Quarterly Banking Digest

Q2-2020

BASEL III REQUIREMENTS

- All banks are required to meet the 100% minimum requirement for Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR)
- 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

COVID-19

- The COVID-19 pandemic caused a significant shock to both the global and Bermudian economy, and its full impact is still being assessed. Containment measures included 'shelter in place restrictions' and leisure/business travel restrictions which impacted the incomes of many corporate and retail borrowers. Pressure on earnings increased significantly due to a low interest rate environment, and the impact of COVID-19 which resulted in a stressed business environment and higher-than-anticipated loan loss provisions

PERFORMANCE HIGHLIGHTS

- The ratio of regulatory capital to Risk Weighted Assets (RWAs) (also known as the Risk Asset Ratio (RAR)) improved 1.5% to reach 22.6% this quarter
- Total assets declined 2.5% from the prior quarter mainly due to a decline in the market value of securities; compared to a year ago, total assets grew 12% spurred on by the growth in deposits
- The ratio of Non-Performing Loans (NPLs) to total loans rose 0.9% to 6.2%. This is mainly due to an increase in the number and value of accounts that are past due (this excludes accounts in the banks' COVID-19 loan deferral programmes which have no indicators of significant increase in credit risk)

SUMMARY INDICATORS

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

Table I: Selected Financial Soundness Indicators

Ratios	2020		2019		
	Jun	Mar	Dec	Sep	Jun
Capital position	%	%	%	%	%
Basel III – Risk Asset Ratio (RAR)	22.6	21.1	21.5	23.0	24.3
Basel III – CET1 ratio (7.0%)	20.1	19.7	20.3	21.7	22.9
Basel III – Leverage ratio (BMA minimum 5.0%)	7.4	7.1	7.4	7.8	8.7
Liquidity					
Cash and cash equivalents to total deposit liabilities	16.5	16.7	18.3	17.6	17.1
Loan-To-Deposit (LTD) ratio	42.6	41.1	41.1	39.4	44.1
Funding gap *	-50.5	-52.2	-52.3	-53.3	-48.8
Profitability					
Net interest income to interest income	91.1	85.5	82.4	82.8	85.6
Return on Assets (RoA)	0.3	0.2	0.3	0.4	0.4
RoA (annualised)	1.1	0.6	1.3	1.5	1.5
Return on Equity (RoE)	2.8	1.7	3.7	3.8	3.6
RoE (annualised)	11.6	7.1	15.5	16.2	15.1
Loan book					
Provisions to Non-Performing Loans (NPLs)	20.7	34.8	28.7	28.2	29.6
NPLs to total loans	6.2	5.3	5.3	5.8	5.7
NPLs to regulatory capital	27.1	24.5	24.1	23.7	23.0
Other					
Change in Bermuda Dollar (BD$) money supply Quarter-on-Quarter (QoQ)	2.5	2.6	-0.3	0.7	1.1
Change in assets (QoQ)	-2.5	0.7	1.6	12.9	-1.1
Change in RWAs (QoQ)	-1.2	0.5	3.7	5.7	-1.6
Change in customer deposits (QoQ)	-2.7	0.6	2.4	13.8	-1.6

**The negative funding gap indicates that deposits exceed loans.*
QoQ – percentage change from 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)	2020		2019			Change	
	Jun	Mar	Dec	Sep	Jun	QoQ	YoY
Assets						%	%
Cash	0.1	0.1	0.1	0.1	0.1	–	–
Deposits (interbank)	3.3	3.5	3.8	3.6	3.0	-5.7	10.0
Loans and advances (net)	8.9	8.8	8.7	8.2	8.1	1.1	9.9
Investments	10.6	11.	10.7	11.1	9.2	-4.5	15.2
Other assets	0.7	0.7	0.7	0.7	0.6	–	16.7
Total assets	**23.6**	**24.2**	**24.0**	**23.6**	**20.9**	**-2.5**	**12.9**
Liabilities							
Saving deposits	6.8	6.4	5.8	5.7	6.0	6.2	13.3
Demand deposits	10.5	10.7	10.8	10.5	8.3	-1.9	26.5
Time deposits	3.5	4.3	4.6	4.6	4.0	-18.6	-12.5
Total deposits	**20.8**	**21.4**	**21.3**	**20.8**	**18.3**	**-2.8**	**13.7**
Other liabilities	0.5	0.6	0.6	0.7	0.5	-16.7	–
Total liabilities	**21.3**	**22.0**	**21.9**	**21.4**	**18.8**	-3.2	13.3
Equity and subordinated debt	2.3	2.2	2.1	2.2	2.1	4.5	9.5
Total liabilities and equity	**23.6**	**24.2**	**24.0**	**23.6**	**20.9**	**-2.5**	**12.9**

YoY — percentage change from prior year
QoQ — percentage change from prior year

Total assets grew by 12.9% (or $2.7 billion) compared to the same quarter of last year. This growth is reflected in increases in investment holdings (up 15.2% or $1.4 billion), loans and advances (up 9.9% or $0.8 billion), interbank deposits (up 10.0% or $0.3 billion) and other assets (up 16.7% or $0.1 billion) over the same period.

Total assets fell 2.5% QoQ, and this is reflected in the declines of investments and interbank deposits by 4.5% and 5.7% respectively. Loans and advanced increased marginally by 1.1%. The decline is mainly due to the 2.8% decline in customer deposits QoQ.

Year-on-year (YoY) total liabilities were up 13.3% (or $2.5 billion) to $21.3 billion. Customer deposits grew by 13.7% (or $2.5 billion) over the past year, with growth reflected in demand deposits up 26.5% or $2.2 billion) and savings deposits (up 13.3% or $0.8 billion). Conversely, time deposits were down 12.5% (or $0.5 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

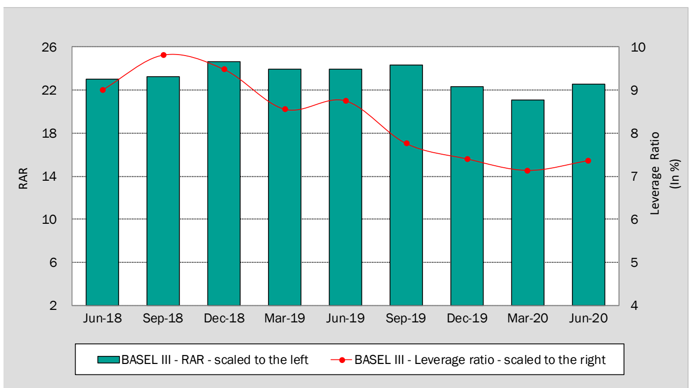
	2020		2019		
	Jun	Mar	Dec	Sep	Jun
Asset allocation	%	%	%	%	%
Cash	0.4	0.4	0.4	0.4	0.5
Investments	44.9	45.9	44.6	47.1	43.7
Loans and advances	37.7	36.4	36.3	34.7	38.5
Deposits (interbank)	14.0	14.4	15.8	15.0	14.4
Other assets	3.0	2.9	2.9	2.8	2.9
Deposits allocation					
Savings	32.7	29.7	27.4	27.3	32.7
Demand	50.5	50.0	50.9	50.6	45.5
Time	16.8	20.3	21.7	22.1	21.8
Capital position					
Basel III – RAR	22.6	21.1	21.5	23.0	24.3
Basel III – leverage ratio	7.4	7.1	7.4	7.8	8.7

Capital Adequacy

The banking sector's capital position as measured by the RAR grew 1.5 percentage points to 22.6% during the quarter but was 1.7 percentage points lower than a year ago. Regulatory capital within the banking sector was $2.0 billion, up 5.8% (or $0.1 billion) from the previous quarter; while the corresponding RWAs declined by 1.2% (or $0.1 billion) to $9.0 billion. The CET1 ratio grew by 0.4 percentage points to 20.1% for the quarter, being the result of growth in CET1 capital by 0.7% (or $13.4 million to $1.8 billion) QoQ, relative to the 2.1% decline in RWAs.

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

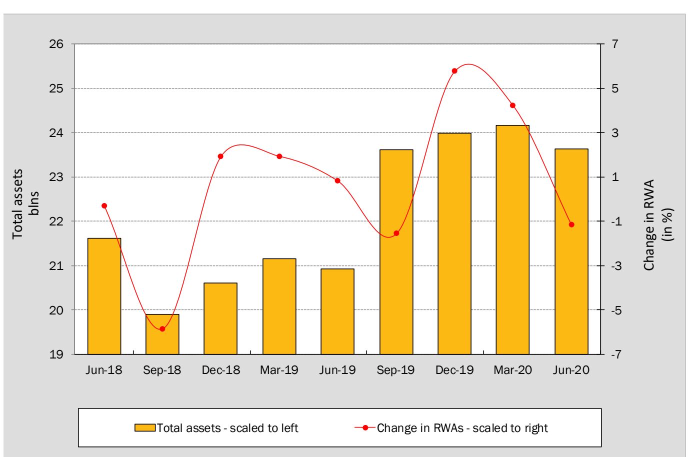
Chart I: RAR and Leverage Ratio



The leverage ratio experienced a modest increase over the prior quarter, up 0.3 percentage points to 7.4% and remains above the 5.0% BMA minimum requirement.

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



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

	2020		2019		
	Jun	Mar	Dec	Sep	Jun
	%	%	%	%	%
Loans and advances QoQ growth rate	1.0	1.2	6.6	1.8	-4.9
Residential mortgages to total loans	51.8	52.5	53.6	55.7	52.6
Loan impairments					
NPLs to total loans (net)	6.2	5.3	5.3	5.8	5.7
NPLs to regulatory capital	27.1	24.5	24.1	23.7	23.0
Net charge-offs to loans (annualised)	0.2	0.1	0.2	0.4	0.2
Loan provisioning					
Provisions to gross NPLs	29.9	34.8	28.7	28.2	29.6
Specific provisions to gross NPLs	27.5	32.3	27.9	27.2	28.3
Provisions to total loans (net)	2.4	2.6	2.1	2.2	2.3

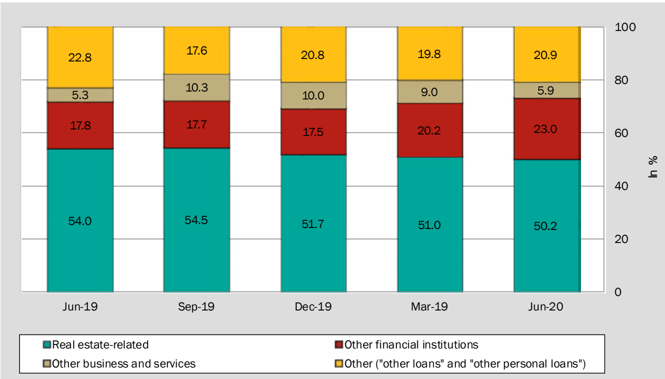
Net NPLs increased by 17.2% (or $80.3 million) to $548.3 million, which is 18.9% (or $87.3 million) higher compared to the same quarter of last year. Over the prior quarter, net loans were slightly higher, up 1.0% ($0.1 billion) to $8.9 billion and were 9.9% (or $0.8 billion) higher than the outstanding loans reported a year earlier. QoQ, the proportion of NPLs to total loans increased from 5.3% to 6.2%.

Total provisions amounted to $216.9 million in Q2-2020, down 3.0% (or $7.6 million) from $224.5 million in the prior quarter. Compared to a year earlier, total provisions were up 22.2% (or $42.9 million).

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

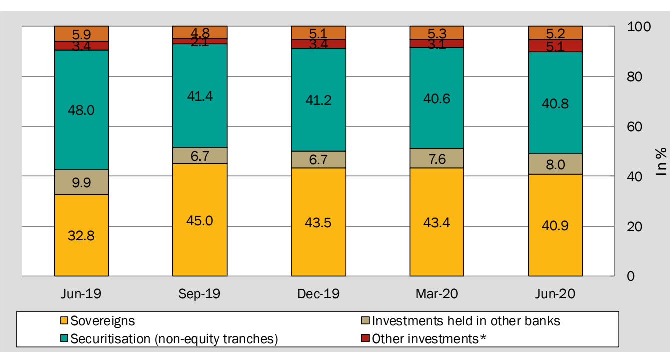


Loans to the real estate sector, representing 50.2% of outstanding loans for the quarter, and continues to be the dominant sector. Loans to "Other Financial Institutions" have shown modest growth over the last four quarters, increasing by 2.8 percentage points during the quarter to 23.0% and up from 17.8% over the same quarter a year ago. QoQ loans to "Other" sectors increased by 1.1 percentage points to 20.9%, which is also lower than the 22.8% reported in the same quarter a year ago. The share of loans to "Other business and services" experienced a decline over the quarter, falling from 9.0% to 5.9%.

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



Includes: Other investments and investments in subsidiaries and associated companies.

The investment structure compared to the last quarter, saw sovereign investments decline from 43.3% to 40.9% and "other investments" rise from 3.1% to 5.1% over the same period. YoY, sovereign investments have experienced the most growth, increasing from 32.8% to 40.9%; while over the same period securitised investments have fallen from 48.0% to 40.8%.

Liquidity Position

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

All banking institutions continue to meet the minimum Liquidity Coverage Ratio (LCR) and the Net-Stable Funding Ratio (NSFR) regulatory requirements which are set at 100%.

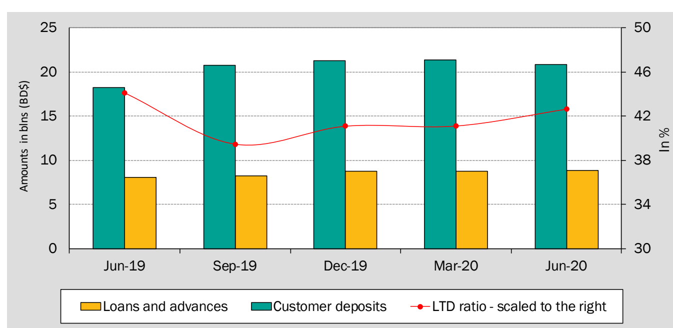
Table V: Liquidity Indicators

	2020		2019		
	Jun	Mar	Dec	Sep	Jun
	%	%	%	%	%
Cash and cash equivalents to total assets	14.5	14.8	16.2	15.5	14.9
Cash and cash equivalents to total deposit liabilities	16.5	16.7	18.3	17.6	17.1
LTD ratio	42.6	41.1	41.1	39.4	44.1
Loans-to-total assets	37.6	36.4	36.4	34.7	38.5
Funding gap*	-50.5	-52.2	-52.3	-53.3	-48.8

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

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

Chart V: Total Loans and Deposits



The percentage of loans to customer deposits was 42.6%, up from 41.1% in the prior quarter but was down from the 44.1% reported a year earlier. During the quarter, outstanding loans were up 1.1% (or $0.1 billion) to 48.9 billion while corresponding customer deposits fell by 2.8% (or $0.6 billion) to $20.8 billion over the same period.

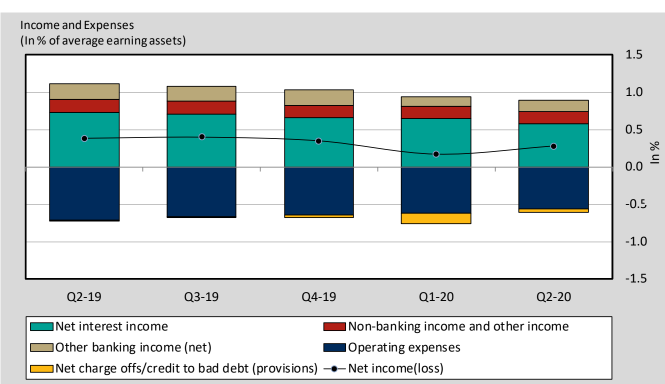
Table VI is a summary of profitability ratios for the sector for the last five quarters.

Table VI: Structure of Income Statement

	2020		2019		
	Jun	Mar	Dec	Sep	Jun
	%	%	%	%	%
Net interest income to total income	64.6	69.0	64.6	64.9	65.8
Annualised net interest income to (average) earning assets	2.3	2.7	2.8	2.9	3.0
Annualised interest income to (average) earning assets	2.6	3.2	3.4	3.5	3.5
Banking income to total income	81.8	82.5	84.7	84.1	84.7
Non-interest income to total income	35.4	31.0	35.4	35.1	32.2
Non-interest expenses to total income (efficiency ratio)	68.7	81.9	66.0	63.2	65.6
Personnel expenses to non-interest expenses	49.7	42.8	52.0	52.7	56.6
RoA	0.3	0.2	0.3	0.4	0.4
RoA (annualised)	1.1	0.6	1.3	1.5	1.5
RoE	2.8	1.7	3.7	3.8	3.6
RoE (annualised)	11.6	7.1	15.5	16.2	15.1

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



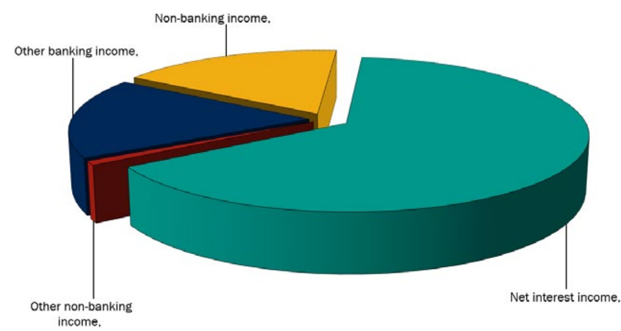
Banking Sector Profitability

The banking sector's after tax net income amounted to $63.8 million for Q2-2020, compared to an after tax net income of $76.5 million in the corresponding period of 2019; a decline of 16.6%. Net interest income was down 9.0% (or $13.3 million) to $133.5 million compared to a year ago, with non-interest income falling by 4.3% (or $3.3 million) to $73.1 million compared to the same quarter in 2019. YoY, total income was down 7.4% (or $16.6 million) to $206.6 million, while operating expenses and net charge offs for bad debts amounted to $142.0 million, down 3.0% (or $4.4 million) over the same period.

The efficiency ratio fell from 81.9% in the previous quarter to 68.7%, but was higher than the 65.6% metric reported a year ago. The decline in the ratio over the previous quarter was attributed to faster decreases in operating and non-operating expenses (down 17.6%, or $30.3 million) compared to the decline in total income (down 1.8% or $3.8 million) over the same period.

Chart VII shows the distribution of income sources for Q2-2020.

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

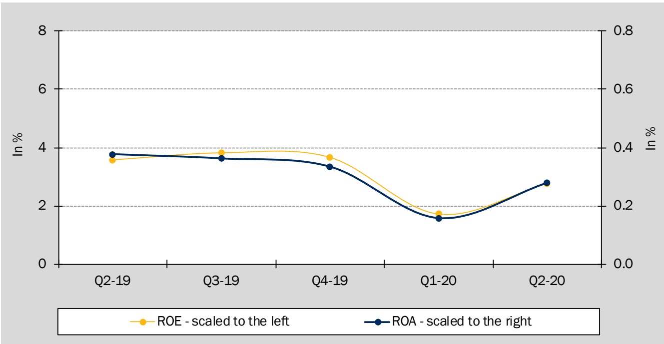


Chart IX: Quarterly RoE and RoA

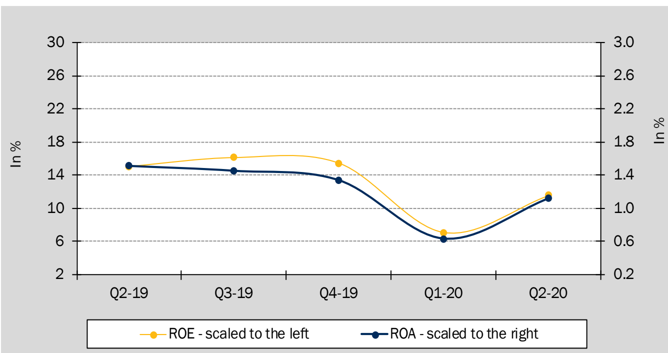
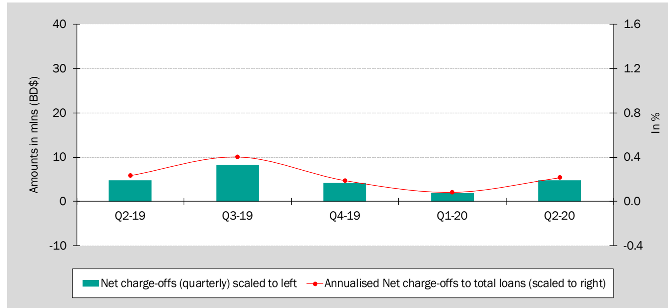


Chart X: Net Charge-off Amount and Proportion of Annualised Charge-offs to Loans



During the quarter, banks wrote-off $4.8 million of uncollectible loans (net of recoveries), up from $1.8 million reported in the prior quarter. The proportion of annualised net charge-offs to total loans continued to remain low at 0.2% for the quarter.

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

Table VII: FX Balance Sheet

(BD$ billions)	2020		2019			Change (In %)	
	Jun	Mar	Dec	Sep	Jun	QoQ	YoY
Cash	0.1	0.1	0.1	0.1	0.1	–	–
Deposits (interbank)	3.3	3.4	3.8	3.5	3.0	-2.9	10.0
Loans and advances	5.7	5.6	5.5	5.0	4.8	1.8	18.8
Investments	10.6	11.1	10.6	11.1	9.1	-4.5	16.5
Other assets	0.4	0.3	0.3	0.3	0.3	33.3	**33.3**
Total assets	20.1	20.5	20.3	20.0	17.3	-2.0	16.2
Deposit liabilities	17.2	17.9	17.9	17.3	14.8	**-3.9**	16.2

FX assets experienced a decrease during the quarter, down 2.0% (or $0.4 billion) when compared to last quarter, and 16.2% (or $2.8 billion) higher relative to the same quarter of last year.

FX customer deposit liabilities were down 3.9% (or $0.7 billion) to $17.2 billion for the quarter, though were up 16.2% (or $2.4 billion) compared to the same quarter of last year. YoY growth was largely attributed to the increase in FX demand deposits which were up 28.5% (or $2.1 billion) to $9.4 billion and was followed by FX saving deposits (up 13.6% or $0.6 billion) to $5.0 billion. Conversely FX time deposits fell by 9.8% (or $0.3 billion) to $2.8 billion.

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

Table VIII: FX Positions

	2020		2019		
	Jun	Mar	Dec	Sep	Jun
	%	%	%	%	%
FX-denominated assets to total assets	84.7	84.9	84.8	84.6	82.5
FX-denominated loans to total loans	64.1	64.0	63.3	60.8	59.7
FX-denominated deposits to total deposits	82.8	83.6	83.9	83.5	81.3
Changes in FX assets	-2.5	0.8	1.8	15.7	-1.1
Changes in FX loans and advances	1.3	1.7	11.0	3.6	-7.5
Changes in FX customer deposits	-3.6	0.1	2.9	16.8	-2.1

Table IX: Net FX Positions

(BD$ billions)	2020		2019		
	Jun	Mar	Dec	Sep	Jun
Total FX assets	20.0	20.5	20.3	19.9	17.2
Less: other assets	0.4	0.3	0.3	0.2	0.2
Less: FX loans to residents	1.5	1.4	1.5	1.4	1.4
Net FX assets	18.1	18.8	18.5	18.3	15.6
FX liabilities*	17.5	18.2	18.2	17.8	15.1
Add: BD$ deposits of non-residents	0.1	0.1	0.1	0.1	0.1
Net FX liabilities	17.6	18.3	18.3	17.9	15.2
Net FX position	0.5	0.5	0.2	0.4	0.4

**FX liabilities include FX customer deposits and other FX liabilities*

YoY, the net FX position was 25.0% (or $0.1 billion) higher than the same quarter of 2019. The net FX asset position experienced a 16.0% (or $2.5 billion) increase from a year earlier largely due to the 16.3% (or $2.8 billion) increase in total FX assets. On the liabilities side, net FX liabilities increased by 15.8% (or $2.4 billion) over the same quarter last year.

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

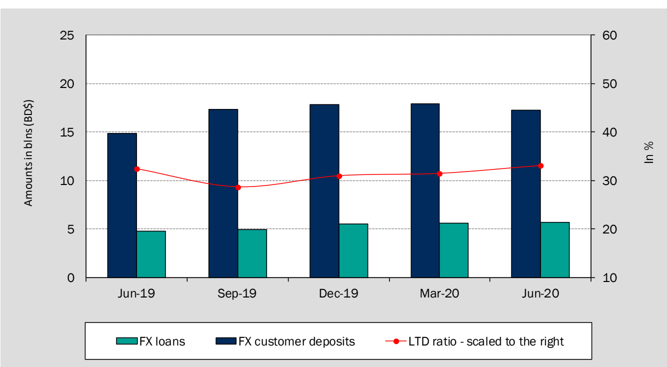
Table X: Liquidity Indicators (FX Positions)

	2020		2019		
	Jun	Mar	Dec	Sep	Jun
	%	%	%	%	%
Cash and cash equivalents to total assets	16.8	17.1	18.8	18.0	17.7
Cash and cash equivalents to total deposit liabilities	19.5	19.6	21.4	20.7	20.6
LTD ratio	33.0	31.4	31.0	28.7	32.4
Loans to total assets	28.5	27.4	27.2	24.9	27.8
Funding gap*	-57.7	-59.7	-60.6	-61.9	-58.1

** A negative funding gap indicates a deposit surplus.*

Chart XI: FX Loans and Customer Deposits

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.



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)	2020		2019			Change (In %)	
	Jun	Mar	Dec	Sep	Jun	QoQ	YoY
Loans and advances	3.3	3.3	3.3	3.4	3.4	–	2.9
Total assets	4.1	4.1	4.1	4.1	4.2	–	**-2.4**
Deposit liabilities	3.6	3.5	3.4	3.4	3.4	2.9	2.9

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.

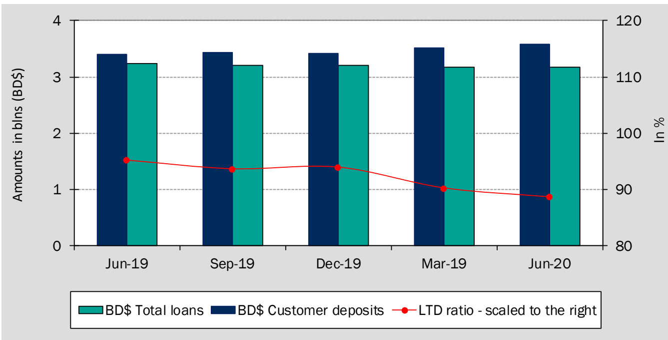
Table XII: Liquidity Indicators (BD$ Positions)

	2020		2019		
	Jun	Mar	Dec	Sep	Jun
	%	%	%	%	%
Cash and cash equivalents to total assets	1.6	1.9	1.3	1.3	1.3
Cash and cash equivalents to total deposit liabilities	1.8	2.2	1.6	1.6	1.6
LTD ratio	91.6	93.5	97.0	97.4	99.7
Loans to total assets	80.8	80.9	81.7	82.5	82.0
Funding gap to total assets*	-7.4	-5.7	-2.5	-2.2	-0.2

**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



QoQ domestic lending within the local economy was muted, remaining at $3.3 billion, while local customer deposits increased by 2.9% (or $0.1 billion) to $3.6 billion over the same period, causing the domestic LTD ratio to decline to 91.6%.

The BD$ LTD ratio has shown a steady decline over the past year, with the metric falling from 93.5% to 91.6%. YoY, customer deposits have shown steady growth rising from $3.4 billion to $3.6 billion, while domestic loans have fallen from $3.4 billion to $3.3 billion over the same period.

Table XIII: BD$ Deposit Profile (Unconsolidated)

(BD$ millions)	2020		2019		
	Jun	Mar	Dec	Sep	Jun
Deposit liabilities	3,601	3,523	3,427	3,444	3,420
Less: loans, advances and mortgages	3,300	3,292	3,323	3,354	3,410
Surplus/(deficit) position	**301**	**231**	**104**	**90**	**10**
Percentage of deposit liabilities loaned	91.6	93.4	96.9	97.4	99.7

MONETARY AGGREGATES

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

Table XIV: Bermuda Money Supply (Unconsolidated)

(BD$ millions)	2020		2019		
	Jun	Mar	Dec	Sep	Jun
Notes and coins in circulation	167	157	152	146	145
Deposit liabilities	3,601	3,523	3,427	3,444	3,420
Banks and deposit companies	**3,768**	**3,680**	**3,579**	**3,590**	**3,565**
Less: cash at banks and deposit companies	50	53	43	43	42
BD$ money supply	**3,718**	**3,627**	**3,536**	**3,547**	**3,523**
% Growth on previous period	2.5	2.6	-0.3	0.7	1.1
% Growth YoY	5.5	4.0	-0.4	-0.9	-1.4

The table includes the supply of BD$ only for this section.

The BD$ money supply grew over the last quarter by 2.5% to $3.7 billion, mainly due to the 2.9% (or $0.1 billion) increase in local customer deposits. Notes and coins in circulation were up 6.4% (or $10.0 million) over the prior quarter and 15.2% (or $22.0 million) compared to a year ago, increasing the available funding within the local economy.

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 for International Settlements (BIS)

In June, the BIS released its quarterly review on international banking and market developments.

https://www.bis.org/publ/qtrpdf/r_qt2006.pdf

In June, the Basel Committee on Banking Supervision (BCBS) released a technical amendment on the capital treatment of securitisations of non-performing loans.

https://www.bis.org/bcbs/publ/d504.pdf

In April, the BIS published measures to alleviate the impact of COVID-10 on gloabl banking systems.

https://www.bis.org/bcbs/publ/d498.pdf

In April, the BIS issued a paper on expected loss provisions under a global pandemic. The paper takes stock of the measures introduced in several jurisdiction to influence how expected credit loss methodologies can be applied under the current COVID-19 pandemic.

https://www.bis.org/fsi/fsibriefs3.pdf

In April, BCBS released its Basel III monitoring results as at end-June 2019.

https://www.bis.org/bcbs/publ/d500.pdf

In April, the BIS published its global liquidity indicators as at end-December 2019.

https://www.bis.org/statistics/gli2004.pdf

European Banking Authority (EBA)

In May, the EBA released a preliminary assessment of the impact of COVID-19 on the EU banking sector.

https://eba.europa.eu/sites/default/documents/files/document_library/Risk%20Analysis%20and%20Data/Risk%20Assessment%20Reports/2020/Thematic%20notes/883986/Thematic%20note%20-%20Preliminary%20analysis%20of%20impact%20of%20COVID-19%20on%20EU%20banks%20–%20May%202020.pdf

In May, the EBA released a report on the interlinkages between recovery and resolution planning. The report includes; analysis of recovery and resolution and analyses the potential impact of recovery options on an institution's resolvability.

https://eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2020/883941/Report%20on%20Interlinkages%20between%20rec%20and%20res%20planning.pdf

Prudential Regulatory Authority (PRA)

In May, the PRA published its monetary policy report and interim financial stability report, respectively.

https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2020/may/monetary-policy-report-may-2020

https://www.bankofengland.co.uk/-/media/boe/files/financial-stability-report/2020/may-2020.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 Additional Tier 1 (AT1) capital) 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 CET1 capital plus 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).*

BMA House • 43 Victoria Street • Hamilton HM 12 Bermuda
P.O. Box HM 2447 • Hamilton HM JX Bermuda
tel: (441) 295 5278 • fax: (441) 292 7471
email: enquiries@bma.bm • website: www.bma.bm