Quarterly Banking Digest

Q3-2019

BASEL III REQUIREMENTS

- All banks are required to meet the Net Stable Funding Ratio (NSFR) requirement of 100% and the fully phased-in Liquidity Coverage Ratio (LCR) minimum requirement of 100% as of 1 January 2019
- All banks are required to hold additional capital in the form of a Capital Conservation Buffer (CCB) at 2.5% of Risk Weighted Assets (RWA), increasing the minimum Common Equity Tier 1 (CET1) requirement (plus CCB) to 7.0% of RWAs
- Banks deemed to be systemically important to the island's economy are required to maintain a Domestic Systemically Important Bank (D-SIB) buffer which can range from 0.0% to 3.0%, depending on the bank's balance sheet size and unique risk profile

PERFORMANCE HIGHLIGHTS

- Banking sector assets grew by 12.9% (or $2.7 billion) to $23.6 billion, mainly driven by Mergers and Acquisitions (M&A) activity during the quarter; most of the quarterly growth was seen in investments (up 21.3%) and interbank deposits (up 17.5%); year-on-year (YoY), total assets increased by 18.6% (or $3.7 billion)
- The banking sector's capital position was down in Q3-2019 with the Risk Asset Ratio (RAR) falling by 1.3% to 23.0% and was 1.7% lower compared to the same quarter of 2018
- The quality of the loan book has remained stable quarter-on-quarter (QoQ) with the percentage of non-performing loans (NPLs) to total loans being 5.8%

SUMMARY INDICATORS

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

Table I: Selected Financial Soundness Indicators

Ratios	2019			2018	
	Sep	Jun	Mar	Dec	Sep
Capital Position	%	%	%	%	%
Basel III – RAR	23.0	24.3	23.8	24.1	24.7
Basel III – CET1 ratio (7.0%)	21.7	22.9	22.3	22.6	23.1
Basel III – Leverage ratio (5.0%)	7.8	8.7	8.6	8.9	9.2
Liquidity					
Cash/cash equivalents to total deposit liabilities	17.6	17.1	17.2	20.5	12.5
Loan-to-deposit (LTD) ratio	39.4	44.1	45.7	43.9	47.1
Funding gap [a)]	-53.3	-48.8	-47.7	-49.1	-45.9
Profitability					
Net interest income to interest income	82.8	85.6	86.6	87.9	91.0
Return on assets (RoA)	0.4	0.4	0.4	0.4	0.4
RoA (Annualised)	1.5	1.5	1.7	1.5*	1.7*
Return on equity (RoE)	3.8	3.6	4.2	3.7	4.1*
RoE (Annualised)*	16.2	15.1	17.7	15.4	17.2
Loan Book					
Provisions to NPLs	28.2	29.6*	30.0*	29.2*	29.0*
NPLs to total loans	5.8	5.7	5.5	6.0	5.9
NPLs to regulatory capital	23.7	23.0	23.4	23.9	23.9
Other					
Change in BD$ money supply (QoQ)	0.7	1.1	-1.8	-0.8	0.2
Change in assets (QoQ)	12.9	-1.1	2.6	3.6	-7.9
Change in RWAs (QoQ)	5.7	-1.6	0.8	1.9	-5.9
Change in customer deposits (QoQ)	-1.6	2.8	4.5	-9.4	1.4

**Revised*

Totals may not agree due to rounding.

[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$ Billions)	2019			2018		Change	
	Sep	Jun	Mar	Dec	Sep	QoQ	YoY
Assets						%	%
Cash	0.1	0.1	0.1	0.1	0.1	3.0	11.7
Deposits (Interbank)	3.6	3.0	3.1	3.6	2.1	17.5	71.8
Loans and advances (net)	8.2	8.1	8.5	7.9	8.1	1.8	0.9
Investments	11.1	9.2	8.9	8.4	9.0	21.3	23.1
Other assets	0.7	0.6	0.6	0.6	0.6	9.4	8.0
Total assets	**23.6**	**20.9**	**21.2**	**20.6**	**19.9**	**12.9**	**18.6**
Liabilities							
Saving deposits	5.7	6.0	6.0	5.9	5.7	-5.1	-1.1
Demand deposits	10.5	8.3	8.7	8.8	8.4	26.7	24.7
Time deposits	4.6	4.0	3.9	3.3	3.2	15.4	43.8
Total deposits	**20.8**	**18.3**	**18.6**	**18.0**	**17.3**	**13.8**	**20.4**
Other liabilities	0.7	0.5	0.5	0.5	0.6	24.3	8.2
Total liabilities	**21.4**	**18.8**	**19.1**	**18.5**	**17.9**	**14.1**	**20.0**
Equity and subordinated debt	2.2	2.1	2.1	2.1	2.0	1.8	6.9
Total liabilities and equity	**23.6**	**20.9**	**21.2**	**20.6**	**19.9**	**12.9**	**18.6**

Totals may not add up due to rounding. Change % calculated based on underlying numbers.

Total assets grew by 18.6% (or $3.7 billion) as compared to Q3-2018. Year-on-year, investments (up 23.1% or $2.1 billion) contributed the most to this growth followed by interbank deposits (up 71.8% or $1.5 billion). Total assets increased by 12.9% (or $2.7 billion) mostly due to an acquisition by one of the banks during the quarter.

Total liabilities grew by 20.0% (or $3.5 billion) compared to Q3-2018. Demand deposits (up 24.7% or $2.1 billion) contributed the most to this year-on-year growth followed by time deposits (up 43.8% or $1.4 billion). Savings deposits have remained steady over the same period. For the quarter, total liabilities increased by 14.1% (or $2.6 billion) primarily due to higher inflows in customer deposits from M&A activity.

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

	2019			2018	
	Sep	Jun	Mar	Dec	Sep
Asset allocation	%	%	%	%	%
Cash	0.4	0.5	0.4	0.4	0.4
Investments	47.1	43.7	41.9	40.8	45.3
Loans	34.7	38.5	40.0	38.4	40.8
Deposits (Interbank)	15.0	14.4	14.7	17.5	10.4
Other assets	2.8	2.9	3.0	2.9	3.1
Deposits allocation					
Savings	27.3	32.7	32.2	32.6	33.2
Demand	50.6	45.5	46.7	48.5	48.9
Time	22.1	21.8	21.1	18.8	17.9
Capital position					
Basel III – RAR	23.0	24.3	23.8	24.1	24.7
Basel III – Leverage Ratio	7.8	8.7	8.6	8.9	9.2

The asset allocation shows that investments have increased to 47.1% and interbank deposits have increased to 15.0% of total assets from the previous quarter, while loans and advances fell to 34.7%.

Capital Adequacy

Chart I shows movement in the RAR and leverage ratio over the last two years.

Chart I: RAR and Leverage Ratio

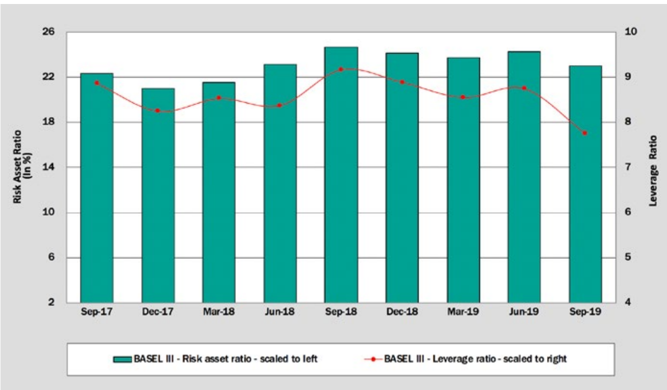
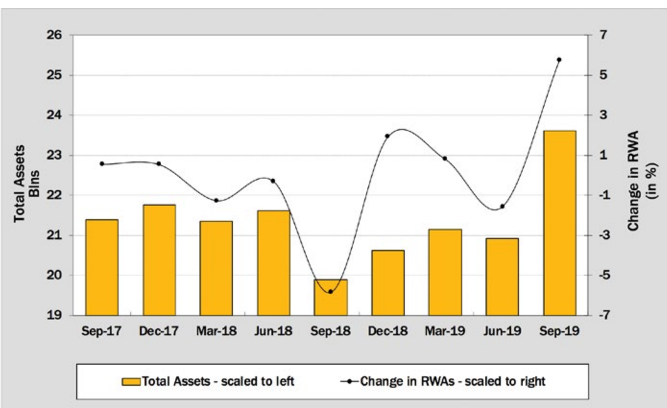


Chart II reflects the movement in total assets and the change in RWAs over the last two years.

Chart II: Total Assets and Change in RWAs



The sector's capital position declined over the quarter, with the RAR falling by 1.3% to 23.0% and 1.7% from a year ago. For the quarter, the regulatory capital held by the banking sector was even at $2.0 billion, while the corresponding RWAs grew by 5.7% (or $474.0 million) to $8.7 billion. The CET1 ratio was down 1.2% to 21.7% during the quarter and 1.4% lower from a year earlier.

The leverage position decreased over the quarter, falling by 0.9% to 7.8%, but remains above the minimum 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

	2019			2018	
	Sep	Jun	Mar	Dec	Sep
	%	%	%	%	%
Loans and advances (QoQ) growth rate	1.8	-4.9	6.9	-2.5	-3.3
Residential mortgages to total loans	55.7	52.6	50.2	53.3	51.5
Loan impairments					
NPLs to total loans (net)	5.8	5.7	5.5	6.0	5.9
NPLs to regulatory capital	23.7	23.0	23.4	23.9	23.9
Net charge-offs to loans (Annualised)*	0.4	0.2	0.1	-0.1	0.1
Loan provisioning					
Provisions to Gross NPLs	28.2	29.6*	30.1*	29.5*	29.5*
Specific provisions to Gross NPLs	27.2	28.3*	28.2*	27.5*	26.8*
Provisions to total loans (net)	2.2	2.3*	2.3*	2.4*	2.3*

**Revised*

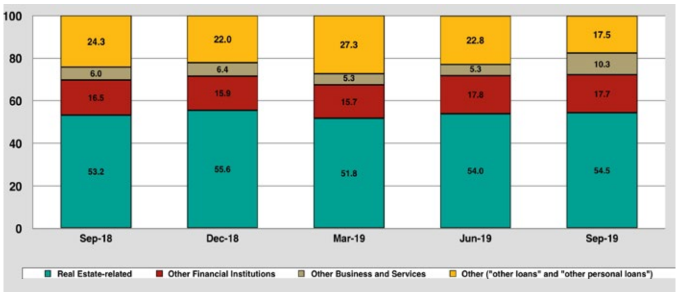
The stock of net NPLs increased by 3.1% (or $14.3 million) to $475.3 million during the quarter and was down 1.3% (or $6.1 million) from a year ago. The loan balance grew by 1.8% (or $143.2 million) to $8.2 billion during the quarter and was 0.9% (or $73.9 million) higher than loans reported a year earlier. The NPLs to total loans ratio increased from the previous quarter by 0.1% to 5.8%.

Total provisions were $181.4 million in Q3-2019, down 3.3% (or $56.2 million) from the last quarter and 4.8% (or $9.1 million) lower than amounts reported a year earlier. The loan provisioning ratio, as measured by the percentage of provisions to total loans, dropped to 2.2% from last quarter.

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

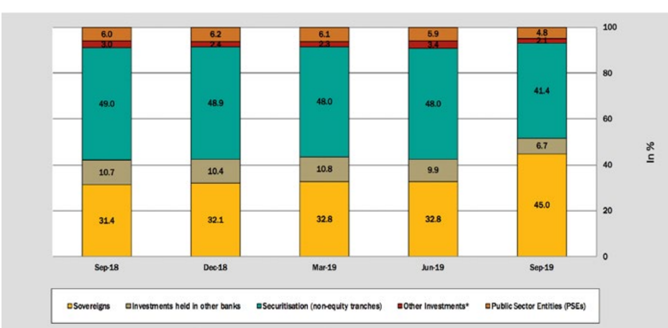


The distribution of loans and advances by sector was dominated by real estate with loans increasing from 54.0% to 54.5% of total loans during the quarter, improving from 53.2% of total loans from a year earlier. The proportion of loans to "Other" sectors fell from 22.8% to 17.7% quarter-on-quarter and was lower than the 24.3% reported a year earlier. The quarterly decline in loans to "Other" sectors was due to asset reallocation between the "loans and advances" and "investments" classifications.

Investment Book

Chart IV shows the structure of the aggregate investment book for the last five quarters.

Chart IV: Sectoral Structure of the Investment Book



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

**Includes: other investments and investments in subsidiaries and associated companies.*

Total investments grew by 21.5% to $11.1 billion in Q3-2019, with the investment book structure experiencing shifts between "Sovereigns" and "Securitised" investments, mostly comprising of non-equity, US government-sponsored agency instruments. Year-on-year, sovereign investments have grown from 31.4% to 45.0% of total investments as reported in Q3-2019 due to M&A activity during the quarter. Securitised investments have declined from 49.0% to 41.3%.

Liquidity and LCR

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

Table V: Liquidity Indicators

	2019			2018	
	Sep	Jun	Mar	Dec	Sep
	%	%	%	%	%
Cash and deposits to total assets	15.5	14.9	15.1	17.9	10.8
Cash and cash equivalents to total deposit liabilities	17.6	17.1	17.2	20.5	12.5
LTD ratio	39.4	44.1	45.7	43.9	47.1
Loans-to-total assets	34.7	38.5	40.0	38.4	40.8
Funding gap*	-53.3	-48.8	-47.7	-49.1	-45.9

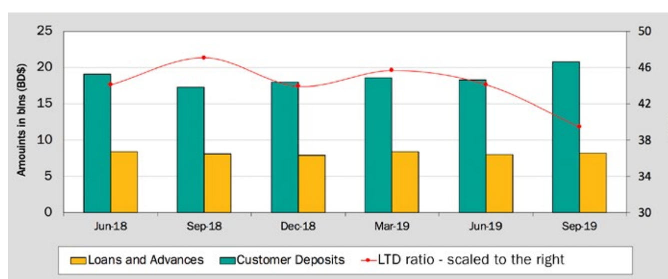
**The difference between total loans and total deposits divided by total assets.*

Note: a negative funding gap indicates a deposit surplus.

All banks complied with the minimum LCR requirement and the NSFR per regulatory requirements which are both set at 100%.

Chart V shows the change in total loans and advances, customer deposits and the consolidated LTD ratio over the last six quarters.

Chart V: Total Loans and Deposits



For the quarter, the sector's percentage of loans to total customer deposits fell from 44.1% to 39.4% and down from the 47.1% reported in the same quarter of last year. Loans and advances rose by 1.8% (or $143.2 million) to $8.2 billion, while overall customer deposits increased by 13.8% (or $2.5 billion) to $20.8 billion. Customer deposit growth is primarily due to M&A activity during the quarter.

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

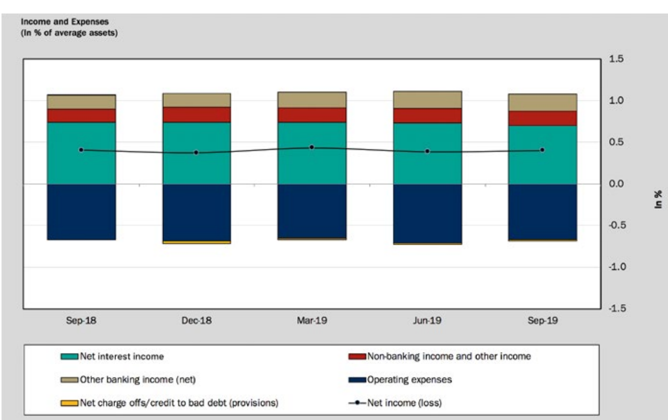
Table VI: Structure of Income statement

	2019			2018	
	Sep	Jun	Mar	Dec	Sep
	%	%	%	%	%
Net interest income to total income	64.9	65.8	67.0	67.9	69.4
Quarterly net interest margin to (average) earning assets*	2.9	3.0	3.0	3.0	3.0
Quarterly interest income to (average) earning assets*	3.5	3.5	3.5	3.4	3.3
Banking income to total income	84.1	84.7	84.7	83.4	85.0
Non-interest income to total income	35.1	32.2*	33.0	32.1	30.6
Non-interest expenses to total income (efficiency ratio)	63.2	65.6	61.1	65.9	62.1
Personnel expenses to non-interest expenses	52.7	56.6	54.2	51.6	55.2
RoA	0.4	0.4	0.4	0.4	0.4
RoA (Annualised)	1.5	1.5	1.7	1.5*	1.7*
RoE	3.8	3.6	4.2	3.7*	4.1*
RoE (Annualised)*	16.2	15.1	17.7	15.4	17.2

Revised

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 VI: Income and Expenses



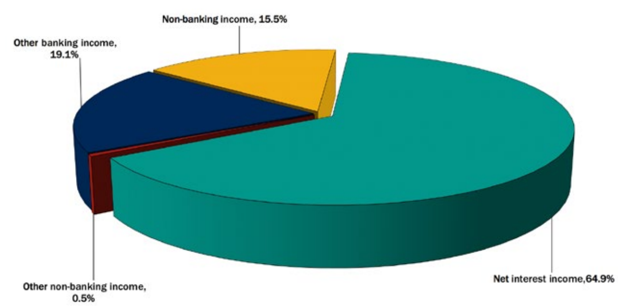
Banking Sector Profitability

Profits were higher over the past year with the sector posting net profits for the quarter of $83.1 million, increasing 0.7% from the $82.5 million reported a year ago. Net interest income was $147.2 million compared to $151.9 million a year ago, while non-interest income was $79.4 million compared to $66.9 million over the same period. Total income improved over the past year, up 3.5% (or $7.7 million) to $226.6 million, while operating expenses and net charge for bad debt amounted to $143.3 million, up 5.4% (or $7.3 million) over the same period.

The cost efficiency ratio (see Table VI) decreased from 65.6% in the previous quarter to 63.2% in this quarter but was higher than the 62.1% ratio reported a year earlier. The movement from the last quarter was due to the increase in total income (up 1.5% or $3.5 million) versus the reduction in operating expenses and net charge for bad debt (down 2.2% or $3.2 million).

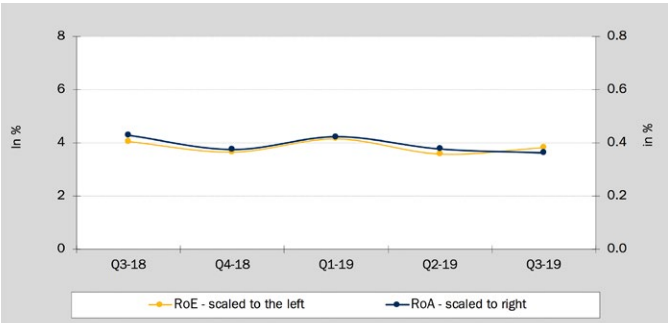
Chart VII reflects the distribution of income sources for Q3-2019.

Chart VII: Distribution of income sources



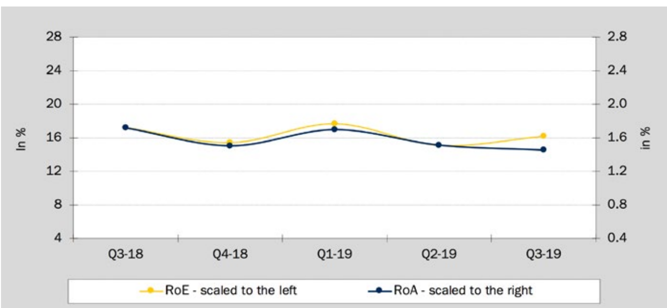
Charts VIII & IX show the trend in RoE and RoA over the last five quarters.

Chart VIII: RoA and RoE*



Revised

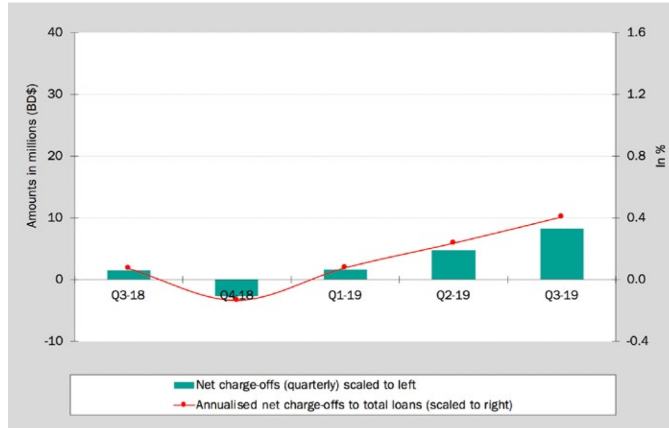
Chart IX: Annualised RoA and RoE*



Revised

Profitability indicators show that quarterly RoE increased to 3.8%, while quarterly RoA remained unchanged at 0.4%.

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



Revised

Banks wrote-off $8.3 million of uncollectible loans (net of recoveries), which were up 74.9% (or $3.5 million) over the prior quarter. The proportion of annualised net charge-offs to total loans continued to be low at 0.4% in Q3-2019.

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

Table VII: FX Balance Sheet

(BD$ Billions)	2019			2018		Change (In %)	
	Sep	Jun	Mar	Dec	Sep	QoQ	YoY
Cash	0.1	0.1	0.0	0.0	0.0	4.7	16.2
Deposits (Interbank)	3.5	3.0	3.1	3.6	2.1	17.6	72.0
Loans and advances	5.0	4.8	5.2	4.6	4.8	3.6	4.4
Investments	11.1	9.1	8.8	8.4	9.0	21.4	23.2
Other assets	0.3	0.3	0.3	0.2	0.3	20.3	35.6
Total assets	20.0	17.3	17.5	16.9	16.1	15.7	24.0
Deposit liabilities	17.3	14.8	15.2	14.6	13.8	16.8	25.7

Totals and percentage changes may not add up due to rounding. Change % calculated based on underlying numbers.

FX assets increased by 15.7% (or $2.7 billion) during the quarter, up 24.0% (or $3.9 billion) from the same quarter of 2018. For the quarter, asset growth was led by FX investments (up 21.4% or $2.0 billion) and FX interbank deposits (up 17.6% or $530.2 million), followed by FX loans and advances (up 3.6% or 172.5 million).

FX customer deposit liabilities were up 16.8% (or $2.5 billion) to $17.3 billion over the quarter and up 25.7% (or $3.5 billion) compared to the same quarter of last year. For the quarter, most of the customer deposit inflows came from FX demand deposits which were up 29.6% (or $2.2 billion) to $9.5 billion followed by FX time deposits which were up 20.3% (or $631.4 million) to $3.7 billion. FX savings deposits were down by 6.8% (or $301.8 million) to $4.1 billion.

Table VIII shows the FX position of the sector for the last five quarters.

Table VIII: FX Positions

	2019			2018	
	Sep	June	Mar	Dec	Sep
	%	%	%	%	%
FX-denominated assets to total assets	84.6	82.5	82.5	81.7	80.9
FX-denominated loans to total loans	60.8	59.7	61.4	58.3	58.8
FX-denominated deposits to total deposits	83.5	81.3	81.8	80.9	79.9
Changes in FX assets	15.7	-1.1	3.6	4.6	-9.3
Changes in FX loans and advances	3.6	-7.5	12.6	-3.3	-4.7
Changes in FX customer deposits	16.8	-2.1	4.0	5.8	-11.5

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

Table IX: Liquidity Indicators (FX Positions)

	2019			2018	
	Sep	Jun	Mar	Dec	Sep
	%	%	%	%	%
Cash and deposits to total FX assets	18.0	17.7	18.0	21.5	13.1
Cash and cash equivalents to total FX deposit liabilities	20.7	20.6	20.7	24.8	15.3
LTD ratio	28.7	32.4	34.3	31.6	34.6
Loans to total FX assets	24.9	27.8	29.8	27.4	29.6
Funding gap*	-61.9	-58.1	-57.1	-59.2	-56.0

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

Note: a negative funding gap indicates a deposit surplus.

Table X shows the FX-denominated currency position over the last five quarters.

Table X: Net FX Position

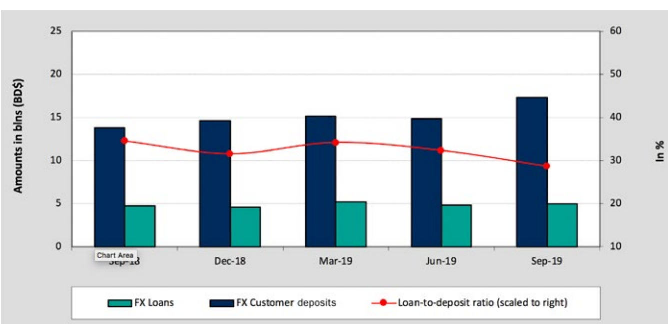
(BD$ Billions)	2019			2018	
	Sep	Jun	Mar	Dec	Sep
Total FX assets	19.9	17.2	17.4	16.8	16.1
Less: other assets	0.2	0.2	0.2	0.2	0.3
Less: FX loans to residents	1.4	1.4	1.3	1.2	1.2
Net FX assets	18.3	15.6	15.9	15.4	14.6
FX liabilities	17.8	15.1	15.4	14.9	14.1
Add: BD$ deposits of non-residents	0.1	0.1	0.1	0.1	0.1
Net FX liabilities	17.9	15.2	15.5	15.0	14.2
Net FX position	0.4	0.4	0.4	0.4	0.4

Quarter-on-quarter, the net FX position fell by 2.7% to $414 million. During the quarter, net FX assets rose by 17.3% (or $2.7 billion), mainly attributed to M&A activity, while net FX liabilities rose by 17.8% (or $2.7 billion).

Year-on-year, the net FX position declined by 2.0%. The net FX asset position experienced a 25.3% (or $3.7 billion) increase from a year earlier because the 23.6% (or $3.8 billion) increase in total FX assets outweighed the growth in FX loans to residents that increased by 16.6% (or $200.0 million). On the liabilities side, net FX liabilities increased by 26.1% (or $3.7 billion) over the same quarter last year.

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 (BD$) BALANCE SHEET

Table XI shows the aggregate BD$ balance sheet of the sector over the last five quarters.

Table XI: BD$ Balance Sheet

(BD$ Billions)	2019			2018		Change (In %)	
	Sep	Jun	Mar	Dec	Sep	QoQ	YoY
Loans and advances*	3.4	3.4	3.4	3.4	3.4	-1.6	-4.7
Total assets	3.6	3.7	3.7	3.8	3.8	-2.7	-5.3
Deposit liabilities	3.4	3.4	3.4	3.5*	3.5	0.7	-1.0

**Revised*

Note: The BD$-denominated balance sheet of the sector aggregates data submitted by legal entities.

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

Table XII: Liquidity Indicators (BD$ Positions)

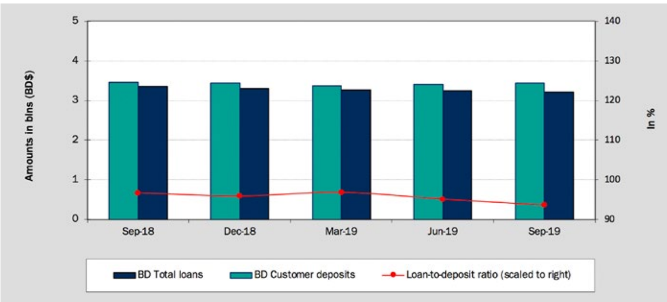
	2019			2018	
	Sep	Jun	Mar	Dec	Sep
	%	%	%	%	%
Cash and deposits to total assets	1.5	1.5	1.4	1.9	1.3
Cash and deposits to total deposit liabilities	1.6	1.6	1.5	2.0	1.4
LTD ratio	93.6	95.2	96.9	96.0	96.8
Loans to total assets	88.5	88.7	88.4	87.6	88.2
Funding gap to total assets*	-6.0	-4.5	-2.8	-3.7	-3.0

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

Note: A negative funding gap indicates a deposit surplus.

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

Chart XII: BD$ Loans and Customer Deposits



The BD$ LTD ratio declined from the last quarter with the percentage of loans to deposits falling from 95.2% to 93.6%. BD$ lending remained muted as loans to the local economy fell by 0.9% (or $29.3 million) to $3.2 billion, while local customer deposits grew by 0.7% (or $24.8 million) to $3.4 billion.

Table XIII shows the BD$-denominated deposit position profile over the last five quarters.

Table XIII: Domestic Deposit Profile

(BD$ millions)	2019			2018	
	Sep	Jun	Mar	Dec	Sep
Deposit liabilities	3,444	3,420	3,386	3,451	3,480
Less: loans, advances and mortgages	3,354	3,410	3,364	3,430	3,518
Surplus/(deficit) position	90	10	22	21	-38
Percentage of deposit liabilities loaned	97.4	99.7	99.4	99.4	101.1

Totals may not add due to rounding.

The surplus position increased to $90.0 million in Q3 improving the funding profile of the banking sector. During the quarter, domestic lending within the local economy fell by 1.7% (or $56.6 million) while local customer deposits grew by 0.7% (or $24.4 million), resulting in a decline in the percentage of customer deposits loaned from 99.7% to 97.4%. Year-on-year, domestic lending fell by 4.7% (or $164.7 million) while local customer deposits fell by 1.0% (or $35.1 million).

MONETARY AGGREGATES

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

Table XIV: Bermuda Money Supply (Unconsolidated)

(BD$ Millions)	2019			2018	
	Sep	Jun	Mar	Dec	Sep
Notes and coins in circulation	146	145	138	142	139
Deposit liabilities	3,444	3,420	3,386	3,451	3,480
Banks and deposit companies	**3,590**	**3,565**	**3,525**	**3,593**	**3,618**
Less: cash at banks and deposit companies	43	42	39	43	40
BD$ money supply	**3,547**	**3,523**	**3,485**	**3,550**	**3,578**
% Growth on previous period	0.7	1.0	-1.8	-0.8	0.1*
% Growth YoY	-0.9	-1.4	-1.5	0.4	-1.0

**Revised*

Totals may not add due to rounding. The table includes the supply of BD$ only for this section.

The BD$ money supply was higher than in the prior quarter, up 0.7% to $3.55 billion, although it remained 0.9% lower compared to the same quarter of last year.

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.

Bank of England – Financial Policy Committee (FPC)

In July, the FPC released its Financial Stability Report that provides views on the stability of the UK financial system and means to reduce or limit risks.

https://www.bankofengland.co.uk/-/media/boe/files/financial-stability-report/2019/july-2019.pdf

Bank for International Settlements (BIS)

In August, the BIS issued a paper on bank failure management and the role of deposit insurance. The paper looks at the range of alternative measures that may be funded by BIS and the accompanying safeguards.

https://www.bis.org/fsi/publ/insights17.pdf

The BIS published and updated Frequently Asked Questions (FAQs) on the Basel III standardised approach (SA) for operational risk. The document covers FAQs that relate to the new SA for operational risk capital.

https://www.bis.org/bcbs/publ/d476.pdf

In July, the BIS released a paper on proportionality under Pillar 2 of the Basel framework. The report provides insight on how various countries have implemented the first three principles of Pillar 2, including their application of proportionality.

https://www.bis.org/fsi/publ/insights16.pdf

European Banking Authority (EBA)

In July, the EBA released their report on the monitoring of the Liquidity Coverage Ratio implementation in the European Union.

https://eba.europa.eu/sites/default/documents/files/documents/10180/2551996/67b34a0d-4e5f-4f46-82f3-48a9aa92e5e0/Monitoring%20of%20the%20LCR%20implementation%20in%20the%20EU%20-%20first%20report.pdf

Financial Stability Board (FSB)

In August, the FSB published public responses to consultation on Public Disclosure of Resolution Planning and Resolvability.

https://www.fsb.org/2019/08/public-responses-to-consultation-on-public-disclosure-of-resolution-planning-and-resolvability/

GLOSSARY

Annualised is expressing (a quantity such as an interest rate, profit, expenditure, etc.) as if it applied or were measured over a 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 (CET1) Capital is the primary and predominant form of regulatory capital, and will be used as the primary capital adequacy measure for all Bermuda banks under Basel III.

CET1 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.

Domestic Systemically 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 (FX) 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 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.

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 exposures, and Off-Balance Sheet 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 High-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 loss charge for doubtful debts and transfers made to a 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 (after-tax) is derived by netting off provision for taxation from gross profit and takes into account extraordinary items.

Net interest income is calculated as interest received or receivable less interest paid or payable.

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.

Provisions to NPLs is the ratio that shows the extent to which non-performing loans are already covered by 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 Common Equity Tier 1 and Tier 2 capital net of applicable total capital deductions.

(Annualised) Return on Assets (RoA) is calculated by dividing the net income over the quarter by the value of interest-earning assets over the same period converted into an annual rate.

Return on Assets (RoA) is calculated by dividing the net income over the quarter by the value of interest-earning assets over the same period.

(Annualised) Return on Equity (RoE) is calculated by dividing the net income over the quarter by the value of shareholder equity over the same period converted into an annual rate.

Return on Equity (RoE) is calculated by dividing the net income over the quarter by the value of shareholder equity over the same period.

Risk Asset Ratio (RAR) 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 (CET1) capital plus Additional Tier 1 (AT1) capital 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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