

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 and 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 BMA.
- Due to the significance of deposits and foreign exchange transactions, the BMA instituted an enhanced monitoring framework to review weekly deposits balances and foreign exchange transactions. This complemented the regular review of significant movements in the balance sheet and income statement accounts. Key trend indicators were analysed throughout 2020 and have continued monthly 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 BMA 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 the loan performance after the deferral periods expired.
- The BMA reviewed the measures implemented by banks regarding operational resilience in the context of COVID-19. The review focused 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 BMA'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

- Banking sector capital position remained stable for the first quarter of 2021. The Risk Asset Ratio (RAR), which is the ratio of regulatory capital to RWA, remained unchanged at 22.0%. The leverage ratio increased by 0.1 percentage points to 6.9%.
- Profitability improved with after-tax profits rising to \$64.9 million this quarter, reflecting a 5.9% growth compared to the prior quarter. This is largely due to

lower operating and non-operating expenses reported for the quarter.

- Total assets declined marginally by 0.4% (or \$0.1 billion) to \$25.5 billion from the prior quarter.
- Non-Performing Loans (NPL) as a percentage of total loans remained stable at 6.3% and the ratio of provisions to NPLs fell marginally Quarter-on-Quarter (QoQ) from 28.9% to 28.3%, 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	2021	2020				
	Mar	Dec	Sep	Jun	Mar	
Capital position	%	%	%	%	%	
Basel III – RAR	22.0	22.0	22.8	22.6	21.1	
Basel III – CET1 ratio (minimum 7.0%)	20.1	19.8	20.4	20.1	19.7	
Basel III – Leverage ratio (BMA minimum 5.0%)	6.9	6.8	7.3	7.4	7.1	
Liquidity						
Cash and cash equivalents to total deposit liabilities	16.1	17.5	15.7	16.5	16.7	
Loan-To-Deposit (LTD) ratio	37.6	37.8	40.0	42.6	41.1	
Funding gap *	-55.8	-55.6	-52.9	-50.5	-52.2	
Profitability						
Net interest income to interest income	88.5	86.7	86.0	91.1	85.5	
Return on Assets (RoA)	0.3	0.2	0.3	0.3	0.2	
RoA (annualised)	1.1	1.0	1.2	1.1	0.6	
Return on Equity (RoE)	3.1	2.8	3.0	2.8	1.7	
RoE (annualised)	12.8	11.6	12.7	11.6	7.1	
Loan book						
Provisions to NPLs	28.3	28.9	30.2	29.9	34.8	
NPLs to total loans	6.3	6.2	6.3	6.2	5.3	
NPLs to regulatory capital	27.0	27.1	26.6	27.1	24.5	
Other						
Change in Bermuda Dollar (BD\$) money supply Quarter-on-Quarter (QoQ)	2.3	3.1	3.2	2.5	2.6	
Change in assets (QoQ)	-0.4	6.1	2.1	-2.5	0.7	
Change in RWAs (QoQ)	0.2	1.6	-1.2	-1.2	0.5	
Change in customer deposits (QoQ)	0.0	7.6	1.9	-2.7	0.6	

*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)	2021	2020					Change	
	Mar	Dec	Sep	Jun	Mar	QoQ	YoY	
Assets						%	%	
Cash	0.1	0.1	0.1	0.1	0.1	0.0	0.0	
Deposits (interbank)	3.6	3.9	3.2	3.3	3.5	-7.7	2.9	
Loans and advances (net)	8.6	8.6	8.5	8.9	8.8	0.0	-2.3	
Investments	12.5	12.3	11.6	10.6	11.1	1.6		
Other assets	0.7	0.7	0.7	0.7	0.7	0.0	0.0	
Total assets	25.5	25.6	24.1	23.6	24.2	-0.4	5.4	
Liabilities								
Saving deposits	7.8	7.7	7.4	6.8	6.4	1.3		
Demand deposits	11.0	11.3	10.2	10.5	10.7	-2.7	2.8	
Time deposits	4.0	3.8		3.5	4.3	5.3	-7.0	
Total deposits	22.8	22.8	21.2	20.8	21.4	0.0	6.5	
Other liabilities	0.6	0.5	0.6	0.5	0.6	20.0	0.0	
Total liabilities	23.4	23.3	21.8	21.3	22.0	0.4	6.4	
Equity and subordinated debt	2.1	2.3	2.3	2.3	2.2	-8.7	-4.5	
Total liabilities and equity	25.5	25.6	24.1	23.6	24.2	-0.4	5.4	

Year-on-Year (YoY) – percentage change from the prior year

QoQ – percentage change from the prior quarter

Total aggregate assets remained stable at \$25.5 billion, falling by 0.4% over the prior quarter with marginal movement in all the asset classes.

YoY, total assets grew by 5.4% (or \$1.3 billion) when compared to the same quarter last year. This YoY growth was driven by an increase in investments (up 12.6% or \$1.4 billion) and partly offset by the decline in loans and advances, which fell by 2.3% (or \$0.2 billion).

Total liabilities increased by 0.4% to \$23.4 billion. Customer deposits remained unchanged at \$22.8 billion, while other liabilities increased by 20% to \$0.6 billion.

YoY, total liabilities were up 6.4% (or \$1.4 billion) to close at \$23.4 billion. Customer deposits grew by 6.5% (or \$1.4 billion) over the past year, driven by increases in savings

deposits (up 21.9% or \$1.4 billion) and demand deposits (up 2.8% or \$0.3 billion), but partly offset by the 7.0% (or \$0.3 billion) decline in time deposits.

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

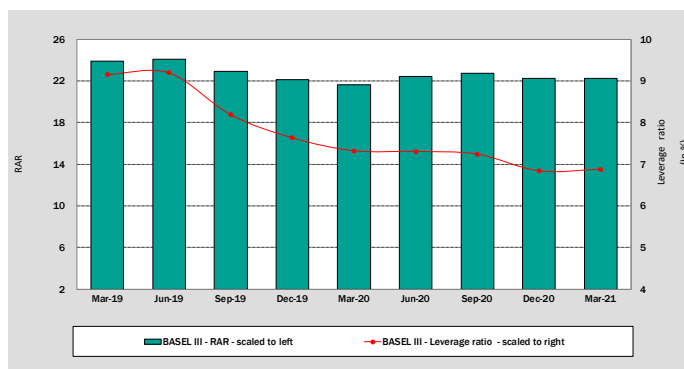
	2021	2020			
	Mar	Dec	Sep	Jun	Mar
Asset allocation	%	%	%	%	%
Cash	0.4	0.5	0.4	0.4	0.4
Investments	49.0	48.0	48.1	44.9	45.9
Loans and advances	33.7	33.7	35.3	37.7	36.4
Deposits (interbank)	14.1	15.1	13.3	14.0	14.4
Other assets	2.8	2.6	2.9	3.0	2.9
Deposits allocation					
Savings	34.2	33.6	34.9	32.7	29.7
Demand	48.3	49.5	48.1	50.5	50.0
Time	17.5	16.9	17.0	16.8	20.3
Capital position					
Basel III – RAR	22.0	22.0	22.8	22.6	21.1
Basel III – Leverage ratio	6.9	6.8	7.3	7.4	7.1

Capital Adequacy

The RAR remained unchanged at 22.0% and was 0.9 percentage points higher than the metric reported a year earlier. QoQ, the CET1 ratio increased by 0.3 percentage points to 20.1% driven by the 0.3% rise in CET1 capital, while RWAs were unchanged over the same period.

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

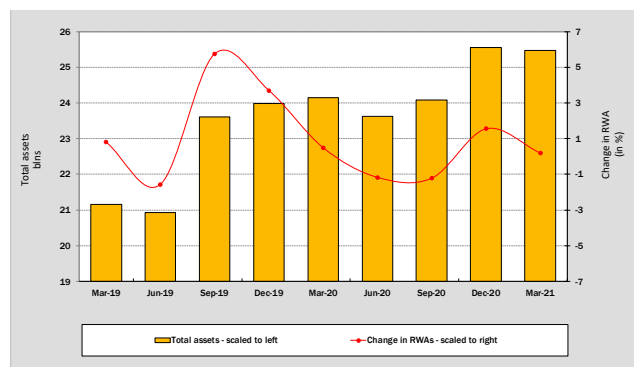
Chart I: RAR and Leverage Ratio



The leverage ratio grew slightly during the quarter, up 0.1 percentage points to 6.9% and continues to be 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

	2021	2020			
	Mar	Dec	Sep	Jun	Mar
	%	%	%	%	%
Loans and advances QoQ growth rate	0.0	1.2	-4.5	1.0	1.2
Residential mortgages to total loans	55.9	55.7	55.3	51.8	52.5
Loan impairments					
NPLs to total loans (net)	6.3	6.2	6.3	6.2	5.3
NPLs to regulatory capital	27.0	27.1	26.6	27.1	24.5
Net charge-offs to loans (annualised)	0.3	0.6	0.1	0.2	0.1
Loan provisioning					
Provisions to gross NPLs	28.3	28.9	30.2	29.9	34.8
Specific provisions to gross NPLs	27.0	27.6	29.1	27.5	32.3
Provisions to total loans (net)	2.4	2.4	2.5	2.4	2.6

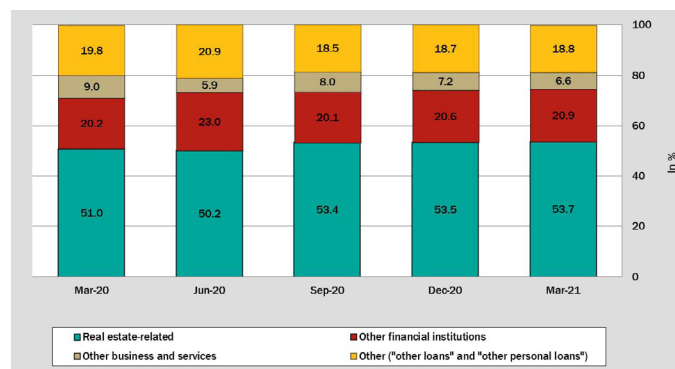
The asset quality of the loan book experienced little deterioration in Q1-2021 as the NPL ratio stood at 6.3%, up 0.1 percentage point over the prior quarter. NPLs increased by 1.0% (or \$5.6 million) to \$541.8 million, while loans and advances were unchanged at \$8.6 billion. Over the past one year, the NPL ratio has deteriorated by one percentage point from 5.3% to 6.3%.

During this quarter, total provisions declined \$5.2 million (or 2.6%) to \$202.1 million. When compared to a year ago, total provisions declined by \$22.4 million (or 10.0%).

Sectoral Distribution of Loans

Chart III reflects the sectoral variation of lending to the different sectors over the last five quarters.

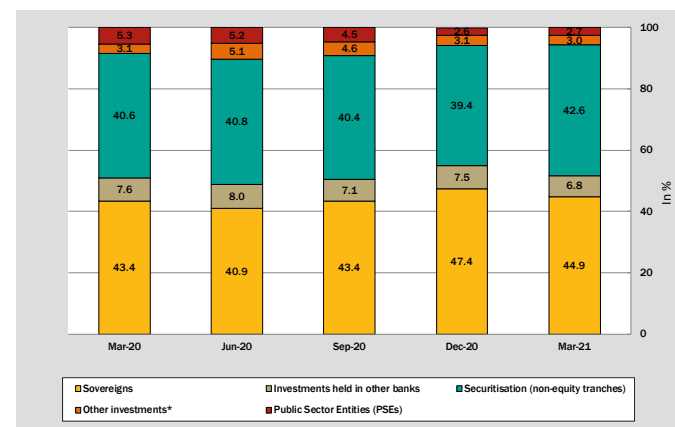
Chart III: Sectoral Distribution of Loans and Advances



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

QoQ, the investment book remains conservative with securitised and sovereign investments both increasing their share of total investments held by the banking sector, up 2.6 percentage points to 42.6% and 1.5 percentage points to 44.9%, respectively.

Liquidity Position

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

All banks met the minimum regulatory requirements for LCR and NSFR.

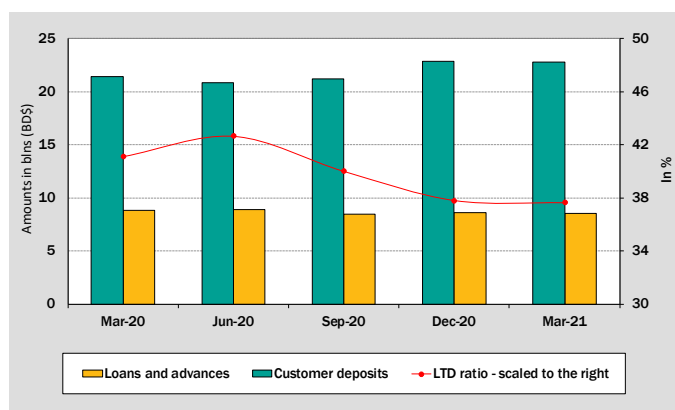
Table V: Liquidity Indicators

	2021	2020				
	Mar	Dec	Sep	Jun	Mar	
	%	%	%	%	%	
Cash and cash equivalents to total assets	14.4	15.6	13.8	14.5	14.8	
Cash and cash equivalents to total deposit liabilities	16.1	17.5	15.7	16.5	16.7	
LTD ratio	37.6	37.8	40.0	42.6	41.1	
Loans-to-total assets	33.6	33.7	35.2	37.6	36.4	
Funding gap*	-55.8	-55.6	-52.9	-50.5	-52.2	

*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 LTD ratio stood at 37.6%, down slightly from the 37.8% reported in the prior quarter; and lower than the 41.1% reported a year earlier.

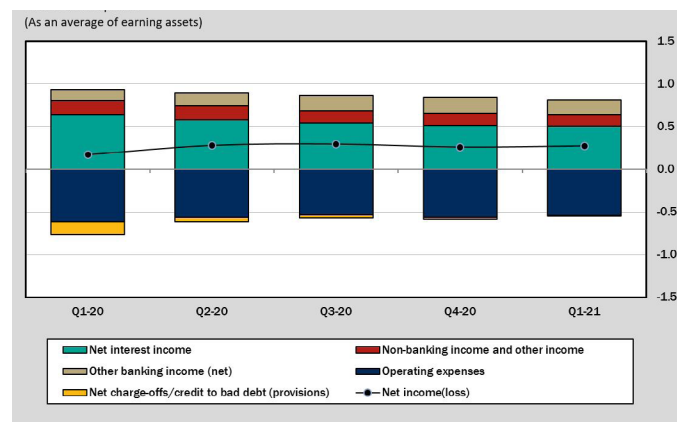
Table VI is a summary of profitability ratios for the sector for the last five quarters.

Table VI: Structure of Income Statement

	2021	2020				
	Mar	Dec	Sep	Jun	Mar	
	%	%	%	%	%	
Net interest income to total income	62.1	61.2	62.7	64.6	69.0	
Annualised net interest income to (average) earning assets	2.1	2.1	2.2	2.3	2.7	
Annualised interest income to (average) earning assets	2.4	2.5	2.5	2.6	3.2	
Banking income to total income	83.4	83.4	83.1	81.8	82.5	
Non-interest income to total income	37.9	38.8	37.3	35.4	31.0	
Non-interest expenses to total income (efficiency ratio)	66.5	69.3	65.9	68.7	81.9	
Personnel expenses to non-interest expenses	51.1	50.5	57.2	49.7	42.8	
RoA	0.3	0.2	0.3	0.3	0.2	
RoA (annualised)	1.1	1.0	1.2	1.1	0.6	
RoE	3.1	2.8	3.0	2.8	1.7	
RoE (annualised)	12.8	11.6	12.6	11.6	7.1	

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



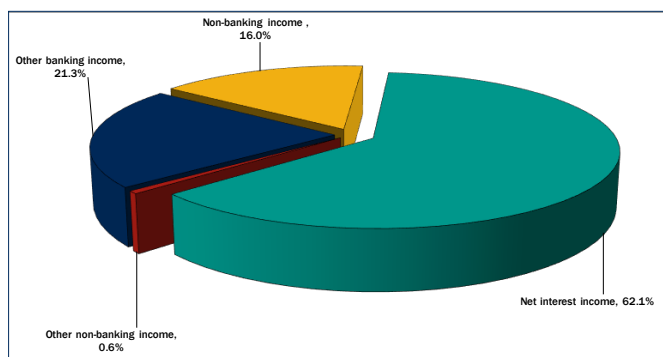
Banking Sector Profitability

The banking sector reported an after-tax net income of \$64.9 million, representing an increase of \$3.6 million (or 5.9%) from Q4-2020. Net interest income fell by 0.5% (or \$0.6 million) to \$121.5 million compared with the prior quarter. Non-interest income fell by 4.2% (or \$3.2 million) to \$74.1 million over the same period. As a result, total income amounted to \$195.6 million, representing a 1.9% (or \$3.8 million) decrease from Q4-2020 total income. The costs incurred by operational activities fell at a faster rate than the decline in total income. The quarterly operating expenses and net charge-offs for bad debts were down 5.9% (or \$8.1 million) to \$130.1 million when compared to Q4-2020.

The efficiency ratio improved in Q1-2021, down 2.8 percentage points to 66.5%. The quarterly decline was due to a faster decrease in operating and non-operating expenses (down 5.9%) relative to the decrease in total income (down 1.9%).

Chart VII shows the distribution of income sources as of the end of the quarter.

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

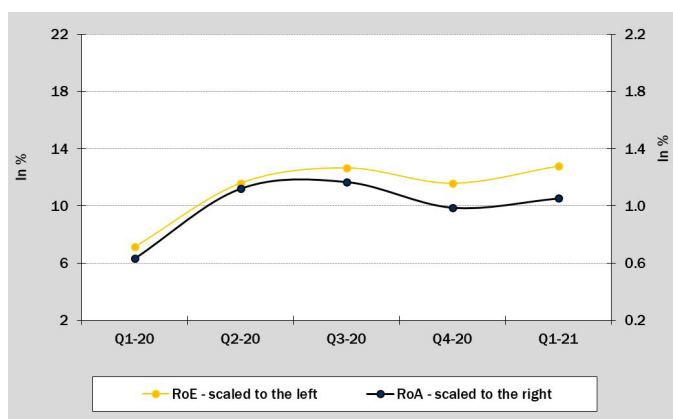


Chart IX: Quarterly RoE and RoA

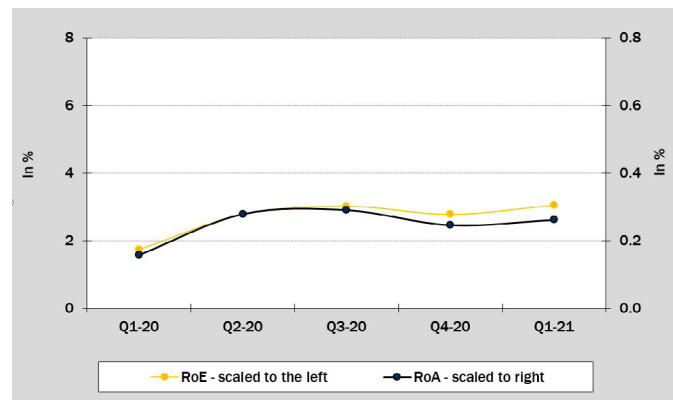
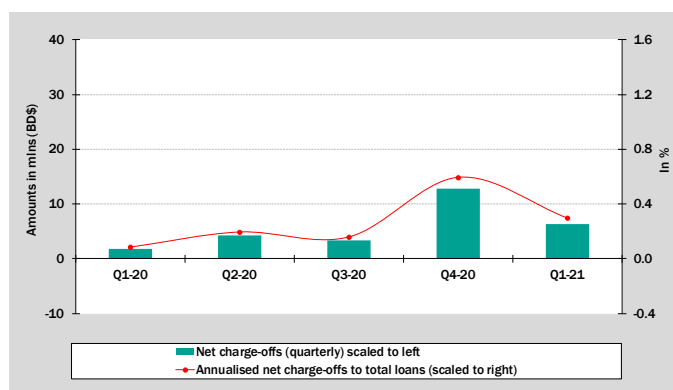


Chart X: Net Charge-off Amount and Proportion of Annualised Charge-offs to Loans



The amount of uncollectible loans written off (net of recoveries) for Q1-2021 was \$6.3 million, down from \$12.8 million reported in the prior quarter. The proportion of annualised net charge-offs to total loans declined from 0.6% to 0.3% 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)	2021	2020					Change (In %)	
	Mar	Dec	Sep	Jun	Mar	QoQ	YoY	
Cash	0.1	0.1	0.1	0.1	0.1	0.0	0.0	
Deposits (interbank)	3.5	3.8	3.2	3.3	3.4	-7.9	2.9	
Loans and advances	5.5	5.6	5.4	5.7	5.6	-1.8	-1.8	
Investments	12.5	12.3	11.6	10.6	11.1	1.6	12.6	
Other assets	0.4	0.3	0.3	0.4	0.3	33.3	33.3	
Total assets	22.0	22.1	20.6	20.1	20.5	-0.5	7.3	
Deposit liabilities	18.9	19.0	17.5	17.2	17.9	-0.5	5.6	

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

	2021	2020				
	Mar	Dec	Sep	Jun	Mar	
	%	%	%	%	%	
FX-denominated assets to total assets	86.5	86.3	85.4	84.7	84.9	
FX-denominated loans to total loans	64.7	64.7	63.7	64.1	64.0	
FX-denominated deposits to total deposits	82.8	83.3	82.5	82.8	83.6	
Changes in FX assets	-0.2	7.3	2.8	-2.5	0.8	
Changes in FX loans and advances	-0.8	3.3	-5.1	1.3	1.7	
Changes in FX customer deposits	-0.8	8.6	1.7	-3.6	0.1	

Table IX: Net FX Positions

(BD\$ billions)	2021	2020				
	Mar	Dec	Sep	Jun	Mar	
Total FX assets	22.0	22.1	20.6	20.0	20.5	
Less: other assets	0.4	0.3	0.3	0.4	0.3	
Less: FX loans to residents	0.9	1.3	1.3	1.5	1.4	
Net FX assets	20.7	20.5	19.0	18.1	18.8	
FX liabilities*	19.1	19.2	17.8	17.5	18.2	
Add: BD\$ deposits of non-residents	0.1	0.1	0.1	0.1	0.1	
Net FX liabilities	19.2	19.3	17.9	17.6	18.3	
Net FX position	1.5	1.2	1.1	0.5	0.5	

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

The net FX position amounted to \$1.5 billion, representing a 25.0% increase from the prior quarter. Total FX assets and other assets remained fairly even compared to the prior quarter. On the liabilities side, net FX liabilities fell by 0.5% (or \$0.1 billion) from the prior quarter.

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

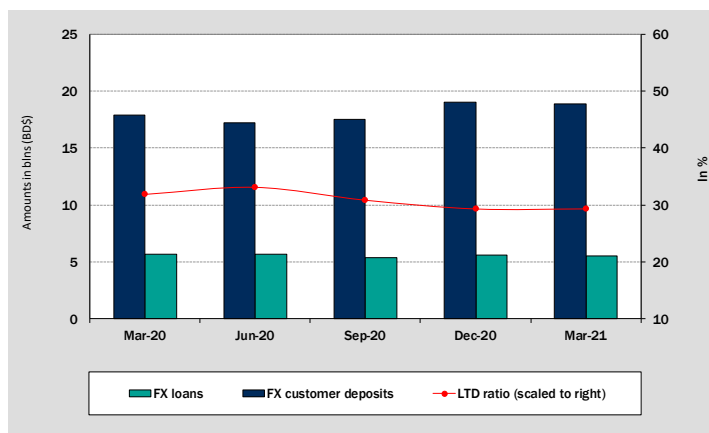
Table X: Liquidity Indicators (FX Positions)

	2021	2020				
	Mar	Dec	Sep	Jun	Mar	
	%	%	%	%	%	
Cash and cash equivalents to total assets	16.3	17.7	15.9	16.8	17.1	
Cash and cash equivalents to total deposit liabilities	19.1	20.6	18.6	19.5	19.6	
LTD ratio	29.4	29.3	30.8	33.0	31.4	
Loans to total assets	25.1	25.3	26.3	28.5	27.4	
Funding gap*	-60.5	-60.9	-58.9	-57.7	-59.7	

*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)	2021	2020					Change (In %)	
	Mar	Dec	Sep	Jun	Mar	QoQ	YoY	
Loans and advances	3.1	3.2	3.2	3.3	3.3	-3.1	-6.1	
Total assets	3.9	4.0	4.0	4.1	4.1	-2.5	-4.9	
Deposit liabilities	3.9	3.8	3.7	3.6	3.5	2.6	11.4	

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.

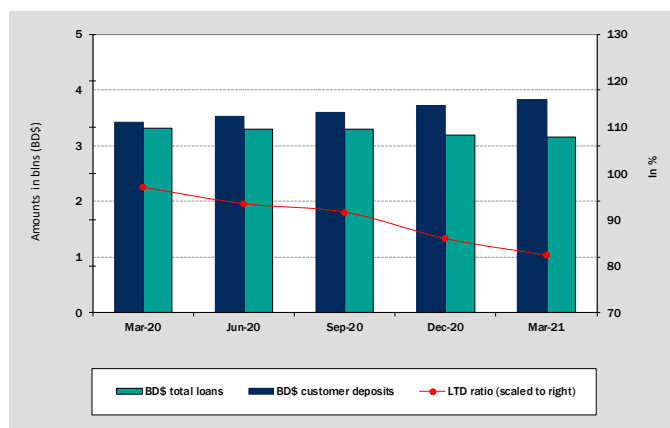
Table XII: Liquidity Indicators (BD\$ Positions)

	2021	2020				
	Mar	Dec	Sep	Jun	Mar	
	%	%	%	%	%	
Cash and cash equivalents to total assets	1.9	2.1	1.5	1.6	1.9	
Cash and cash equivalents to total deposit liabilities	1.9	2.1	1.6	1.8	2.2	
LTD ratio	79.8	82.4	86.0	91.6	93.5	
Loans to total assets	79.8	79.3	80.2	80.8	80.9	
Funding gap to total assets*	-20.2	-17.0	-13.1	-7.4	-5.7	

*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 decline, falling to 79.8%, compared to 82.4% in the prior quarter and 93.5% a year earlier. The quarterly decline is due to lower domestic lending (down 3.1% or \$0.1 billion) to \$3.1 billion compared to higher local customer deposits, up 2.6% (or \$0.1 billion) to \$3.9 billion. As a result, the overall BD\$ surplus position increased to \$0.7 billion up from \$0.6 billion*, when compared to 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)	2021	2020			
	Mar	Dec	Sep	Jun	Mar
Notes and coins in circulation	170	177	164	167	157
Deposit liabilities	3,921	3,830	3,717	3,601	3,523
Banks and deposit companies	4,091	4,007	3,881	3,768	3,680
Less: cash at banks and deposit companies	48	53	45	50	53
BD\$ money supply	4,043	3,954	3,836	3,718	3,627
% growth on previous period	2.3	3.1	3.2	2.5	2.6
% growth YoY	11.5	11.8	8.2	5.5	4.0

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

The domestic money supply within the local economy continues to show positive growth, rising by 2.3% (or \$89.0 million) to \$4.0 billion over the prior quarter and 11.5% (\$416 million) over the past year. The quarterly growth was primarily driven by higher customer deposit inflows (up 2.4% or \$91.0 million) while notes and coins in circulation (down 4.0% or \$7.0 million) offset some of the overall growth seen in the money supply. For the quarter, the stock of cash held by banks fell by 9.4% (or \$5.0 million).

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 March, the BIS released its report on the interoperability of central bank digital currency arrangements and possible benefits in the cross-border payment system.

<https://www.bis.org/publ/bppdf/bispap115.pdf>

The BIS published a paper for a global database on central banks' monetary responses to Covid-19.

<https://www.bis.org/publ/work934.pdf>

European Banking Authority (EBA)

In March, the EBA released its second annual report monitoring the implementation of the LCR in the European Union during the COVID-19 period.

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

https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2021/963932/Second%20EBA%20report%20on%20monitoring%20of%20LCR%20implementation%20in%20the%20EU.pdf

In February, the EBA published a final draft on the technical standards on disclosure of indicators of global systemic importance by Global Systemically Important Insurers.

https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Draft%20Technical%20Standards/2021/963304/Final%20Draft%20ITS%20on%20disclosure%20of%20indicators%20of%20global%20systemic%20importance%20by%20G-SIIs.pdf

In January, the EBA published a paper on guidelines for institutions and resolution authorities on improving resolvability.

https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Consultations/2021/Consultation%20for%20institutions%20and%20resolution%20authorities%20on%20improving%20resolvability/964043/CP%20on%20draft%20GL%20on%20resolvability.pdf

European Central Bank (ECB)

In January, the ECB Banking Supervision published a report on key risk and vulnerabilities expected to affect supervised firms in 2021.

<http://www.bankingsupervision.europa.eu/ecb/pub/ra/html/ssm.ra2021~edbbea1f8f.en.html#toc1>

European Systemic Risk Board (ESRB)

In March, the ESRB released a paper on the importance of technology in banking during a crisis.

<https://www.esrb.europa.eu/pub/pdf/wp/esrb.wp117~6c6d0b49c2.en.pdf>

Prudential Regulatory Authority (PRA)

In January, the PRA released its paper on supervising branches and subsidiaries of international banks.

<https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2021/january/cp221.pdf?la=en&hash=804FF77C604EA0C3A608D05B-BAE84172D72B91FB>

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 the profit after all taxes and expenses have been deducted

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).*