Q3-2018 restated

Banking sector loans and advances were $7.9 billion for the quarter; over the last four quarters loans to the real estate sector have experienced steady growth, rising to 55.6% of total loans at the end-December 2018.

Investment Book

Chart IV shows the structure of the aggregate investment book during the quarter.

Chart IV: Sectoral Structure of the Investment Book



Investment book revised to reflect better composition of securities held be sector.

*includes: Other investments and investments in subsidiaries and associated companies.

The investment book as of end-December stood at $8.4 billion, with 48.9% of investments held in securitised, non-equity, government guaranteed instruments. Sovereign investments fell from 33.7% to 32.1% over the past year; while public sector entity securities (PSEs) experienced a moderate increase rising from 4.5% to 6.2% over the same period. Investments in other banks fell by 1.7 percentage points to 10.4% compared to a year ago.

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

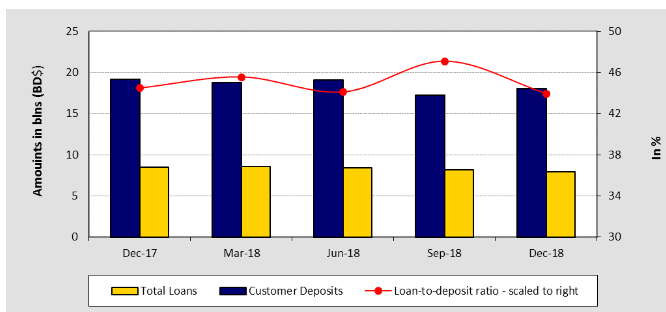
In (%)	2018				2017
	Dec	Sep	Jun	Mar	Dec
Cash and deposits to total assets	17.9	10.8	15.6	13.4	15.3
Cash and cash equivalents to total deposit liabilities	20.5	12.5	17.7	15.2	17.4
Loan-to-deposit ratio	43.9	47.1	44.1	45.5	44.5
Loans-to-total assets	38.4	40.8	38.8	40.1	39.1
Funding gap*	-49.1	-45.9	-49.3	-47.9	-48.9

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

All banking institutions continued to comply with the minimum LCR requirement and the new Net-Stable Funding Ratio (NSFR) per Basel III standards.

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

Chart V: Total Loans and Deposits



The sector's liquidity position as measured by the loan-to-deposit ratio declined from 47.1% to 43.9% in the last quarter of the year; lower than the 44.5% reported a year ago. For the quarter, the banking sector experienced a moderate increase in deposits, as total deposit liabilities grew by 4.5% (or $778.7 million) to $18.0 billion relative to the decline in loans and advances, down 2.5% (or $201.9 million) to $7.9 billion.

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

Table VI: Structure of Income statement

In (%)	2018				2017
	Dec	Sep	Jun	Mar	Dec
Net interest income to total income	67.9	69.4	66.1	69.6	67.8
Quarterly net interest margin to (average) earning assets*	3.0	3.0	3.0	2.8	2.8
Quarterly interest income to (average) earning assets*	3.4	3.3	3.3	3.0	3.0
Banking income to total income	83.4	85.0	86.0	85.4	86.9
Non-interest income to total income	32.1	30.6	33.9	30.4	32.2
Non-interest expenses to total income (Efficiency Ratio)	65.9	62.1	56.1	60.3	87.6
Personnel expenses to non-interest expenses	51.6	55.2	56.9	54.8	43.0
Quarterly Return on Assets (RoA)*	0.4	0.4	0.4	0.4	0.4
Annualised Return on Assets	1.7	1.4	1.8	1.6	1.5
Quarterly Return on Equity (RoE)**	4.3	3.7	4.6	4.1	4.0
Annualised Return on Equity	17.0	14.7	18.5	16.6	15.9

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

Banking Sector Profitability

The banking sector's profitability improved in the fourth quarter of 2018 when compared with the fourth quarter of 2017, due mostly to lower operating expenses. The sector reported after-tax net profits of $75.0 million in the fourth quarter; representing a 188.2% (or $49.0 million) increase compared to the same quarter last year. Year-on-year, net interest income increased by 3.6% (or $5.2 million) to $150.0 million; while other income sources from non-interest income increased by 3.0% (up $2.1 million) to $70.8 million. As a result, total income increased by 3.4% (up $7.2 million) to $220.7 million for the fourth quarter. Consequently, movement in the sector's operating and non-operating expenses was down 22.2% (or $41.5 million) to $145.5 million in the fourth quarter of 2018 when compared to the fourth quarter of 2017; this was mostly due to the sharp decline in other operating expenses during the period.

The sector's cost efficiency ratio deteriorated during the quarter, increasing from 62.1% to 65.9% (see Table VI), but was significantly lower than the 87.6% cost efficiency ratio reported a year ago.

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

Chart VII reflects the distribution of income sources as of end-December 2018.

Chart VI: Income and Expenses

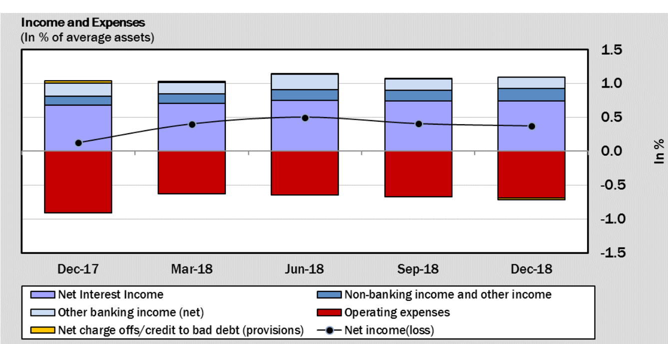


Chart VII: Distribution of income sources

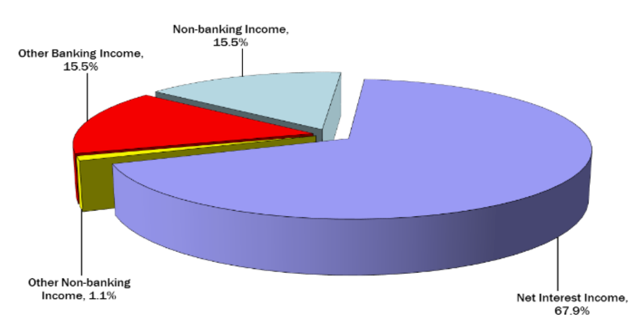
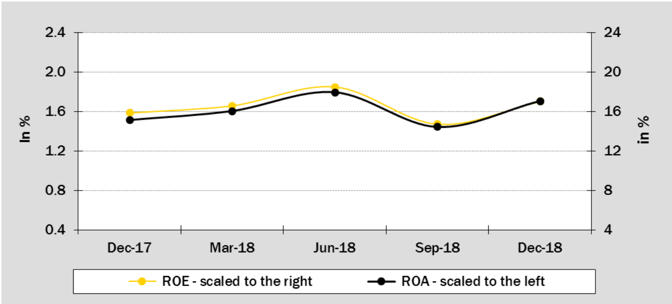


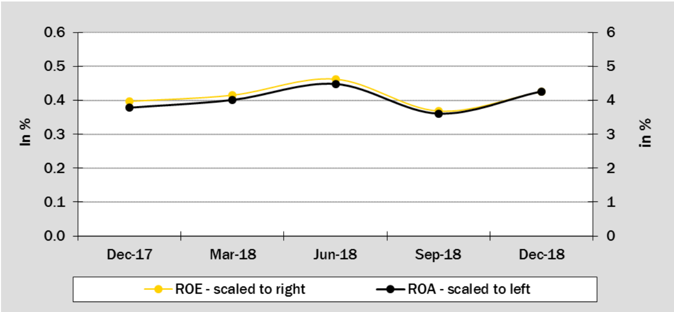
Chart VIII & IX shows the trend in RoE and RoA over the last five quarters.

Chart VIII: Annualised RoE and RoA



Totals may not agree due to rounding

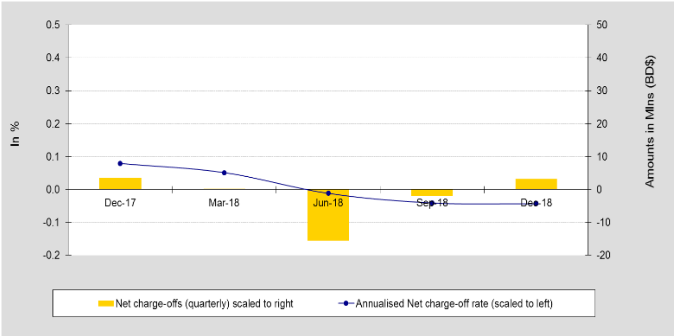
Chart IX: Quarterly RoE and RoA



Totals may not agree due to rounding

The improvement in the overall performance resulted in positive returns, with profitability indicators showing quarterly RoE increasing from to 3.7% to 4.3% and quarterly RoA stood at 0.4% (Chart IX).

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



Amounts may not agree due to rounding.

Net charge-offs reported increases in the fourth quarter similar to levels reported a year earlier. Quarterly net charge-offs amounted to $3.1 million during the quarter, which continues to be relatively low over the past four quarters.

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

Table VII: Foreign Currency Balance Sheet

(BD$ bln)	2018				2017	Change (In %)	
	Dec	Sep	Jun	Mar	Dec	QoQ	YoY
Loans and advances	4.6	4.8	5.0	5.1	5.1	-3.3	-8.6
Deposits (Interbank)	3.6	2.1	3.3	2.8	3.2	73.5	10.7
Investments	8.4	9.0	9.2	9.3	9.3	-6.7	-9.8
Total assets	16.9	16.1	17.8	17.5	17.9	4.6	-5.6
Deposit liabilities	14.6	13.8	15.6	15.4	15.7	5.8	-7.2

Totals may not add up due to rounding

Foreign currency assets contracted by 5.6% (or $1.0 billion) from $17.9 billion at the end-December 2017 to $16.9 billion at the end-December 2018. The majority of the annual decrease was experienced in FX investments (down 9.8% or $906.9 million) to $8.4 billion, followed by FX loans (down 8.6% or $434.8 million) to $4.6 billion, whereas FX interbank deposits increased (up 10.7% or $345.0 million) to $3.6 billion over the same period.

Foreign currency customer deposit liabilities fell 7.2% (or $1.1 billion) from $15.7 billion at the end-December 2017 to $14.6 billion at the end-December 2018. Most of the annual outflows were led by FX demand deposits (down 10.6% or $913.8 million) to $7.7 billion followed by FX saving deposits (down 11.2% or $545.8 million) to $4.3 billion; while FX time deposits grew (up 14.7% or $330.5 million) to $2.6 billion over the same period.

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

Table VIII: Foreign Currency Positions

(BD$ bln)	2018				2017
	Dec	Sep	Jun	Mar	Dec
FX-denominated assets to total assets	81.7	80.9	82.1	81.9	82.0
FX-denominated loans to total loans	58.3	58.8	59.6	60.0	59.3
FX-denominated deposits to total deposits	80.9	79.9	81.9	81.8	82.1
Changes in FX assets	4.6	-9.3	1.6	-2.1	2.4
Quarterly change in FX loans and advances	-3.3	-4.7	-2.4	1.6	-6.2
Quarterly change in FX customer deposits	5.8	-11.5	1.5	-2.3	2.8

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

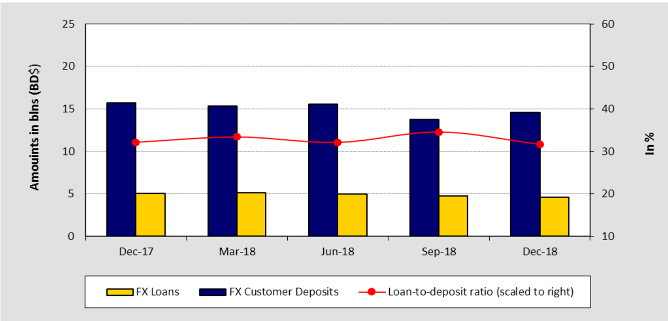
Table IX: Foreign Currency Liquidity Indicators

(BD$ bln)	2018				2017
	Dec	Sep	Jun	Mar	Dec
Cash and deposits to total FX assets	21.5	13.1	18.7	16.0	18.3
Cash and cash equivalents to total FX deposit liabilities	24.8	15.3	21.2	18.2	20.8
Loans-to-deposits ratio	31.6	34.6	32.1	33.4	32.1
Loans to total FX assets	27.4	29.6	28.2	29.3	28.3
Funding gap*	-59.2	-56.0	-59.6	-58.5	-59.8

*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 Deposits



BERMUDA DOLLAR BALANCE SHEET

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

Table X: Bermuda Dollar Balance Sheet

(BD$ bln)	2018				2017	Change (In %)	
	Dec	Sep	Jun	Mar	Dec	QoQ	YoY
Loans and advances	3.3	3.4	3.4	3.4	3.5	-1.4	-4.6
Total assets	3.8	3.8	3.9	3.9	3.9	-0.7	-3.6
Deposit liabilities	3.4	3.5	3.5	3.4	3.4	-0.6	0.4

Note: The BD$-denominated balance sheet of the sector aggregates data submitted by legal entities. This varies from the consolidated sector balance sheet banking statistics in the Regulatory Update.

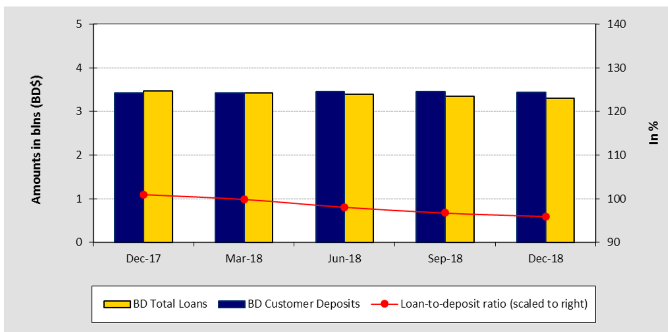
Table XI is a summary of ratios measuring the liquidity of the BD$-denominated balance sheet over the last five quarters.

Table XI: Bermuda Dollar Liquidity Indicators

(BD$ bln)	2018				2017
	Dec	Sep	Jun	Mar	Dec
Cash and deposits to total assets	1.9	1.3	1.5	1.3	1.4
Cash and cash equivalents to total deposit liabilities	2.0	1.4	1.7	1.5	1.6
Loan-to-deposit ratio	96.0	96.8	98.1	99.9	101.0
Loans to total assets	87.6	88.2	87.8	88.5	88.5
Funding gap to total BD$ assets	-3.7	-3.0	-1.7	-0.1	0.9

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



Bermuda dollar loan-to-deposit (LTD) ratio was marginally down, falling from 96.8% to 96.0%; lower than the loan-to-deposit ratio of 101.0% reported in the same quarter last year. Domestic lending within the local economy continues to be stagnant, falling by 1.4% (or $46.0 million) to $3.3 billion; outpacing the decline local customer deposits which were down 0.6% (or $19.2 million) to $3.4 billion.

MONETARY AGGREGATES

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

Table XIII: Bermuda Money Supply (Unconsolidated)

(BD$ bln)	2018				2017
	Dec	Sep	Jun	Mar	Dec
Notes and coins in circulation	142	139	140	136	141
Deposit liabilities	3,451	3,480	3,472	3,438	3,441
Banks and deposit companies	3,593	3,618	3,612	3,575	3,582
Less: cash at banks and deposit companies	43	40	39	37	43
Bermuda Dollar money supply	3,551	3,578	3,573	3,538	3,538
% Growth on previous period	-0.8	0.2	1.0	0.0	-2.1
% Growth y-o-y	0.4	-1.0	-1.6	-1.5	-0.0

The table includes the supply of Bermuda Dollars only and BNTB solo for this section

The Bermuda money supply within the local economy was marginally down from the previous quarter, with little movement occurring in both domestic deposit liabilities (down 0.8% or $29.0 million) and notes in coins in circulation (up 2.2% or $3.0 million).

Selected International Banking 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.

Banking Committee on Banking Supervision (BCBS)

In October, the BCBS published the final version of its "Stress testing principles". The document replaces the 2009 "Principles for sound stress testing practices and supervision", which were designed to address the weaknesses in stress testing practices highlighted by the global financial crisis.

https://www.bis.org/bcbs/publ/d450.pdf

The BCBS published its 15th progress report on the adoption of the Basel regulatory framework. The report outlines the finalised post-crisis reforms published in December of last year which are set to take effect from 1 January 2022.

https://www.bis.org/bcbs/publ/d452.pdf

Bank of England (BoE)

In December, the BoE published a paper introducing a new resolvability assessment framework. The proposal is designed to make resolution more effective by increasing transparency and enhancing predictability for the clients and counterparties of firms.

https://www.bankofengland.co.uk/-/media/boe/files/paper/2018/bank-of-englands-approach-to-assessing-resolvability-cp.f?la=en&hash=8B0357C32E2C7D6CF5E6C295BD1F2FA16928CBEF

In November, the BoE published its 2018 stress test results. The results of the Bank of England's 2018 stress test show the UK banking system is resilient to deep simultaneous recessions in the UK and global economies that are more severe overall than the global financial crisis and that are combined with large falls in asset prices and a separate stress of misconduct costs.

https://www.bankofengland.co.uk/stress-testing/2018/stress-testing-the-uk-banking-system-2018-results

European Banking Authority (EBA)

In October, the EBA published the results of its 2018 Basel III Monitoring Exercise, which refers to data as of December 2017 and uses a sample of 38 Group 1 banks and 63 Group 2 banks (101 in total) for the cumulative impact.

https://eba.europa.eu/s/10180/2380948/2018+Basel+III+Monitoring+Exercise+Report.pdf

The EBA published its final guidelines on non-performing and forborne exposures. The guidelines cover several areas including the development and implementation of the NPE strategy; supervisory expectations for the use of forbearance; and supervisory requirements on the collateral valuation of movable and immovable property.

https://eba.europa.eu/documents/10180/2425705/Final+Guidelines+on+management+of+non-performing+and+forborne+exposures.pdf

Financial Stability Board (FSB)

In November, the FSB published its 2018 Resolution Report, updating on progress in implementing the framework and policy measures to enhance the resolvability of systemically important financial institutions.

http://www.fsb.org/wp-content/uploads/P151118-1.pdf

The FSB published a discussion paper on financial resources to support Central Counterparty Resolution (CCP) resolution and the treatment of CCP equity in resolution. The purpose is to obtain public comment on the need for further FSB guidance on the matter.

http://www.fsb.org/wp-content/uploads/P151118-2.pdf

In October, the FSB published a report on crypto-asset markets, focusing on potential future financial stability implications.

http://www.fsb.org/wp-content/uploads/P101018.pdf

Single Resolution Board (SRB)

In October, the SRB published its approach to Critical Functions. This consists of a standardised template with a common set of indicators and assessment fields. The template specifies five economic functions which the SRB will assess: deposits; lending; payment, cash, settlement, clearing and custody services; capital markets; and wholesale funding.

https://srb.europa.eu/sites/srbsite/files/critical_functions_final.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.

Capital Conservation Buffer (CCB) is designed to ensure that banks build up and retain capital buffers outside of periods of stress which can be drawn down in exceptional circumstances if severe losses are incurred.

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 RWA. 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.

Domestic Systemic Important Banks (D-SIBs) are banks that are deemed to be systemically important to the local economy.

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.

Net Interest Income 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 to purchase real 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 stable funding ratio (NSFR) is the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an ongoing basis.

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, including fees and commissions from the 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 Authority's 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.

(Annualised) Return on assets is calculated by dividing the average net income over the last four quarters by the value of average interest-earning assets over the same period and multiplying by four.

(Quarterly) Return on equity is calculated by dividing the average net income over the last four quarters by the average value of shareholder equity over the same period.

Risk Asset Ratio is calculated as total (net) regulatory capital divided by total RWA.

Risk-Weighted Assets (RWAs) refer to a concept developed by the 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 Common Equity Tier 1 capital (CET1) plus Additional Tier 1 capital (AT1) net of regulatory adjustments.

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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