BMA
BERMUDA MONETARY AUTHORITY

Quarterly Banking Digest

Q3-2020

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, the full impact of which is still being assessed, and may be felt for some time. Containment measures included 'shelter-in-place' restrictions and leisure/business travel restrictions, which impacted the incomes of many corporate and retail borrowers. Pressure on bank 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 RWAs (also known as the Risk Asset Ratio (RAR)) improved slightly by 0.2 percentage points to reach 22.8% this quarter
- Total assets increased by 2.1% (or $0.5 billion) to $24.1 billion from the prior quarter with most of the growth observed in investments (up 9.4%)
- Non-Performing Loans (NPL) as a percentage of total loans remained stable at 6.3% for the quarter and the ratio of provisions to NPLs increased from 29.9% to 30.2% during the quarter

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	
	Sep	Jun	Mar	Dec	Sep
Capital position	%	%	%	%	%
Basel III – RAR	22.8	22.6	21.1	21.5	23.0
Basel III – CET1 ratio (minimum 7.0%)	20.4	20.1	19.7	20.3	21.7
Basel III – Leverage ratio (BMA minimum 5.0%)	7.3	7.4	7.1	7.4	7.8
Liquidity					
Cash and cash equivalents to total deposit liabilities	15.7	16.5	16.7	18.3	17.6
Loan-To-Deposit (LTD) ratio	40.0	42.6	41.1	41.1	39.4
Funding gap **	-52.9	-50.5	-52.2	-52.3	-53.3
Profitability					
Net interest income to interest income	86.0	91.1	85.5	82.4	82.8
Return on Assets (RoA)	0.3	0.3	0.2	0.3	0.4
RoA (annualised)	1.2	1.1	0.6	1.3	1.5
Return on Equity (RoE)	3.0	2.8	1.7	3.7	3.8
RoE (annualised)	12.7	11.6	7.1	15.5	16.2
Loan book					
Provisions to NPLs	30.2	29.9*	34.8	28.7	28.2
NPLs to total loans	6.3	6.2	5.3	5.3	5.8
NPLs to regulatory capital	26.6	27.1	24.5	24.1	23.7
Other					
Change in Bermuda Dollar (BD$) money supply Quarter-on-Quarter (QoQ)	3.2	2.5	2.6	-0.3	0.7
Change in assets (QoQ)	2.1	-2.5	0.7	1.6	12.9
Change in RWAs (QoQ)	-1.2	-1.2	0.5	3.7	5.7
Change in customer deposits (QoQ)	1.9	-2.7	0.6	2.4	13.8

** Revised*
***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	
	Sep	Jun	Mar	Dec	Sep	QoQ	YoY
Assets						%	%
Cash	0.1	0.1	0.1	0.1	0.1	–	–
Deposits (interbank)	3.2	3.3	3.5	3.8	3.6	-3.0	-11.1
Loans and advances (net)	8.5	8.9	8.8	8.7	8.2	-4.5	3.7
Investments	11.6	10.6	11.	10.7	11.1	9.4	4.5
Other assets	0.7	0.7	0.7	0.7	0.7	–	–
Total assets	**24.1**	**23.6**	**24.2**	**24.0**	**23.6**	**2.1**	**2.1**
Liabilities							
Saving deposits	7.4	6.8	6.4	5.8	5.7	8.8	29.8
Demand deposits	10.2	10.5	10.7	10.8	10.5	-2.9	-2.9
Time deposits	3.6	3.5	4.3	4.6	4.6	2.9	-21.7
Total deposits	**21.2**	**20.8**	**21.4**	**21.3**	**20.8**	**1.9**	**1.9**
Other liabilities	0.6	0.5	0.6	0.6	0.7	20.0	-14.3
Total liabilities	**21.8**	**21.3**	**22.0**	**21.9**	**21.4**	2.3	1.9
Equity and subordinated debt	2.3	2.3	2.2	2.1	2.2	–	4.5
Total liabilities and equity	**24.1**	**23.6**	**24.2**	**24.0**	**23.6**	**2.1**	**2.1**

Year-on-Year (YoY) — percentage change from prior year
QoQ — percentage change from prior year

YoY, total assets held by banks expanded by 2.1% (or $0.5 billion) compared to the same quarter of last year. This growth is reflected in the increases in investments up 4.5% (or $0.5 billion) and loans and advances up 3.7% (or $0.3 billion), which is partially offset by the decrease in interbank deposits which fell by 11.1% (or $0.4 billion). Cash and other assets remained unchanged over the same period.

QoQ, total assets increased by 2.1%. This is due to the net effect of growth in investments up 9.4% (or $1.0 billion), and the decreases in interbank deposits and loans and advances, which fell by 3.0% (or $0.1 billion) and 4.5% (or $0.4 billion) over the same period respectively.

YoY, total liabilities were up 1.9% (or $0.4 billion) to $21.8 billion. Customer deposits grew by 1.9% (or $0.4 billion) over the past year with most of the growth seen in saving deposits, which increased by 29.8% (or $1.7 billion). Conversely, demand deposits were down 2.9% (or $0.3 billion) and time deposits were down 21.7% (or $1.0 billion) over the same period. Demand deposits continue to dominate and accounted for 47.9% of all customer deposits held by the banking sector, followed by savings deposits at 34.9%, and time deposits at 17.2%.

QoQ, total liabilities were up 2.3% (or $0.5 billion) driven by the higher inflow of customer deposits (up 1.9% or $0.4 billion). The overall growth in customer deposits was largely due to the increase in savings deposits (up 8.8% or $0.6 billion) followed by time deposits up 2.9% (or $0.1 billion). Conversely, demand deposits fell by 2.9% (or $0.3 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

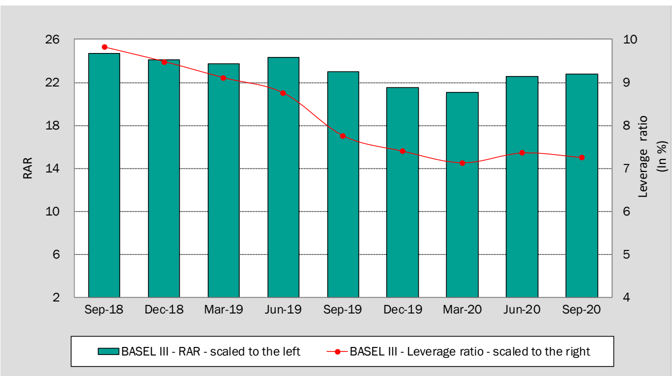
	2020			2019	
	Sep	Jun	Mar	Dec	Sep
Asset allocation	%	%	%	%	%
Cash	0.4	0.4	0.4	0.4	0.4
Investments	48.1	44.9	45.9	44.6	47.1
Loans and advances	35.3	37.7	36.4	36.3	34.7
Deposits (interbank)	13.3	14.0	14.4	15.8	15.0
Other assets	2.9	3.0	2.9	2.9	2.8
Deposits allocation					
Savings	34.9	32.7	29.7	27.4	27.3
Demand	48.1	50.5	50.0	50.9	50.6
Time	17.0	16.8	20.3	21.7	22.1
Capital position					
Basel III – RAR	22.8	22.6	21.1	21.5	23.0
Basel III – Leverage ratio	7.3	7.4	7.1	7.4	7.8

Capital Adequacy

The banking sector's capital position as measured by the RAR experienced modest growth during the quarter, rising to 22.8%. Regulatory capital within the banking sector was static at $2.0 billion for the quarter, while the corresponding RWAs declined by 1.2% (or $0.1 billion) to $8.8 billion. The CET1 ratio grew by 0.3 percentage points to 20.4% for the quarter, mainly driven by the 1.2% decline in RWAs, whereas the change in CET1 capital was insignificant.

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

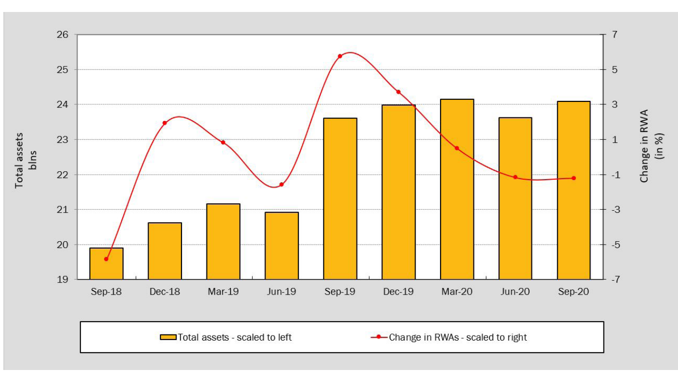
Chart I: RAR and Leverage Ratio



The leverage ratio was slightly down falling to 7.3% for the quarter, but remains above the 5.0% Bermuda Monetary Authority (Authority or 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	
	Sep	Jun	Mar	Dec	Sep
	%	%	%	%	%
Loans and advances QoQ growth rate	-4.5	1.0	1.2	6.6	1.8
Residential mortgages to total loans	55.3	51.8	52.5	53.6	55.7
Loan impairments					
NPLs to total loans (net)	6.3	6.2	5.3	5.3	5.8
NPLs to regulatory capital	26.6	27.1	24.5	24.1	23.7
Net charge-offs to loans (annualised)	0.2	0.2	0.1	0.2	0.4
Loan provisioning					
Provisions to gross NPLs	30.2	29.9	34.8	28.7	28.2
Specific provisions to gross NPLs	29.1	27.5	32.3	27.9	27.2
Provisions to total loans (net)	2.5	2.4	2.6	2.1	2.2

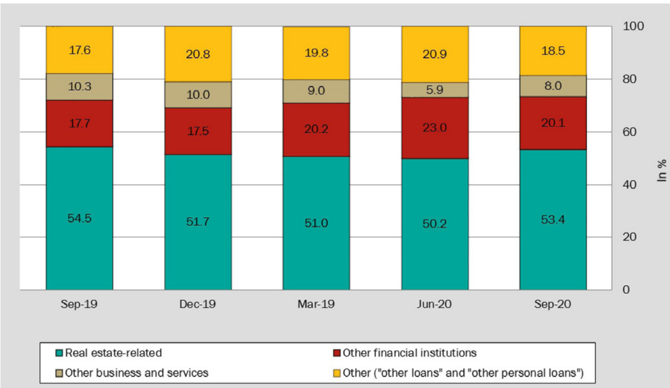
Net NPLs declined by 2.1% (or $11.3 million) to $536.9 million QoQ, while the YoY movement shows an increase of 13.0% (or $61.6 million). Over the prior quarter, net loans were down 4.5% (or $0.4 billion) to $8.5 billion and were 3.7% (or $0.3 billion) higher than the outstanding net loans reported a year earlier. QoQ, the proportion of NPLs to total loans was stable at 6.3%, yet was higher than the 5.8% figure reported a year earlier.

Total provisions amounted to $217.5 million as of the end of the quarter, representing a 0.3% increase over the prior quarter balance of $216.9 million. Compared to a year earlier, total provisions reported were up 16.0% (or $29.9 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

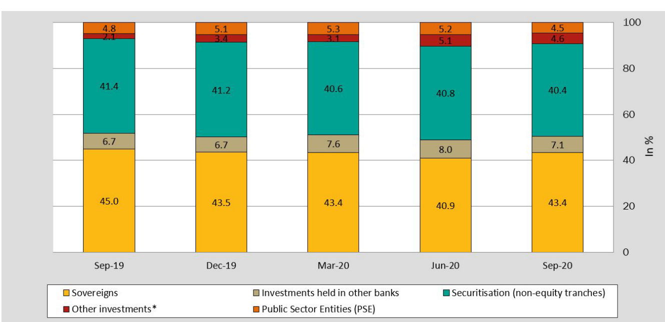


The distribution of loans to the real estate sector grew by 3.2 percentage points to 53.4% of outstanding loans for the quarter. The share of loans to "Other businesses and services" grew during the quarter, increasing from 5.9% to 8.0%. Other sectors impacted during the quarter were loans to "Other financial institutions" down 2.9 percentage points to 20.1% and loans to "Other" sectors down 2.4 percentage points to 18.5%.

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 Public Sector Entities (PSE), securitised (non-equity tranche) investments, securitised (equity tranche) investments, investments in the capital of other banks, and investments in subsidiaries and associated companies.*

The investment structure remains conservative with the majority of securities composed of low-risk, highly rated investments. For the quarter, sovereign investments increased from 40.9% to 43.4% while the remaining sectors experienced some decline in their share.

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 LCR and the NSFR regulatory requirements, which are set at 100.0%

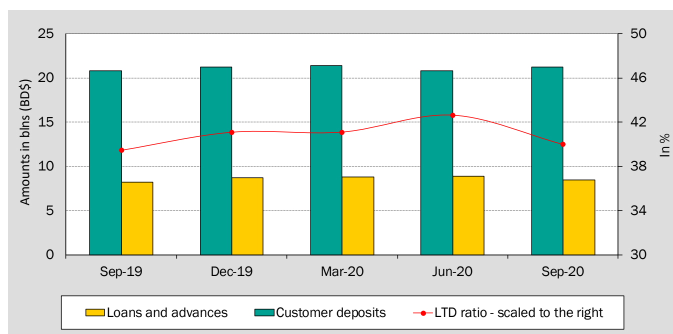
Table V: Liquidity Indicators

	2020			2019	
	Sep	Jun	Mar	Dec	Sep
	%	%	%	%	%
Cash and cash equivalents to total assets	13.8	14.5	14.8	16.2	15.5
Cash and cash equivalents to total deposit liabilities	15.7	16.5	16.7	18.3	17.6
LTD ratio	40.0	42.6	41.1	41.1	39.4
Loans-to-total assets	35.2	37.6	36.4	36.4	34.7
Funding gap*	-52.9	-50.5	-52.2	-52.3	-53.3

**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 Foreign Currency (FX)) over the last five quarters.

Chart V: Total Loans and Deposits



The percentage of loans to total customer deposits was 40.0%, down from 42.6% in the prior quarter and slightly higher than the 39.4% reported a year earlier. During the quarter, outstanding loans were down 4.5% (or $0.4 billion) to $8.5 billion while corresponding customer deposits expanded by 1.9% (or $0.4 billion) to $21.2 billion over the same period.

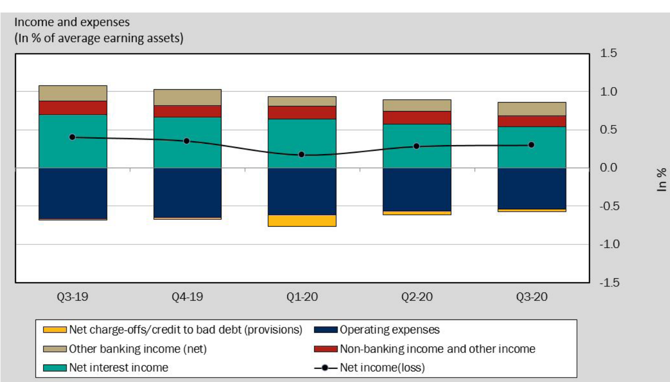
Table VI is a summary of profitability ratios for the sector for the last five quarters.

Table VI: Structure of Income Statement

	2020			2019	
	Sep	Jun	Mar	Dec	Sep
	%	%	%	%	%
Net interest income to total income	62.7	64.6	69.0	64.6	64.9
Annualised net interest income to (average) earning assets	2.2	2.3	2.7	2.8	2.9
Annualised interest income to (average) earning assets	2.5	2.6	3.2	3.4	3.5
Banking income to total income	83.1	81.8	82.5	84.7	84.1
Non-interest income to total income	37.3	35.4	31.0	35.4	35.1
Non-interest expenses to total income (efficiency ratio)	65.9	68.7	81.9	66.0	63.2
Personnel expenses to non-interest expenses	57.2	49.7	42.8	52.0	52.7
RoA	0.3	0.3	0.2	0.3	0.4
RoA (annualised)	1.2	1.1	0.6	1.3	1.5
RoE	3.0	2.8	1.7	3.7	3.8
RoE (annualised)	12.6	11.6	7.1	15.5	16.2

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



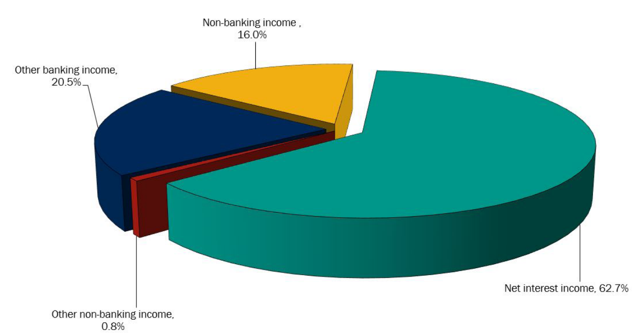
Banking Sector Profitability

The banking sector's after-tax net income amounted to $68.0 million for Q3-2020, a decline of 18.1% as compared to $83.1 million in the corresponding period of 2019. Net interest income was down 14.5% (or $21.3 million) to $125.9 million compared to a year ago, with non-interest income falling by 5.6% (or $4.5 million) to $75.0 million compared to the same quarter in 2019. YoY, total income was down 11.4% (or $25.7 million) to $200.9 million, while operating expenses and net charge-offs for bad debts amounted to $132.3 million, down 7.7% (or $11.0 million) over the same period.

The efficiency ratio improved during the quarter, falling from 68.7% to 65.9%, but was higher than the 63.2% 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 6.8%, or $9.7 million) compared to the decline in total income (down 2.8% or $5.7 million) over the same period.

Chart VII shows the distribution of income sources for Q3-2020.

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

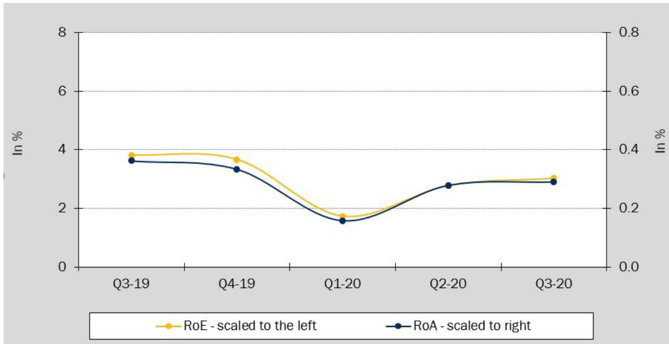


Chart IX: Quarterly RoE and RoA

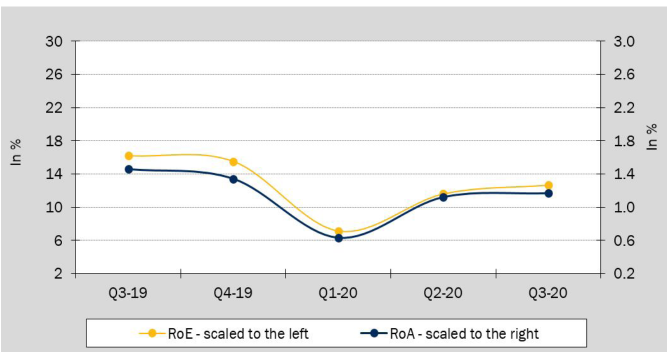
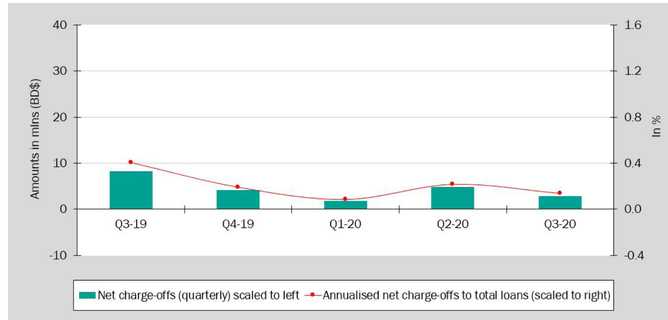


Chart X: Net Charge-off Amount and Proportion of Annualised Charge-offs to Loans



For Q3-2020, the amount of uncollectible loans (net of recoveries) written off was $2.9 million, down from the $4.8 million reported in the prior quarter. The proportion of annualised net charge-offs to total loans continued to remain low at 0.1% 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 %)	
	Sep	Jun	Mar	Dec	Sep	QoQ	YoY
Cash	0.1	0.1	0.1	0.1	0.1	–	–
Deposits (interbank)	3.2	3.3	3.4	3.8	3.5	-3.0	-8.6
Loans and advances	5.4	5.7	5.6	5.5	5.0	-5.3	8.0
Investments	11.6	10.6	11.1	10.6	11.1	9.4	4.5
Other assets	0.3	0.4	0.3	0.3	0.3	-25.0	–
Total assets	20.6	20.1	20.5	20.3	20.0	2.5	3.0
Deposit liabilities	17.5	17.2	17.9	17.9	17.3	**1.7**	1.2

FX assets increased during the quarter, up 2.5% (or $0.5 billion) and 3.0% (or $0.6 billion) higher relative to the same quarter of last year.

FX customer deposit liabilities grew 1.7% (or $0.3 billion) to $17.5 billion for the quarter, and 1.2% (or $0.2 billion) compared to the same quarter of last year. YoY growth was primarily attributed to the increase in FX savings deposits, which were up 36.6% (or $1.5 billion) to $5.6 billion. Conversely FX time deposits fell by 21.6% (or $0.8 billion) to $2.9 billion, as well as FX demand deposits, which fell by 5.3% (or $0.5 billion) to $9.0 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	
	Sep	Jun	Mar	Dec	Sep
	%	%	%	%	%
FX-denominated assets to total assets	85.4	84.7	84.9	84.8	84.6
FX-denominated loans to total loans	63.7	64.1	64.0	63.3	60.8
FX-denominated deposits to total deposits	82.5	82.8	83.6	83.9	83.5
Changes in FX assets	2.8	-2.5	0.8	1.8	15.7
Changes in FX loans and advances	-5.1	1.3	1.7	11.0	3.6
Changes in FX customer deposits	1.7	-3.6	0.1	2.9	16.8

Table IX: Net FX Positions

(BD$ billions)	2020			2019	
	Sep	Jun	Mar	Dec	Sep
Total FX assets	20.6	20.0	20.5	20.3	19.9
Less: other assets	0.3	0.4	0.3	0.3	0.2
Less: FX loans to residents	1.3	1.5	1.4	1.5	1.4
Net FX assets	19.0	18.1	18.8	18.5	18.3
FX liabilities*	17.8	17.5	18.2	18.2	17.8
Add: BD$ deposits of non-residents	0.1	0.1	0.1	0.1	0.1
Net FX liabilities	17.9	17.6	18.3	18.3	17.9
Net FX position	1.1	0.5	0.5	0.2	0.4

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

For the quarter, the net FX position was 120% (or $0.6 billion) higher than the previous quarter. The net FX asset position experienced a 5.0% (or $0.9 billion) increase over the quarter primarily due to the 3.0% (or $0.6 billion) increase in total FX assets. On the liabilities side, net FX liabilities increased by 1.7% (or $0.3 billion) over the previous quarter.

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

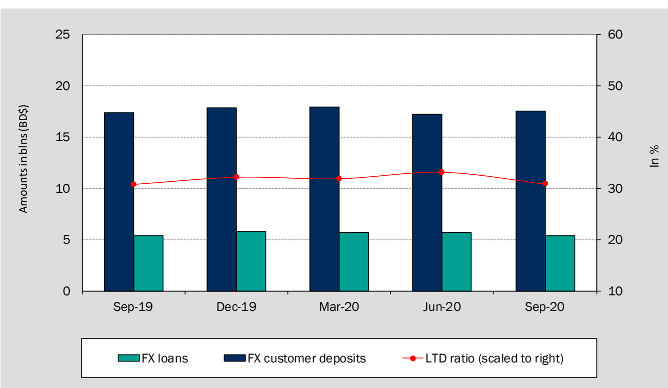
Table X: Liquidity Indicators (FX Positions)

	2020			2019	
	Sep	Jun	Mar	Dec	Sep
	%	%	%	%	%
Cash and cash equivalents to total assets	15.9	16.8	17.1	18.8	18.0
Cash and cash equivalents to total deposit liabilities	18.6	19.5	19.6	21.4	20.7
LTD ratio	30.8	33.0	31.4	31.0	28.7
Loans to total assets	26.3	28.5	27.4	27.2	24.9
Funding gap*	-58.9	-57.7	-59.7	-60.6	-61.9

** 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 %)	
	Sep	Jun	Mar	Dec	Sep	QoQ	YoY
Loans and advances	3.2	3.3	3.3	3.3	3.4	**-3.0**	-5.9
Total assets	4.0	4.1	4.1	4.1	4.1	**-2.4**	**-2.4**
Deposit liabilities	3.7	3.6	3.5	3.4	3.4	2.8	-8.8

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.

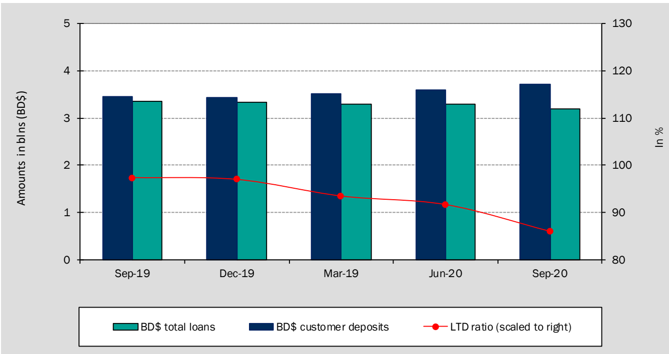
Table XII: Liquidity Indicators (BD$ Positions)

	2020			2019	
	Sep	Jun	Mar	Dec	Sep
	%	%	%	%	%
Cash and cash equivalents to total assets	1.5	1.6	1.9	1.3	1.3
Cash and cash equivalents to total deposit liabilities	1.6	1.8	2.2	1.6	1.6
LTD ratio	86.0	91.6	93.5	97.0	97.4
Loans to total assets	80.2	80.8	80.9	81.7	82.5
Funding gap to total assets*	-13.1	-7.4	-5.7	-2.5	-2.2

**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 continues to decline at a steady rate, falling by 3.0% to $3.2 billion over the quarter, while local customer deposits increased by 2.8% (or $0.1 billion) to $3.7 billion over the same period. With the increase in customer deposits and lower lending, the overall BD$ surplus position increased by 73.4% from $0.3 billion to $0.5 billion*.

**Calculated as the difference between loans and advances and deposit liabilities (Table XI)*

MONETARY AGGREGATES

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

Table XIII: Bermuda Money Supply (Unconsolidated)

(BD$ millions)	2020			2019	
	Sep	Jun	Mar	Dec	Sep
Notes and coins in circulation	164	167	157	152	146
Deposit liabilities	3,717	3,601	3,523	3,427	3,444
Banks and deposit companies	**3,881**	**3,768**	**3,680**	**3,579**	**3,590**
Less: cash at banks and deposit companies	45	50	53	43	43
BD$ money supply	**3,836**	**3,718**	**3,627**	**3,536**	**3,547**
% growth on previous period	3.2	2.5	2.6	-0.3	0.7
% growth YoY	8.2	5.5	4.0	-0.4	-0.9

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

The stock of money supply available within the local economy continues to grow at a steady rate. The BD$ money supply grew over the last quarter by 3.2% to $3.8 billion, largely driven by the 3.2% (or $0.1 billion) increase in local customer deposits. YoY, customer deposits were up 7.9% (or $0.2 billion) over the same quarter last year. Notes and coins in circulation were down 1.8% (or $3.0 million) over the prior quarter yet were 12.3% (or $22.0 million) higher compared to a year ago.

SELECTED INTERNATIONAL BANKING DEVELOPMENTS

This section lists important publications issued during the quarter being discussed by international organisations and national supervisory authorities. The listing does not reflect endorsement by the BMA.

Bank for International Settlements (BIS)

In September, the BIS released a staff paper on Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) supervision of correspondent banking.

https://www.bis.org/fsi/publ/insights28.pdf

In September, the BIS published a working paper on FinTech and big tech credit. The paper gathers available data on FinTech and big tech credit volumes for a large number of countries around the world.

https://www.bis.org/publ/work887.pdf

European Banking Authority (EBA)

In September, the EBA released a response to the EU Commission's call for advice on how to strengthen the EU legal framework on AML/CFT.

https://eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2020/931093/EBA%20Report%20on%20the%20future%20of%20AML%20CFT%20framework%20in%20the%20EU.pdf

Prudential Regulatory Authority (PRA)

In September, the PRA published its updated supervisory statement on its approach to supervising liquidity and funding risks.

https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2020/ss2415-update-sep-2020.pdf?la=en&hash=4E72E06DAAF9FDA47987516A0B3141BD6E4DFEB0

GLOSSARY

Annualised is expressing (a quantity such as an interest rate, profit, expenditure, etc.) as if it applied or were measured over a year.

Basel Committee on Banking Supervision (BCBS) is the primary global standard setter for the prudential regulation of banks and provides a forum for regular cooperation on banking supervisory matters.

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-SIB) 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.

Efficiency ratio measures the ability of banks to convert resources into revenue. The metric is expressed as a percentage of expenses to revenue.

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 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 (net of recoveries) and transfers made to a loan loss provision liability account.

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 (NPL) 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.

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.

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

RoE (Annualised) 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.

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

Risk-Weighted Assets (RWA) 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).*

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