Quarterly Banking Digest

Q4-2019

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

- The total assets reported for Q4-2019 totalled $24 billion, up 16.3% (or $3.4 billion) higher than amounts reported in the same quarter last year
- The banking sector's capital position was down in Q4-2019 with the Risk Asset Ratio (RAR) falling by 1.5 percentage points to 21.5% over the prior quarter
- The quality of the loan book has shown improvement compared to a year ago, with the percentage of Non-Performing Loans (NPLs) to total loans down 0.5 percentage points to 5.3%

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
	Dec	Sep	Jun	Mar	Dec
Capital Position	%	%	%	%	%
Basel III – RAR	21.5	23.0	24.3	23.8	24.1
Basel III – CET1 ratio (7.0%)	20.3	21.7	22.9	22.3	22.6
Basel III – Leverage ratio (5.0%)	7.4	7.8	8.7	8.6	8.9
Liquidity					
Cash/cash equivalents to total deposit liabilities	18.3	17.6	17.1	17.2	20.5
Loan-to-deposit (LTD) ratio	41.1	39.4	44.1	45.7	43.9
Funding gap **	-52.3	-53.3	-48.8	-47.7	-49.1
Profitability					
Net interest income to interest income	82.4	82.8	85.6	86.6	87.9
Return on assets (RoA)	0.3	0.4	0.4	0.4	0.4
RoA (Annualised)	1.3	1.5	1.5	1.7	1.5
Return on equity (RoE)	3.7	3.8	3.6	4.2	3.7
RoE (Annualised)*	15.5	16.2	15.1	17.7	15.4
Loan Book					
Provisions to NPLs	28.7	28.2	29.6	30.0	29.2
NPLs to total loans	5.3	5.8	5.7	5.5	6.0
NPLs to regulatory capital	24.1	23.7	23.0	23.4	23.9
Other					
Change in Bermuda Dollar (BD$) money supply (Quarter-on-Quarter)(QoQ)	-0.3	0.7	1.1	-1.8	-0.8
Change in assets (QoQ)	1.6	12.9	-1.1	2.6	3.6
Change in RWAs (QoQ)	3.7	5.7	-1.6	0.8	1.9
Change in customer deposits (QoQ)	2.4	13.8*	-1.6*	2.8*	4.5*

**Revised*

** Loans, less deposit liabilities; divided by total assets. The negative funding gap indicates that deposit exceed loans.

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	
	Dec	Sep	Jun	Mar	Dec	QoQ	YoY*
Assets						%	%
Cash	0.1	0.1	0.1	0.1	0.1	11.5	29.6
Deposits (Interbank)	3.8	3.6	3.0	3.1	3.6	6.2	4.7
Loans and advances (net)	8.7	8.2	8.1	8.5	7.9	6.6	10.3
Investments	10.7	11.1	9.2	8.9	8.4	-3.8	26.9
Other assets	0.7	0.7	0.6	0.6	0.6	3.6	15.1
Total assets	**24.0**	**23.6**	**20.9**	**21.2**	**20.6**	**1.6**	**16.3**
Liabilities							
Saving deposits	5.8	5.7	6.0	6.0	5.9	2.6	-1.2
Demand deposits	10.8	10.5	8.3	8.7	8.8	3.0	23.8
Time deposits	4.6	4.6	4.0	3.9	3.3	0.7	36.0
Total deposits	**21.3**	**20.8**	**18.3**	**18.6**	**18.0**	**2.4**	**17.9**
Other liabilities	0.6	0.7	0.5	0.5	0.5	-10.0	13.0
Total liabilities	**21.9**	**21.4**	**18.8**	**19.1**	**18.5**	**2.0**	**17.8**
Equity and subordinated debt	2.1	2.2	2.1	2.1	2.1	-2.6	3.1
Total liabilities and equity	**24.0**	**23.6**	**20.9**	**21.2**	**20.6**	**1.6**	**16.3**

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

Total assets grew by 16.3% (or $3.4 billion) when compared to total assets in the same quarter of last year. The Year-on-Year (YoY) increase is the result of growth in investments (up 26.9% or $2.3 billion) followed by loans and advances (up 10.3% or $818.5 million) and interbank deposits (up 4.7% or $168.1 million).

The banking sector's total deposit base grew by 17.9% (or $3.3 billion) over the last 12 months. The YoY growth was led by demand deposits (up 23.8% or $2 billion) and time deposits (up 36% or $1.2 billion); while savings deposits fell by 1.2% or $0.1 billion over the same period.

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
	Dec	Sep	Jun	Mar	Dec
Asset allocation	%	%	%	%	%
Cash	0.4	0.4	0.5	0.4	0.4
Investments	44.6	47.1	43.7	41.9	40.8
Loans	36.3	34.7	38.5	40.0	38.4
Deposits (Interbank)	15.8	15.0	14.4	14.7	17.5
Other assets	2.9	2.8	2.9	3.0	2.9
Deposits allocation					
Savings	27.4	27.3	32.7	32.2	32.6
Demand	50.9	50.6	45.5	46.7	48.5
Time	21.7	22.1	21.8	21.1	18.8
Capital position					
Basel III – RAR	21.5	23.0	24.3	23.8	24.1
Basel III – Leverage Ratio	7.4	7.8	8.7	8.6	8.9

Capital Adequacy

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

Chart I: RAR and Leverage Ratio

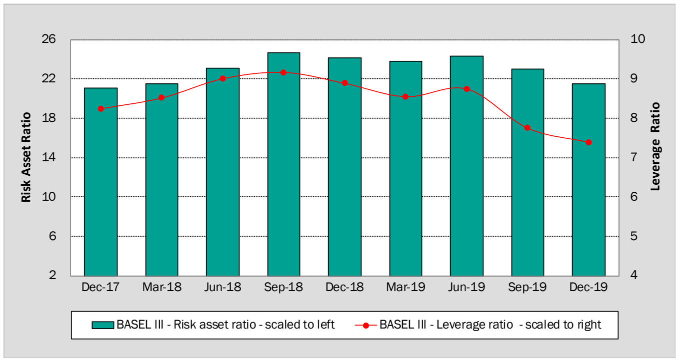
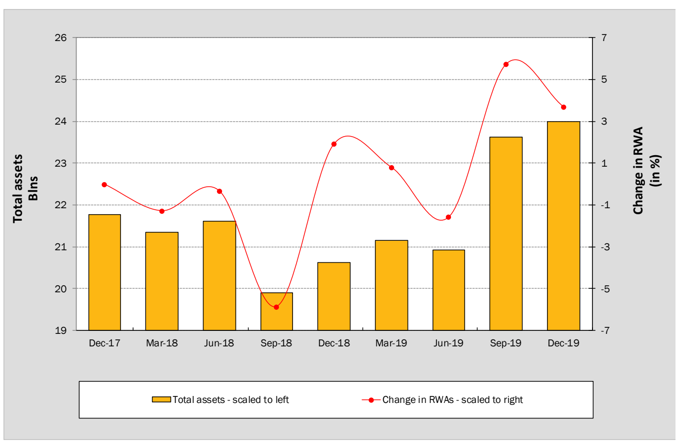


Chart II reflects the movement in total assets and the change in RWAs over the last two years.

Chart II: Total Assets and Change in RWAs



The banking sector's capital position as measured by the RAR fell by 1.5 percentage points to 21.5% during the quarter and was 2.6 percentage points lower than a year earlier. For the quarter, the regulatory capital held by the banking sector was down 3% (or $61 million) to $1.9 billion; while the corresponding RWAs grew by 3.7% (or $321.4 million) to $9 billion. The CET 1 capital, which is the primary core equity capital held by the banking sector, was down by 3.1% (or $57.7 million) to $1.8 billion QoQ. The combination of the decline in CET1 and increase in RWAs caused the overall CET 1 ratio to fall from 21.7% to 20.3% over the prior quarter.

The leverage ratio decreased from 7.8% to 7.4%, though it remains above the 5% Bermuda Monetary Authority (BMA) minimum requirement.

Asset Quality

Loan Book

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

Table IV: Quality of the Loan Book

	2019				2018
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
Loans and advances QoQ growth rate	6.6	1.8	-4.9	6.9	-2.5
Residential mortgages to total loans	53.6	55.7	52.6	50.2	53.3
Loan impairments					
NPLs to total loans (net)	5.3	5.8	5.7	5.5	6.0
NPLs to regulatory capital	24.1	23.7	23.0	23.4	23.9
Net charge-offs to loans (annualised)	0.2	0.4	0.2	0.1	-0.1
Loan provisioning					
Provisions to gross NPLs	28.7	28.2	29.6	30.0	29.2
Specific provisions to gross NPLs	27.9	27.2	28.3	28.2	27.5
Provisions to total loans (net)	2.1	2.2	2.3	2.3	2.4

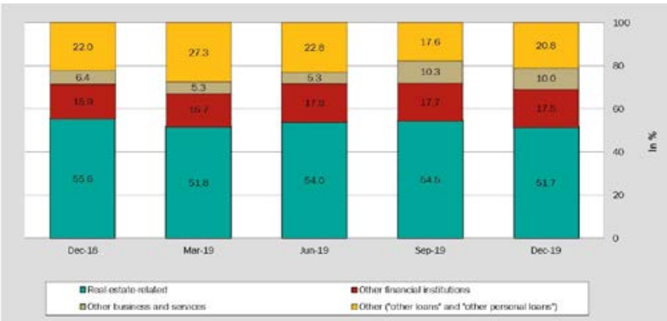
The stock of net NPLs fell by 1.7% (or $8.2 million) to $467.1 million during the quarter, which is also down 2.3% (or $10.9 million) from a year ago. Over the same quarter, net loans grew by 6.6% (or $542.7 million) to $8.7 billion and were 10.3% (or $818.5 million) higher than the outstanding loans reported a year earlier.

Total provisions amounted to $187.8 million in Q4-2019, up 1.9% (or $3.5 million) over the prior quarter. Yet total provisions were down 2.3% (or $4.4 million) compared to balances reported a year earlier. The percentage of provisions to total loans dropped to 2.1%, the lowest level over the last four quarters.

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

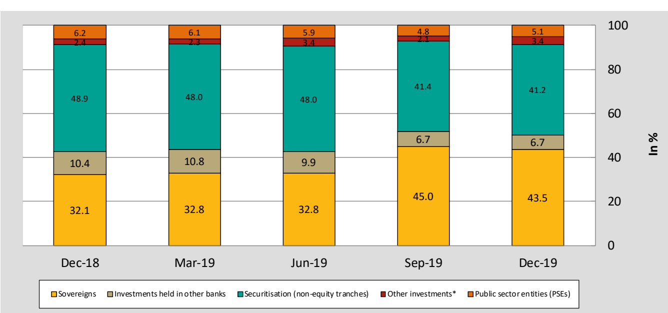


The real estate sector continues to hold the largest portion of outstanding loans, representing 51.7% of total loans. Loans to "Other" sectors have shown the most growth during the quarter, increasing from 17.6% to 20.8%, mostly resulting from loans to the public administration sector. Over the past year, the share of loans to "Other businesses and services" increased from 6.4% to 10%, while the share of loans to the real estate sector fell from 55.6% to 51.7%.

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 amounted to $10.7 billion in Q4-2019. The investment structure is more conservative and a large proportion is in sovereign investments (investment-grade and higher) and securitised investments – comprising mostly of US government-sponsored agency instruments.

Liquidity Position

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

Table V: Liquidity Indicators

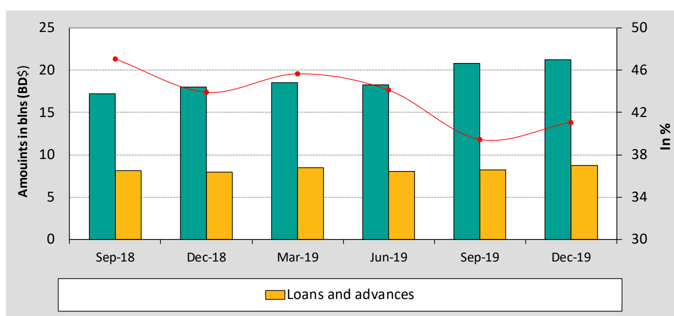
	2019				2018
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
Cash and deposits to total assets	16.2	15.5	14.9	15.1	17.9
Cash and cash equivalents to total deposit liabilities	18.3	17.6	17.1	17.2	20.5
LTD ratio	41.1	39.4	44.1	45.7	43.9
Loans-to-total assets	36.4	34.7	38.5	40.0	38.4
Funding gap*	-52.3	-53.3	-48.8	-47.7	-49.1

**The difference between total loans and total deposits divided by total assets.* The *negative funding gap indicates a deposit surplus.*

All banks complied with the fully phased-in minimum LCR requirement and NSFR per regulatory requirements.

Chart V shows the change in total loans and advances, customer deposits and the consolidated LTD ratio (for both BD$ and Foreign Currency (FX)) over the last five quarters.

Chart V: Total Loans and Deposits



For Q4-2019, the sector's percentage of loans to total customer deposits increased from 39.4% to 41.1% yet remained lower than the 43.9% ratio reported in the same quarter of last year. During the quarter, loans and advances increased at a faster rate, up 6.6% (or $542.7 million) to $8.7 billion relative to the increase in total customer deposits, up 2.4% (or $493.1 million) to $21.3 billion.

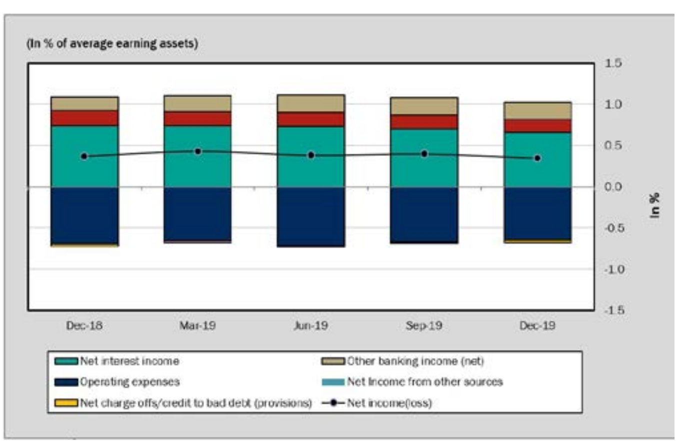
Table VI is a summary of profitability ratios for the sector for the last five quarters.

Table VI: Structure of Income statement

	2019				2018
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
Net interest income to total income	64.6	64.9	65.8	67.0	67.9
Annualised net interest income to (average) earning assets	2.8	2.9	3.0	3.0	3.0
Annualised interest income to (average) earning assets	3.4	3.5	3.5	3.5	3.4
Banking income to total income	84.7	84.1	84.7	84.7	83.4
Non-interest income to total income	35.4	35.1	32.2	33.0	32.1
Non-interest expenses to total income (efficiency ratio)	66.0	63.2	65.6	61.1	65.9
Personnel expenses to non-interest expenses	52.0	52.7	56.6	54.2	51.6
RoA	0.3	0.4	0.4	0.4	0.4
RoA (annualised)	1.3	1.5	1.5	1.7	1.5
RoE	3.7	3.8	3.6	4.2	3.7
RoE (annualised)	15.5	16.2	15.1	17.7	15.4

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



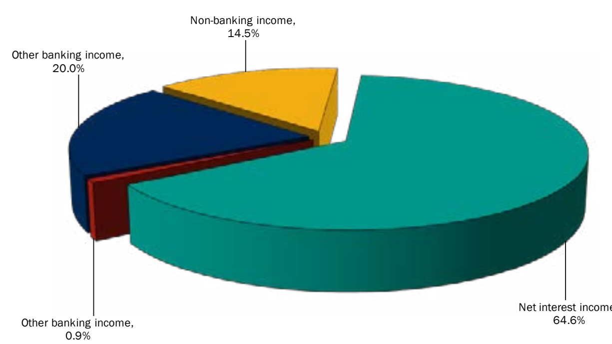
Banking Sector Profitability

The banking sector posted an after-tax net profit of $77.7 million in the final quarter of 2019 compared to an after-tax net profit of $75 million in the corresponding period of 2018; an increase of 3.6%. Net interest income was down 3.7% (or $5.6 million) to $144.3 million compared to a year ago, with non-interest income up 11.5% (or $8.1 million) to $78.9 million compared the same quarter in 2018. Year-on-year, total income improved by 1.2% (or $2.6 million) to $223.2 million, while operating and net charge-offs for bad debts amounted to $147.4 million, up 1.3% (or $1.9 million) over the same period.

The cost efficiency ratio, increased from 63.2% in the previous quarter to 66%, closely matching the ratio reported a year ago. The increase in the ratio over the last quarter was due to the small decrease in total income (down 1.5% or $3.4 million) versus the increase in operating and net charge-offs for bad debts (up 2.9% or $4.1 million) during the same period.

Chart VII reflects the distribution of income sources for Q4-2019.

Chart VII: Distribution of income sources



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

Chart VIII: Annualised RoE and RoA

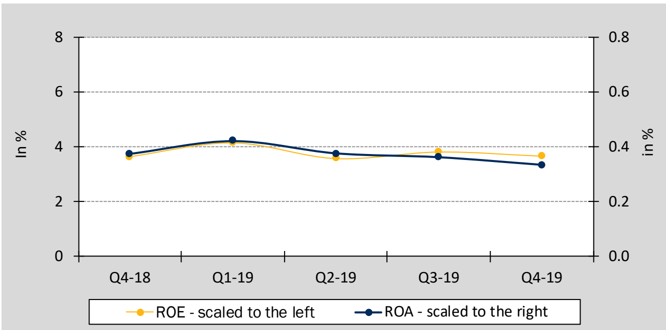


Chart IX: Quarterly RoE and RoA

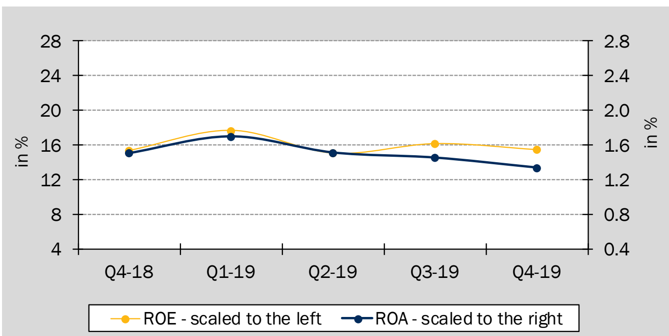
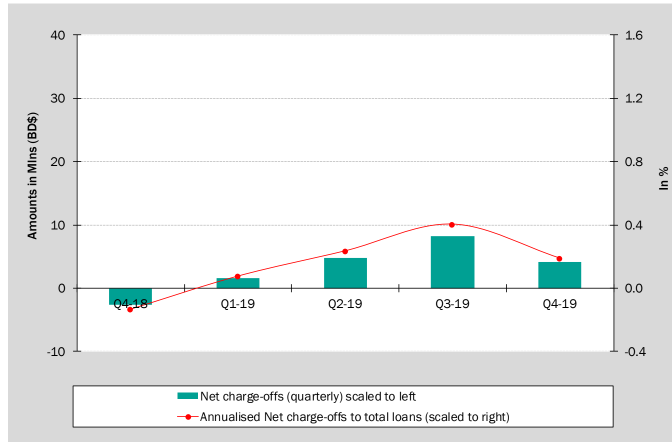


Chart X: Net Charge-off Amount and Proportion of Annualised Charge-offs to Loans



During the quarter, the amount of uncollectible loans (net of recoveries) written off totalled $4.1 million, down 50% (or $4.1 million) compared to write-offs reported in the prior quarter. The proportion of annualised net charge-offs to total loans remained low, falling to 0.2% in Q4-2019.

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 %)	
	Dec	Sep	Jun	Mar	Dec	QoQ	YoY
Cash	0.1	0.1	0.1	0.0	0.0	11.0	39.9
Deposits (interbank)	3.8	3.5	3.0	3.1	3.6	6.2	5.3
Loans and advances	5.5	5.0	4.8	5.2	4.6	11.0	19.8
Investments	10.6	11.1	9.1	8.8	8.4	-3.8	27.1
Other assets	0.3	0.3	0.3	0.3	0.2	2.0	47.5
Total assets	20.3	20.0	17.3	17.5	16.9	1.8	20.8
Deposit liabilities	17.9	17.3	14.8	15.2	14.6	2.9	22.3

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

FX assets increased by 1.8% (or $364.4 million) during the quarter, while growing by 20.8% (or $3.5 billion) over the same quarter of last year.

FX customer deposit liabilities were up 2.9% (or $507.9 million) to $17.9 billion over the quarter, and up 22.3% (or $3.3 billion) compared to the same quarter of last year. FX demand deposits were up 27.8% (or $2.1 billion) to $9.8 billion and were the largest contributor to the year-on-year growth in customer deposit inflows, followed by FX time deposits which were up 46.5% (or $1.2 billion) to $3.8 billion. FX savings deposits declined by 1.7% (or $73.1 million) to $4.3 billion.

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

Table VIII: FX Positions

	2019				2018
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
FX-denominated assets to total assets	84.8	84.6	82.5	82.5	81.7
FX-denominated loans to total loans	63.3	60.8	59.7	61.4	58.3
FX-denominated deposits to total deposits	83.9	83.5	81.3	81.8	80.9
Changes in FX assets	1.8	15.7	-1.1	3.6	4.6
Changes in FX loans and advances	11.0	3.6	-7.5	12.6	-3.3
Changes in FX customer deposits	2.9	16.8	-2.1	4.0	5.8

Table IX: Net FX Positions

(BD$ Billions)	2019				2018
	Dec	Sep	Jun	Mar	Dec
Total FX assets	20.3	19.9	17.2	17.4	16.8
Less: other assets	0.3	0.2	0.2	0.2	0.2
Less: FX loans to residents	1.5	1.4	1.4	1.3	1.2
Net FX assets	18.5	18.3	15.6	15.9	15.4
FX liabilities	18.2	17.8	15.1	15.4	14.9
Add: BD$ deposits of non-residents	0.1	0.1	0.1	0.1	0.1
Net FX liabilities	18.3	17.9	15.2	15.5	15.0
Net FX position	0.2	0.4	0.4	0.4	0.4

Totals and percentage changes may not agree due to rounding
FX liabilities include FX customer deposits and other FX liabilities

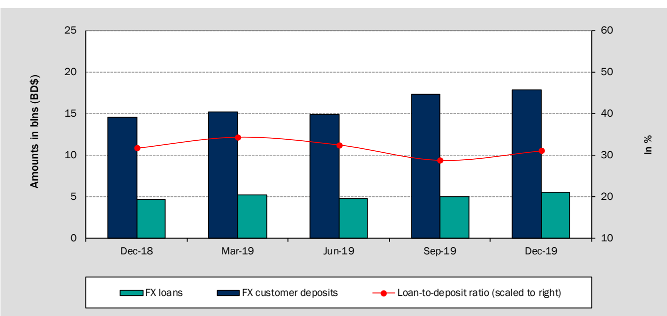
Table X is a summary of ratios measuring the liquidity of the FX-denominated bank balance sheets for the last five quarters.

Table X: Liquidity Indicators (FX Positions)

	2019				2018
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
Cash and deposits to total assets	18.8	18.0	17.7	18.0	21.5
Cash and deposits to total deposit liabilities	21.4	20.7	20.6	20.7	24.8
LTD ratio	31.0	28.7	32.4	34.3	31.6
Loans to total assets	27.2	24.9	27.8	29.8	27.4
Funding gap*	-60.6	-61.9	-58.1	-57.1	-59.2

**The difference between total loans and total deposits divided by total assets. Note: a negative funding gap indicates a deposit surplus.*

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 (Unconsolidated)

(BD$ Billions)	2019				2018	Change (In %)	
	Dec	Sep	Jun	Mar	Dec	QoQ	YoY
Loans and advances	3.3	3.4	3.4	3.4	3.4	-0.9	-3.1
Total assets*	4.1	4.1	4.2	4.1	4.2	0.1	-2.2
Deposit liabilities	3.4	3.4	3.4	3.4	3.5	-0.5	-0.7

**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.

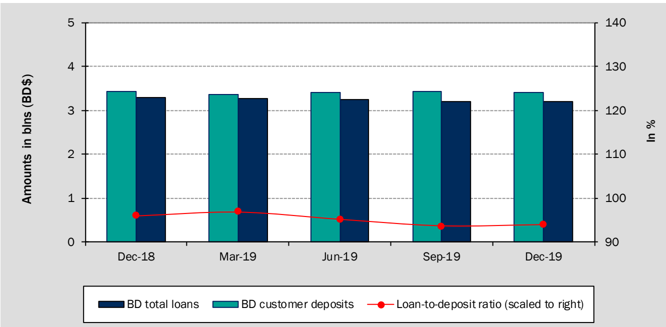
Table XII: Liquidity Indicators (BD$ Positions)

	2019				2018
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
Cash and deposits to total assets*	1.3	1.3	1.3	1.2	1.6
Cash and deposits to total deposit liabilities	1.6	1.6	1.6	1.5	2.0
LTD ratio*	96.9	97.4	99.7	99.3	99.4
Loans to total assets*	81.7	82.5	82.0	81.8	82.5
Funding gap to total assets**	-2.5	-2.2	-0.2	-0.5	-0.5

**Revised ratios*
***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 has remained flat in Q4-2019, with the percentage of loans to deposits falling by 0.4 percentage points to 96.9% in the quarter. Domestic lending continued to be low during the quarter within the local economy, down 0.9% (or $30.4 million) to $3.3 billion; while local customer deposits during the quarter declined by 0.5% (or $17.6 million) to $3.4 billion.

Table XIII: BD$ Deposit Profile (Unconsolidated)

(BD$ millions)	2019				2018
	Dec	Sep	Jun	Mar	Dec
Deposit liabilities	3,427	3,444	3,420	3,386	3,451
Less: loans, advances and mortgages	3,323	3,354	3,410	3,364	3,430
Surplus/(deficit) position	104	90	10	22	21
Percentage of deposit liabilities loaned	96.9	97.4	99.7	99.4	99.4

Totals may not add due to rounding.

The BD$ deposit surplus position increased to just over $100 million in Q4-2019. During the quarter, domestic lending within the local economy fell by 0.9% (or $30.4 million) while local customer deposits declined by 0.5% (or $17.6 million) resulting in a decline in the percentage of customer deposits loaned from 97.4% to 96.9%. YoY, domestic lending fell by 3.1% (or $107.1 million) while local customer deposits were down 0.7% (or $24.2 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
	Dec	Sep	Jun	Mar	Dec
Notes and coins in circulation	152	146	145	138	142
Deposit liabilities	3,427	3,444	3,420	3,386	3,451
Banks and deposit companies	**3,579**	**3,590**	**3,565**	**3,525**	**3,593**
Less: cash at banks and deposit companies	43	43	42	39	43
BD$ money supply	**3,536**	**3,547**	**3,523**	**3,485**	**3,550**
% Growth on previous period	-0.3	0.7	1.0	-1.8	-0.8
% Growth YoY	-0.4	-0.9	-1.4	-1.5	0.4

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

The BD$ money supply within the local economy experienced very little movement for the quarter falling only by 0.3% and was down 0.4% compared to a year ago.

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 BMA.

Bank of England (BoE)

In October, the BoE released a paper on predicting bank distress using machine learning. The paper looks at an early warning system that can help anticipate bank distress in the UK.

https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2019/predicting-bank-distress-in-the-uk-with-machine-learning.pdf?la=en&hash=463498FF652EB9F61D55A4553D2813E2F8AC8F33

The Bank for International Settlements (BIS)

In December, the BIS released its paper on market discipline and the pricing of bail-in bonds. The paper studies whether the market for bail-in debt imposes discipline on banks by analysing the pricing of senior unsecured bank bail-in bonds of Global Systemically Important Banks (G-SIBs) and other large banks.

https://www.bis.org/publ/work831.pdf

The BIS released a discussion paper on the prudential treatment of digital assets. The paper looks at a range of issues related to the prudential regulatory treatment of crypto-assets.

https://www.bis.org/bcbs/publ/d490.pdf%0a

In November, the BIS issued its guiding principles paper for operationalising its sectoral countercyclical capital buffer. The principles are intended to support the implementation of the sectoral countercyclical capital buffer on a consistent basis across jurisdictions.

https://www.bis.org/bcbs/publ/d487.pdf

In October, the BIS issued the results of the latest Basel III monitoring exercise. The report reveals the implications of the Basel III standards for banks.

https://www.bis.org/bcbs/publ/d477.pdf

Basel Committee on Banking Supervision (BCBS)

In December, the BCBS released its consolidated Basel framework which is the full set of standards and primary global standards for the prudential regulation of banks.

https://www.bis.org/basel_framework/index.htm

In November, the BCBS published consultation papers on Pillar 3 disclosure templates related to banks' market risk and sovereign exposures.

https://www.bis.org/bcbs/publ/d484.pdf

https://www.bis.org/bcbs/publ/d485.pdf

European Banking Authority (EBA)

In October, the EBA published two reports which monitor the impact of implementing the final Basel III reforms and the current implementation of liquidity measures in the European Union (EU).

https://eba.europa.eu/eba-publishes-regular-basel-iii-capital-monitoring-report-and-update-compliance-eu-banks-liquidity

Financial Stability Board (FSB)

In November, the FSB published its report on the implementation of resolution reforms. The report provides an update on progress in implementing policy measures to enhance the resolvability of systemically important financial institutions and sets out plans for further work.

https://www.fsb.org/wp-content/uploads/P141119-3.pdf

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 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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