BMA
BERMUDA MONETARY AUTHORITY

Quarterly Banking Digest

Q4-2020

COVID–19 RESPONSE/BANK STRESS TESTING

- The COVID-19 pandemic has raised policy and regulatory challenges for many financial services supervisors and regulators globally. At the onset of the pandemic, the Bermuda Monetary Authority (Authority or BMA) took measured actions aimed at ensuring the stability of Bermuda's banking system. Paramount to the success of the measures, was the flexibility embedded in the BMA's regulatory framework, the ability to monitor emerging risks and the capability to take decisive actions, if necessary. The BMA implemented additional supervisory reporting and disclosure requirements for monitoring the industry's response to the COVID-19 crisis as well as the impact on their balance sheets, financial performance and ability to service customers. Monitoring of the banking industry's liquidity, solvency and ability to conduct business were key priorities for the Authority
- Due to the significance of deposits and foreign exchange transactions, the Authority instituted an enhanced monitoring framework to review weekly deposits, balances and foreign exchange transactions. This complemented the regular review of significant movements in balance sheet and income statement accounts. Key trend indicators were analysed throughout 2020 and have continued on a monthly basis in 2021
- To gauge the financial resilience of Bermuda's banking sector, the BMA requested all banks stress test their balance sheet and income statement against the expected low interest rate environment and reduced economic activity due to shelter-in-place guidelines and travel restrictions affecting the tourist season. Banks were also required to submit revised financial forecasts factoring in potential impacts of the pandemic. The BMA focused on monitoring the impact on net interest revenue, loan loss provisions and the local credit portfolio, operating expenses and other comprehensive income
- Conscious of the difficulties posed by COVID-19 on Bermuda's banking industry, the Authority opted to utilise the extension of the implementation deadlines of the revised Basel III standards for credit, market and operational risk
- In response to high levels of unemployment caused by the pandemic, the banks granted loan payment deferrals to customers requiring forbearance for two consecutive, three-month periods. The BMA received regular updates regarding the status of loan performance after the deferral periods expired
- The BMA reviewed the measures implemented by banks with regard to operational resilience in the context of COVID-19. The review focussed on the robustness of governance, communication and reporting measures, and how they contributed to minimising operational risk events during the pandemic. Banks were given feedback to allow them to have a clear view of the Authority's expectations when dealing with operational risk events stemming from the COVID-19 pandemic

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

PERFORMANCE HIGHLIGHTS

- Total assets grew by 6.2% (or $1.5 billion) to $25.6 billion from the prior quarter with most of the growth reflected in interbank deposits (up 21.9%) and investments (up 6.0%)

- The ratio of regulatory capital to RWA (also known as the Risk Asset Ratio (RAR)) fell by 0.8 percentage points to 22.0%. The leverage ratio dropped by 0.5 percentage points to 6.8%

- Non-Performing Loans (NPL) as a percentage of total loans remained stable at 6.2% and the ratio of provisions to NPLs fell marginally Quarter-on-Quarter (QoQ) from 30.2% to 28.9% mainly driven by written-off uncollectible loans

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
	Dec	Sep	Jun	Mar	Dec
Capital position	%	%	%	%	%
Basel III – RAR	22.0	22.8	22.6	21.1	21.5
Basel III – CET1 ratio (minimum 7.0%)	19.8	20.4	20.1	19.7	20.3
Basel III – Leverage ratio (BMA minimum 5.0%)	6.8	7.3	7.4	7.1	7.4
Liquidity					
Cash and cash equivalents to total deposit liabilities	17.5	15.7	16.5	16.7	18.3
Loan-To-Deposit (LTD) ratio	37.8	40.0	42.6	41.1	41.1
Funding gap *	-55.6	-52.9	-50.5	-52.2	-52.3
Profitability					
Net interest income to interest income	86.7	86.0	91.1	85.5	82.4
Return on Assets (RoA)	0.2	0.3	0.3	0.2	0.3
RoA (annualised)	1.0	1.2	1.1	0.6	1.3
Return on Equity (RoE)	2.8	3.0	2.8	1.7	3.7
RoE (annualised)	11.6	12.7	11.6	7.1	15.5
Loan book					
Provisions to NPLs	28.9	30.2	29.9	34.8	28.7
NPLs to total loans	6.2	6.3	6.2	5.3	5.3
NPLs to regulatory capital	27.1	26.6	27.1	24.5	24.1
Other					
Change in Bermuda Dollar (BD$) money supply Quarter-on-Quarter (QoQ)	3.1	3.2	2.5	2.6	-0.3
Change in assets (QoQ)	6.1	2.1	-2.5	0.7	1.6
Change in RWAs (QoQ)	1.6	-1.2	-1.2	0.5	3.7
Change in customer deposits (QoQ)	7.6	1.9	-2.7	0.6	2.4

**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	
	Dec	Sep	Jun	Mar	Dec	QoQ	YoY
Assets						%	%
Cash	0.1	0.1	0.1	0.1	0.1	–	–
Deposits (interbank)	3.9	3.2	3.3	3.5	3.8	21.9	2.6
Loans and advances (net)	8.6	8.5	8.9	8.8	8.7	1.2	-1.1
Investments	12.3	11.6	10.6	11.1*	10.7	6.0	15.0
Other assets	0.7	0.7	0.7	0.7	0.7	–	–
Total assets	**25.6**	**24.1**	**23.6**	**24.2**	**24.0**	**6.2**	**6.7**
Liabilities							
Saving deposits	7.7	7.4	6.8	6.4	5.8	4.1	32.8
Demand	11.3	10.2	10.5	10.7	10.8	10.8	4.6
Time deposits	3.8	3.6	3.5	4.3	4.6	5.6	-17.4
Total deposits	**22.8**	**21.2**	**20.8**	**21.4**	**21.3**	**7.5**	**7.0**
Other liabilities	0.5	0.6	0.5	0.6	0.6	-16.7	-16.7
Total liabilities	**23.3**	**21.8**	**21.3**	**22.0**	**21.9**	6.9	6.4
Equity and subordinated debt	2.3	2.3	2.3	2.2	2.1	-4.3	4.8
Total liabilities and equity	**25.6**	**24.1**	**23.6**	**24.2**	**24.0**	**6.2**	**6.7**

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

Total assets held by the banking sector grew by 6.7% (or $1.6 billion) in Q4-2020 when compared to the same quarter of last year. This yearly growth was driven by increases in investments (up 15.0% or $1.6 billion) and interbank deposits (up 2.6% or $0.1 billion), but partially offset by the decline in loans and advances, which fell by 1.1% (or $0.1 billion).

QoQ, total assets increased by 6.2% (or $1.5 billion). The quarterly growth was reflected in the increases in interbank deposits (up 21.9% or $0.7 billion) and investments (up 6.0% or $0.7 billion), followed by loans and advances (up 1.2% or $0.1 billion). Cash and other assets remained unchanged over the quarter.

YoY, total liabilities were up 6.4% (or $1.4 billion) to $23.3 billion. Customer deposits grew by 7.0% (or $1.5 billion) over the past year, largely driven by increases in savings deposits (up 32.8% or $1.9 billion) and demand deposits (up 4.6% or $0.5 billion). Conversely, time deposits fell by 17.4% (or $0.8 billion), partly offsetting the overall growth in liabilities over the year.

QoQ, total liabilities grew by 6.9% (or $1.5 billion), driven mainly by the growth in demand deposits (up 10.8% or $1.1 billion), time deposits (up 5.6% or $0.2 billion) and savings deposits (up 4.1% or $0.3 billion).

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

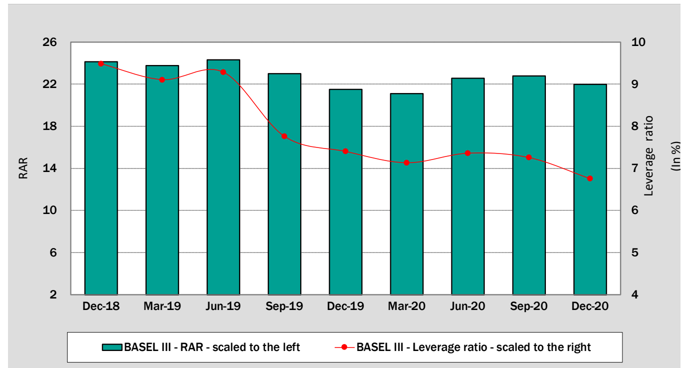
	2020				2019
	Dec	Sep	Jun	Mar	Dec
Asset allocation	%	%	%	%	%
Cash	0.5	0.4	0.4	0.4	0.4
Investments	48.0	48.1	44.9	45.9	44.6
Loans and advances	33.7	35.3	37.7	36.4	36.3
Deposits (interbank)	15.1	13.3	14.0	14.4	15.8
Other assets	2.6	2.9	3.0	2.9	2.9
Deposits allocation					
Savings	33.6	34.9	32.7	29.7	27.4
Demand	49.5	48.1	50.5	50.0	50.9
Time	16.9	17.0	16.8	20.3	21.7
Capital position					
Basel III – RAR	22.0	22.8	22.6	21.1	21.5
Basel III – Leverage ratio	6.8	7.3	7.4	7.1	7.4

Capital Adequacy

The banking sector's capital position, as measured by RAR, fell by 0.8 percentage points to 22.0%. Aggregate regulatory capital of the banking sector was unchanged at $2.0 billion for the quarter, while the corresponding RWAs increased by 1.6% (or $0.1 billion) to $9.0 billion. The CET1 ratio fell by 0.6 percentage points to 19.8% for the quarter, mainly driven by the 1.6% increase in RWAs, compared to the 1.2% increase in CET1 capital.

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

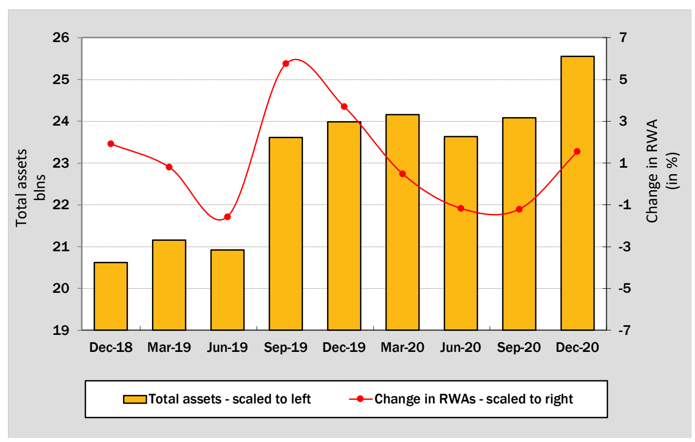
Chart I: RAR and Leverage Ratio



The leverage ratio continued to decline, falling 0.5 percentage points to 6.8% for the quarter, but remains higher than 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
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
Loans and advances QoQ growth rate	1.2	-4.5	1.0	1.2	6.6
Residential mortgages to total loans	55.7	55.3	51.8	52.5	53.6
Loan impairments					
NPLs to total loans (net)	6.2	6.3	6.2	5.3	5.3
NPLs to regulatory capital	27.1	26.6	27.1	24.5	24.1
Net charge-offs to loans (annualised)	0.6	0.1*	0.2	0.1	0.2
Loan provisioning					
Provisions to gross NPLs	28.9	30.2	29.9	34.8	28.7
Specific provisions to gross NPLs	27.6	29.1	27.5	32.3	27.9
Provisions to total loans (net)	2.4	2.5	2.4	2.6	2.1

**Revised*

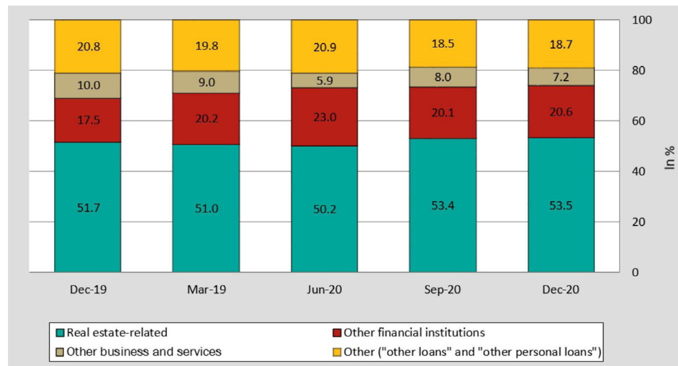
Net NPLs fell slightly to $536.2 million for the quarter, while the YoY movement shows an increase of 14.8% (or $69.1 million). The ratio of NPLs to total loans was 6.2%. This is a marginal decline from the previous quarter ratio of 6.3%, but higher than the 5.3% figure reported a year earlier.

As of the end of Q4-2020, total provisions amounted to $207.3 million, representing a 4.7% decrease over the prior quarter balance of $217.5 million. Compared to a year earlier, total provisions reported were up 13.0% (or $23.8 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

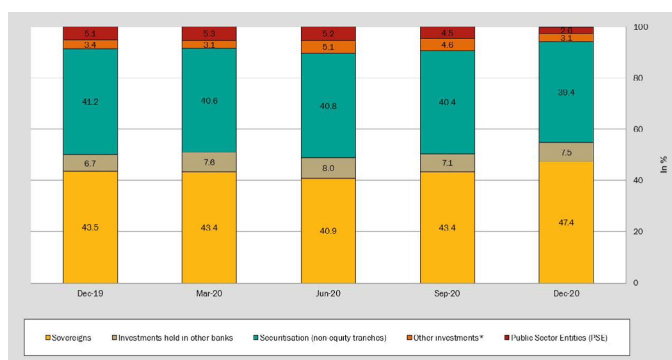


The distribution of loans remained relatively stable compared to last quarter, with the dominating sectors experiencing little growth. The only sector that declined was "Other business and services" falling by 0.8 percentage points to 7.2% for the quarter.

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*

Liquidity Position

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

The minimum LCR and NSFR regulatory requirements, which are set at 100.0%, continue to be met by all banking institutions.

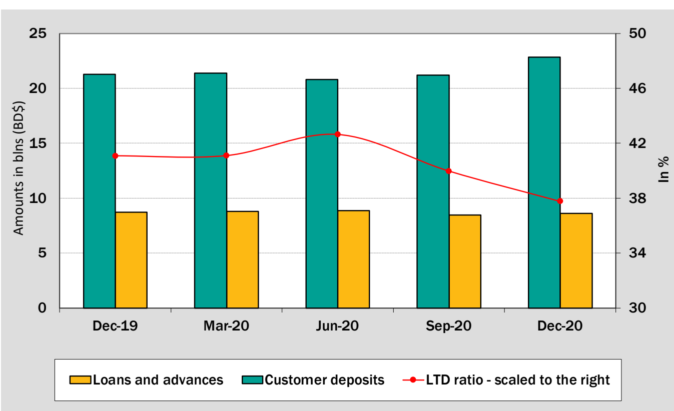
Table V: Liquidity Indicators

	2020				2019
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
Cash and cash equivalents to total assets	15.6	13.8	14.5	14.8	16.2
Cash and cash equivalents to total deposit liabilities	17.5	15.7	16.5	16.7	18.3
LTD ratio	37.8	40.0	42.6	41.1	41.1
Loans-to-total assets	33.7	35.2	37.6	36.4	36.4
Funding gap*	-55.6	-52.9	-50.5	-52.2	-52.3

**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 continued to decline, falling 2.2 percentage points to 37.8% for the quarter; which is also lower than the 41.1% reported a year earlier. During the quarter, outstanding loans grew by 1.2% (or $0.1 billion) to $8.6 billion while the corresponding customer deposits increased at a faster rate, up 7.5% (or $1.6 billion) to $22.8 billion over the quarter.

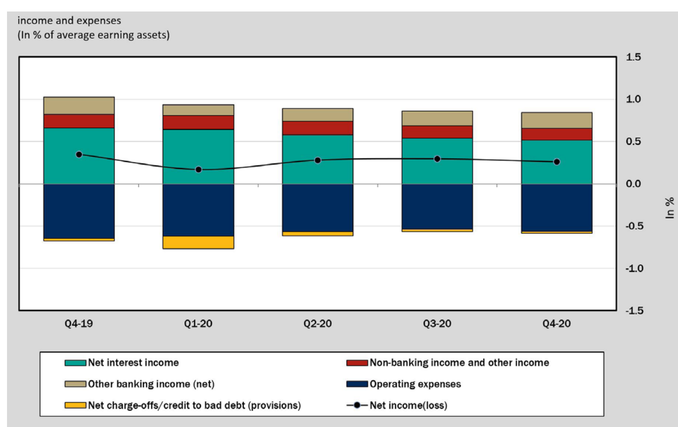
Table VI is a summary of profitability ratios for the sector for the last five quarters.

Table VI: Structure of Income Statement

	2020				2019
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
Net interest income to total income	61.2	62.7	64.6	69.0	64.6
Annualised net interest income to (average) earning assets	2.1	2.2	2.3	2.7	2.8
Annualised interest income to (average) earning assets	2.5	2.5	2.6	3.2	3.4
Banking income to total income	83.4	83.1	81.8	82.5	84.7
Non-interest income to total income	38.8	37.3	35.4	31.0	35.4
Non-interest expenses to total income (efficiency ratio)	69.3	65.9	68.7	81.9	66.0
Personnel expenses to non-interest expenses	50.5	57.2	49.7	42.8	52.0
RoA	0.2	0.3	0.3	0.2	0.3
RoA (annualised)	1.0	1.2	1.1	0.6	1.3
RoE	2.8	3.0	2.8	1.7	3.7
RoE (annualised)	11.6	12.6	11.6	7.1	15.5

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



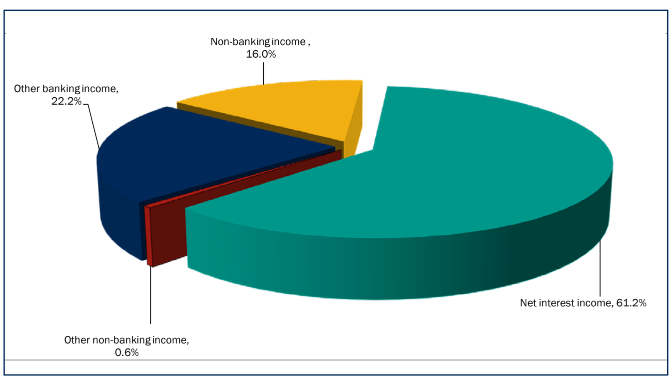
Banking Sector Profitability

After-tax net income for Bermuda's banking sector amounted to $61.3 million for Q4-2020, which was a decline of 21.2% as compared to $77.7 million in Q4-2019. Net interest income fell by 15.3% (or $22.1 million) to $122.1 million compared Q4-2019, with non-interest income only falling by 2.0% (or $1.6 million) to $77.3 million compared to the same quarter in 2019. Total income in Q4-2020 was $199.5 million. This represents a 10.6% (or $23.7 million) decline from the Q4-2019 total income. Operating expenses and net charge-offs for bad debts amounted to $138.2 million in Q4-2020, down 6.3% (or $9.2 million) when compared to Q4-2019.

The efficiency ratio deteriorated from the prior quarter, up 3.4 percentage points to 69.3%, and was higher than the 66.0% metric reported a year ago. The YoY rise in the ratio was due to the faster decline in total income (down 15.3% or $22.1 million) compared to the decline in operating and non-operating expenses (down 6.3% or $9.2 million) over the same period.

Chart VII shows the distribution of income sources for Q4-2020.

Chart VII: Distribution of income sources



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

Chart VIII: Annualised RoE and RoA

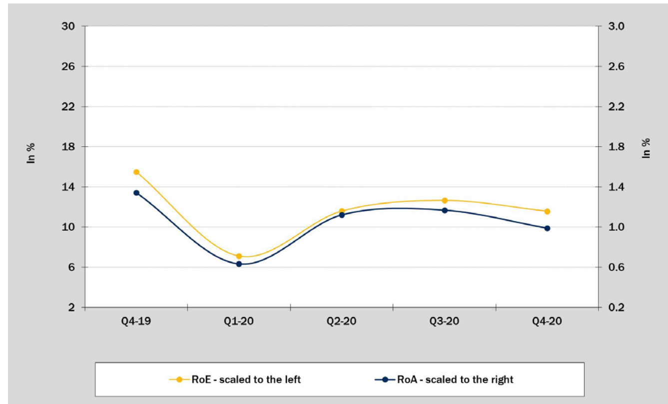


Chart IX: Quarterly RoE and RoA

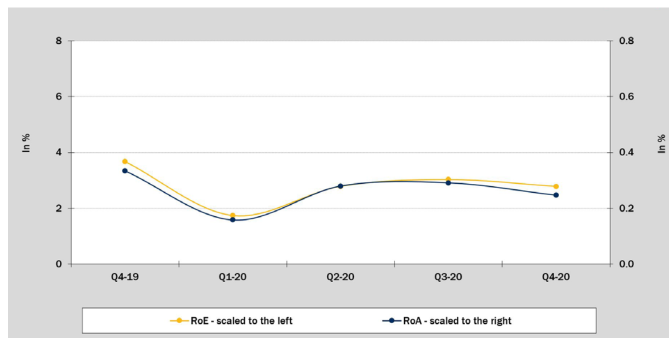
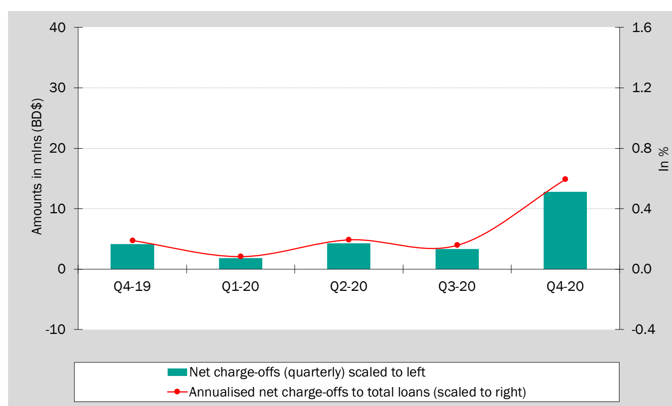


Chart X: Net Charge-off Amount and Proportion of Annualised Charge-offs to Loans



The amount of uncollectible loans written off (net of recoveries) for Q4-2020 was $12.8 million, up from $3.3* million reported in the prior quarter. The increase is partially due to the higher loan losses connected with the pandemic. The proportion of annualised net charge-offs to total loans rose from 0.2%* to 0.6% for the quarter.

*Revised

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 %)	
	Dec	Sep	Jun	Mar	Dec	QoQ	YoY
Cash	0.1	0.1	0.1	0.1	0.1	–	–
Deposits (interbank)	3.8	3.2	3.3	3.4	3.8	18.8	–
Loans and advances	5.6	5.4	5.7	5.6	5.5	3.7	1.8
Investments	12.3	11.6	10.6	11.1	10.6	6.0	16.0
Other assets	0.3	0.3	0.4	0.3	0.3	–	–
Total assets	22.1	20.6	20.1	20.5	20.3	7.3	8.9
Deposit liabilities	19.0	17.5	17.2	17.9	17.9	8.6	6.1

FX assets increased during the quarter by 7.3% (or $1.5 billion) to $22.1 billion and 8.9% (or $1.8 billion) higher compared to Q4-2019.

On the liabilities side, the FX customer deposit liabilities grew 8.6% (or $1.5 billion) to $19.0 billion for the quarter, and 6.1% (or $1.1 billion) compared to the same quarter of last year. QoQ growth was led by FX demand deposits, up 12.2% (or $1.1 billion) to $10.1 billion, followed by FX time deposits, up 6.9% (or $0.2 billion) to $3.1 billion, and FX saving deposits, up 3.6% (or $0.2 billion) to $5.8 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
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
FX-denominated assets to total assets	86.3	85.4	84.7	84.9	84.8
FX-denominated loans to total loans	64.7	63.7	64.1	64.0	63.3
FX-denominated deposits to total deposits	83.3	82.5	82.8	83.6	83.9
Changes in FX assets	7.3	2.8	-2.5	0.8	1.8
Changes in FX loans and advances	3.3	-5.1	1.3	1.7	11.0
Changes in FX customer deposits	8.6	1.7	-3.6	0.1	2.9

Table IX: Net FX Positions

(BD$ billions)	2020				2019
	Dec	Sep	Jun	Mar	Dec
Total FX assets	22.1	20.6	20.0	20.5	20.3
Less: other assets	0.3	0.3	0.4	0.3	0.3
Less: FX loans to residents	1.3	1.3	1.5	1.4	1.5
Net FX assets	20.5	19.0	18.1	18.8	18.5
FX liabilities*	19.2	17.8	17.5	18.2	18.2
Add: BD$ deposits of non-residents	0.1	0.1	0.1	0.1	0.1
Net FX liabilities	19.3	17.9	17.6	18.3	18.3
Net FX position	1.2	1.1	0.5	0.5	0.2

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

QoQ, the net FX position increased by 9.1% (or $0.1 billion) to $1.2 billion. The net FX asset position experienced a 7.9% (or $1.5 billion) increase over the quarter primarily due to the 7.3% (or $1.5 billion) increase in total FX assets while "other assets" and "FX loans to residents" remained unchanged over the same period. On the liabilities side, net FX liabilities increased by 7.8% (or $1.4 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.

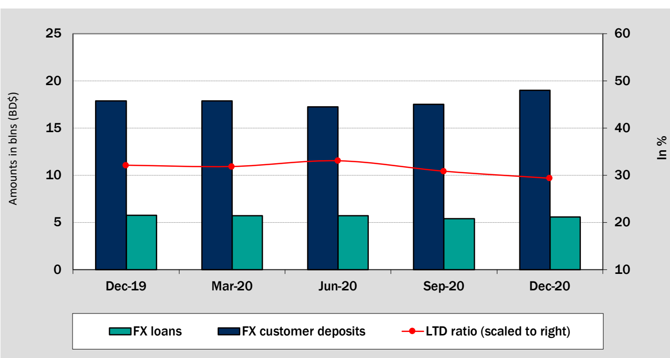
Table X: Liquidity Indicators (FX Positions)

	2020				2019
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
Cash and cash equivalents to total assets	17.7	15.9	16.8	17.1	18.8
Cash and cash equivalents to total deposit liabilities	20.6	18.6	19.5	19.6	21.4
LTD ratio	29.3	30.8	33.0	31.4	31.0
Loans to total assets	25.3	26.3	28.5	27.4	27.2
Funding gap*	-60.9	-58.9	-57.7	-59.7	-60.6

**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 customer 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 %)	
	Dec	Sep	Jun	Mar	Dec	QoQ	YoY
Loans and advances	3.2	3.2	3.3	3.3	3.3	–	-3.0
Total assets	4.0	4.0	4.1	4.1	4.1	–	-2.4
Deposit liabilities	3.8	3.7	3.6	3.5	3.4	2.7	11.8

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.

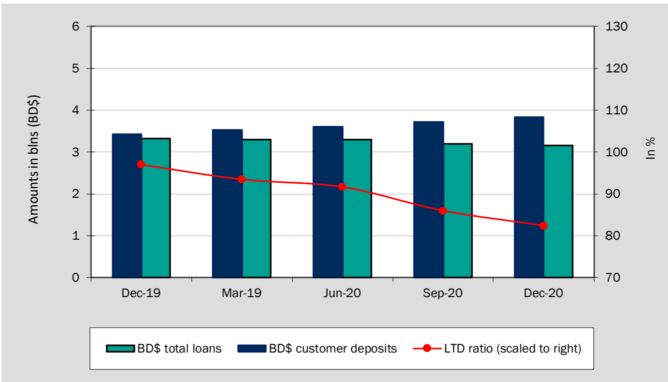
Table XII: Liquidity Indicators (BD$ Positions)

	2020				2019
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
Cash and cash equivalents to total assets	2.1	1.5	1.6	1.9	1.3
Cash and cash equivalents to total deposit liabilities	2.1	1.6	1.8	2.2	1.6
LTD ratio	82.4	86.0	91.6	93.5	97.0
Loans to total assets	79.3	80.2	80.8	80.9	81.7
Funding gap to total assets*	-17.0	-13.1	-7.4	-5.7	-2.5

**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, the BD$ LTD ratio continued to trend downwards, falling to 82.4%, compared to 86.0% in the prior quarter and 97.0% a year earlier. The quarterly decline is driven by low domestic lending, which was unchanged at $3.2 billion relative to higher local customer deposits, up 2.7% (or $0.1 billion) to $3.8 billion over the same period. With the increase in customer deposits and reduced lending, the overall BD$ surplus position increased to $0.6 billion up from $0.5 billion* when compared the prior quarter.

**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
	Dec	Sep	Jun	Mar	Dec
Notes and coins in circulation	177	164	167	157	152
Deposit liabilities	3,830	3,717	3,601	3,523	3,427
Banks and deposit companies	**4,007**	**3,881**	**3,768**	**3,680**	**3,579**
Less: cash at banks and deposit companies	53	45	50	53	43
BD$ money supply	**3,954**	**3,836**	**3,718**	**3,627**	**3,536**
% growth on previous period	3.1	3.2	2.5	2.6	-0.3
% growth YoY	11.8	8.2	5.5	4.0	-0.4

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

The domestic money supply within the local economy has shown consistent growth over the last three quarters, increasing by 3.1% (or $117 million) to $3.9 billion compared to Q3-2020. The quarterly growth was driven by higher customer deposit inflows (up 3.0% or $113 million) and notes in coins in circulation (up 7.9% or $13.0 million), while cash at banks (up 17.8% or $8.0 million) offset some of the overall growth.

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 December, the BIS published its Basel III monitoring results based on year-end-December 2019 data.

https://www.bis.org/bcbs/publ/d512.pdf

In November, the BIS published its report to the G20 leaders on the implementation of BASEL III reforms.

https://www.bis.org/bcbs/publ/d510.pdf

In October, the BIS released a brief on stress-testing banks during the COVID-19 pandemic.

https://www.bis.org/fsi/fsibriefs11.pdf

In October, the BIS and central banks published a report that outlines foundational principles and core features of a Central Bank Digital Currency (CBDC).

https://www.bis.org/publ/othp33.pdf

Bank of England (BoE)

In November, the BOE released its paper on whether bail-in has increased market discipline. The paper looks at empirical evidence from data on the credit spreads on large European banks' bonds between 2010 and 2019.

https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2020/has-bail-in-increased-market-discipline-an-empirical-investigation-of-european-banks-credit-spreads.pdf?la=en&hash=192C4974F84081F783E6B190551AF870B02A28AA

In October, the BoE released its consultation on updates on its approach to resolvability.

https://www.bankofengland.co.uk/paper/2020/updates-to-the-boes-approach-to-assessing-resolvability

European Central Bank (ECB)

In November, the ECB published its paper on CBDC in an open-economy.

https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2488~fede33ca65.en.pdf

In October, the ECB published their Macroprudential Bulletin, which discusses the capital buffer usability in the Basel III framework.

https://www.ecb.europa.eu/pub/financial-stability/macroprudential-bulletin/html/ecb.mpbu202010_1~01c4f1a5f4.en.html#toc1

Financial Stability Board (FSB)

In November, the FSB published its 2020 Annual Report on the implementation and effects of the G20's financial regulatory reforms.

https://www.fsb.org/wp-content/uploads/P131120-1.pdf

In October, the FSB released its stage three roadmap for the enhancements to cross-border payments. The roadmap addresses the key challenges often faced by cross-border payments and the frictions in existing processes that contribute to these challenges.

https://www.fsb.org/wp-content/uploads/P131020-1.pdf

International Monetary Fund (IMF)

In October, the IMF released its Global Financial Stability Report, which is an assessment of the key vulnerabilities to which the global financial system is exposed and associated policy responses. One of the key vulnerabilities mentioned in the report is bank capital and challenges caused by COVID-19 and policy responses.

https://www.imf.org/en/Publications/GFSR/Issues/2020/10/13/global-financial-stability-report-october-2020

In October, the IMF published its paper on the macro-financial implications of the use of CBDC and global stablecoins across borders.

https://www.imf.org/en/Publications/Policy-Papers/Issues/2020/10/17/Digital-Money-Across-Borders-Macro-Financial-Implications-49823

Prudential Regulatory Authority (PRA)

In December, the PRA published its updated supervisory statement on implementing capital buffers.

https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2020/ss614-update-jan-2021.pdf?la=en&hash=642F86580C6553FAC2E85B33D18CF83F31A2B80B

GLOSSARY

Annualised is expressing (a quantity such as an interest rate, profit and expenditure) 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 include 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 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 CET1 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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