BERMUDA MONETARY AUTHORITY

Quarterly Banking Digest

Q2-2021

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 to ensure 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 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 weekly throughout 2020. In 2021, this analysis has continued, albeit on a monthly basis.

- To gauge the financial resilience of Bermuda's banking sector, the BMA requested all banks stress test their balance sheets and income statements 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 the 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 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 systemically important to the island's economy are required to maintain a Domestic Systemically Important Bank (D-SIB) buffer that can range from 0.0% to 3.0%, depending on the bank's balance sheet size and unique risk profile.

PERFORMANCE HIGHLIGHTS

- Banking sector assets grew 8.6% (or $2.2 billion) to $27.7 billion, driven by the growth in interbank deposits and investments.

- Banking sector capital position improved marginally as compared to the prior quarter. The Risk Asset Ratio (RAR), which is the ratio of regulatory capital to RWA, increased to 22.2% from 22.0% in the prior quarter. The leverage ratio fell over the same quarter to 6.4%.

PERFORMANCE HIGHLIGHTS (Continued)

- The sector's after-tax income was down by 20.0% to $51.9 million compared to the prior quarter. This is primarily due to higher operating expenses reported for 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	2021		2020		
	Jun	Mar	Dec	Sep	Jun
Capital position	%	%	%	%	%
Basel III – RAR	22.2	22.0	22.0	22.8	22.6
Basel III – CET1 ratio (minimum 7.0%)	20.1	20.1	19.8	20.4	20.1
Basel III – Leverage ratio (BMA minimum 5.0%)	6.4	6.9	6.8	7.3	7.4
Liquidity					
Cash and cash equivalents to total deposit liabilities	20.6	16.1	17.5	15.7	16.5
Loan-To-Deposit (LTD) ratio	34.4	37.6	37.8	40.0	42.6
Funding gap *	-59.1	-55.8	-55.6	-52.9	-50.5
Profitability					
Net interest income to interest income	88.9	88.5	86.7	86.0	91.1
Return on Assets (RoA)	0.2	0.3	0.2	0.3	0.3
RoA (annualised)	1.0	1.1	1.0	1.2	1.1
Return on Equity (RoE)	2.4	3.1	2.8	3.0	2.8
RoE (annualised)	10.0	12.8	11.6	12.7	11.6
Loan book					
Provisions to NPLs	28.5	28.3	28.9	30.2	29.9
NPLs to total loans	6.2	6.3	6.2	6.3	6.2
NPLs to regulatory capital	26.3	27.0	27.1	26.6	27.1
Other					
Change in Bermuda Dollar (BD$) money supply Quarter-on-Quarter (QoQ)	0.1	2.3	3.1	3.2	2.5
Change in assets (QoQ)	8.6	-0.4	6.1	2.1	-2.5
Change in RWAs (QoQ)	0.7	0.2	1.6	-1.2	-1.2
Change in customer deposits (QoQ)	9.6	0.0	7.6	1.9	-2.7

**The negative funding gap indicates that deposits exceed loans.*
QoQ – percentage change from the 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	
	Jun	Mar	Dec	Sep	Jun	QoQ	YoY
Assets						%	%
Cash	0.1	0.1	0.1	0.1	0.1	–	–
Deposits (interbank)	5.1	3.6	3.9	3.2	3.3	41.7	54.5
Loans and advances (net)	8.6	8.6	8.6	8.5	8.9	–	-3.4
Investments	13.2	12.5	12.3	11.6	10.6	5.6	24.5
Other assets	0.7	0.7	0.7	0.7	0.7	–	–
Total assets	**27.7**	**25.5**	**25.6**	**24.1**	**23.6**	8.6	17.4
Liabilities							
Saving deposits	7.6	7.8	7.7	7.4	6.8	-2.6	11.8
Demand deposits	13.5	11.0	11.3	10.2	10.5	22.7	28.6
Time deposits	3.9	4.0	3.8	3.6	3.5	-2.5	11.4
Total deposits	**25.0**	**22.8**	**22.8**	**21.2**	**20.8**	9.6	20.2
Other liabilities	0.6	0.6	0.5	0.6	0.5	–	20.0
Total liabilities	**25.6**	**23.4**	**23.3**	**21.8**	**21.3**	9.4	20.2
Equity and subordinated debt	2.1	2.1	2.3	2.3	2.3	–	-8.7
Total liabilities and equity	**27.7**	**25.5**	**25.6**	**24.1**	**23.6**	8.6	17.4

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

Total aggregate assets grew by 8.6% (or $2.2 billion) to $27.7 billion over the quarter. This quarterly growth was due to the increase in interbank deposits (up 41.7% or $1.5 billion) and investments (up 5.6% or $0.7 billion). All other asset categories were unchanged over the same period.

When compared to the same quarter of last year, total assets grew by 17.4% (or $4.1 billion). This YoY growth was reflected in the increase of interbank deposits (up 54.5% or $1.8 billion) and investments (up 24.5% or $2.6 billion).

Over the quarter, total liabilities increased by 9.4% (or $2.2 billion) to $25.6 billion. The quarterly growth was driven by higher customer deposit inflows, reflected in demand deposits (up 22.7% or $2.5 billion) but marginally offset by the declines in savings deposits (down 2.6% or $0.2 billion) and time deposits (down 2.5% or $0.1 billion).

YoY, total liabilities were up 20.2% (or $4.3 billion). Customer deposits grew by 20.2% (or $4.2 billion) over the past year, driven by increases in demand deposits (up 28.6% or $3.0 billion), saving deposits (up 11.8% or $0.8 billion) and time deposits (up 11.4% or $0.4 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

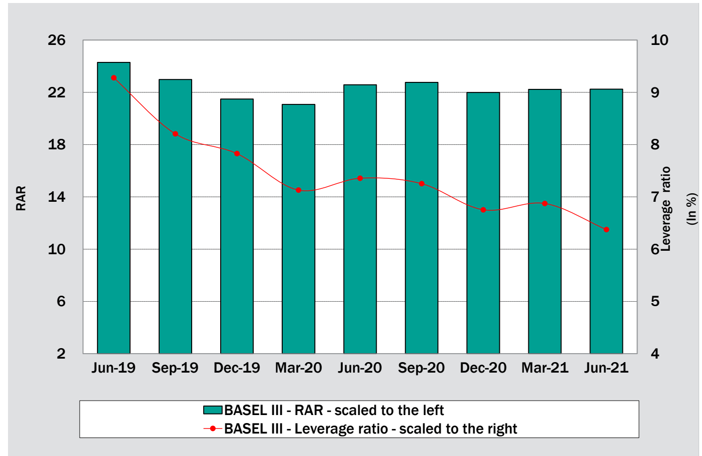
	2021		2020		
	Jun	Mar	Dec	Sep	Jun
Asset allocation	%	%	%	%	%
Cash	0.4	0.4	0.5	0.4	0.4
Investments	47.7	49.0	48.0	48.1	44.9
Loans and advances	31.0	33.7	33.7	35.3	37.7
Deposits (interbank)	18.4	14.1	15.1	13.3	14.0
Other assets	2.5	2.8	2.6	2.9	3.0
Deposits allocation					
Savings	30.4	34.2	33.6	34.9	32.7
Demand	54.0	48.3	49.5	48.1	50.5
Time	15.6	17.5	16.9	17.0	16.8
Capital position					
Basel III – CET1 ratio (minimum 7.0%)	20.1	20.1	19.8	20.4	20.1
Basel III – RAR	22.2	22.0	22.0	22.8	22.6
Basel III – Leverage ratio	6.4	6.9	6.8	7.3	7.4

CAPITAL ADEQUACY

The RAR increased marginally during the quarter, up to 22.2% and was 0.4 percentage points lower than the metric reported a year earlier. The CET1 ratio was unchanged at 20.1%.

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

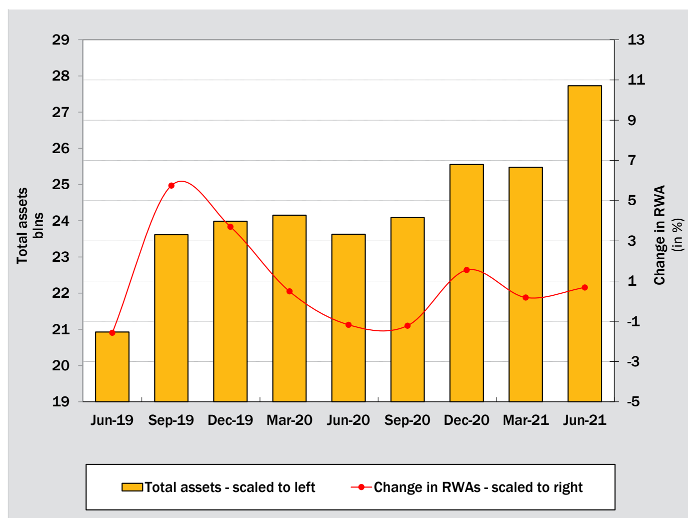
Chart I: RAR and Leverage Ratio



The leverage ratio has steadily declined over the past two years, falling to 6.4% for the quarter and remaining 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.

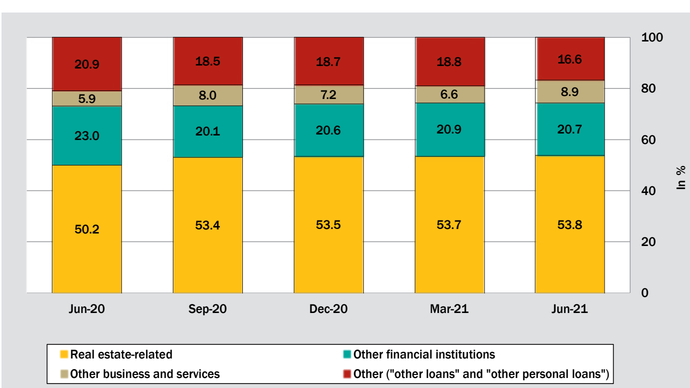
Table IV: Quality of the Loan Book

	2021		2020		
	Jun	Mar	Dec	Sep	Jun
	%	%	%	%	%
Loans and advances QoQ growth rate	0.0	0.0	1.2	-4.5	1.0
Residential mortgages to total loans	56.2	55.9	55.7	55.3	51.8
Loan impairments					
NPLs to total loans (net)	6.2	6.3	6.2	6.3	6.2
NPLs to regulatory capital	26.3	27.0	27.1	26.6	27.1
Net charge-offs to loans (annualised)	0.3	0.3	0.6	0.1	0.2
Loan provisioning					
Provisions to gross NPLs	28.5	28.3	28.9	30.2	29.9
Specific provisions to gross NPLs	26.5	27.0	27.6	29.1	27.5
Provisions to total loans (net)	2.3	2.4	2.4	2.5	2.4

SECTORAL DISTRIBUTION OF LOANS

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

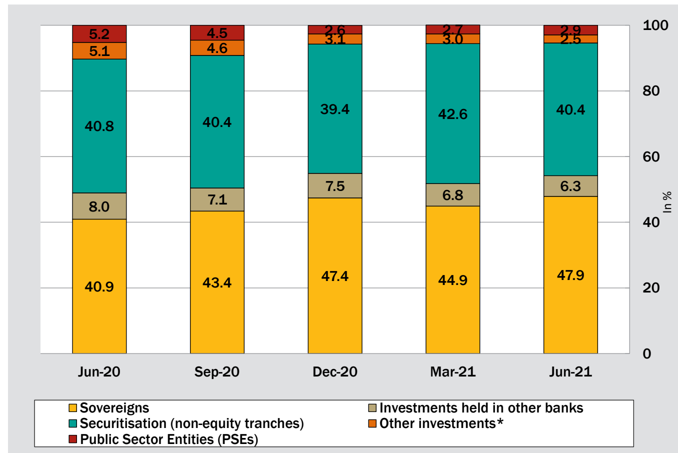
Chart III: Sectoral Distribution of Loans and Advances



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 other investments and investments in subsidiaries and associated companies.*

Total investments reported amounted to $13.2 billion at the end of the quarter. The investment structure continues to be dominated by sovereign investments, representing 47.9% of total investments. Securitised investments mostly comprise of US government-sponsored agency instruments. The ratio of securitised investments to total investments fell from 42.6% in the previous quarter to 40.4% at the end of the quarter.

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.

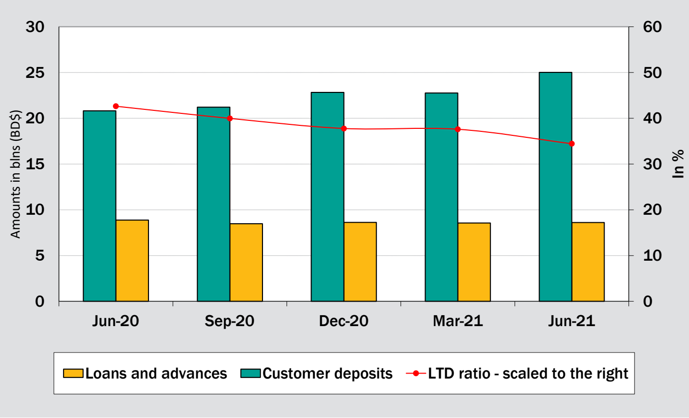
Table V: Liquidity Indicators

	2021		2020		
	Jun	Mar	Dec	Sep	Jun
	%	%	%	%	%
Cash and cash equivalents to total assets	18.6	14.4	15.6	13.8	14.5
Cash and cash equivalents to total deposit liabilities	20.6	16.1	17.5	15.7	16.5
LTD ratio	34.4	37.6	37.8	40.0	42.6
Loans-to-total assets	31.1	33.6	33.7	35.2	37.6
Funding gap*	-59.1	-55.8	-55.6	-52.9	-50.5

**The difference between total loans and total deposits divided by total assets. The negative funding gap indicates a deposits 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 sector's percentage of loans to total customer deposits continued to steadily decline during the quarter, falling from 37.6% to 34.4% and was lower than the 42.6% ratio reported in the same quarter of last year. Loans and advances remained static at $8.6 billion. On the other hand, total customer deposits increased by 9.6% (or $2.2 billion) to $25.0 billion.

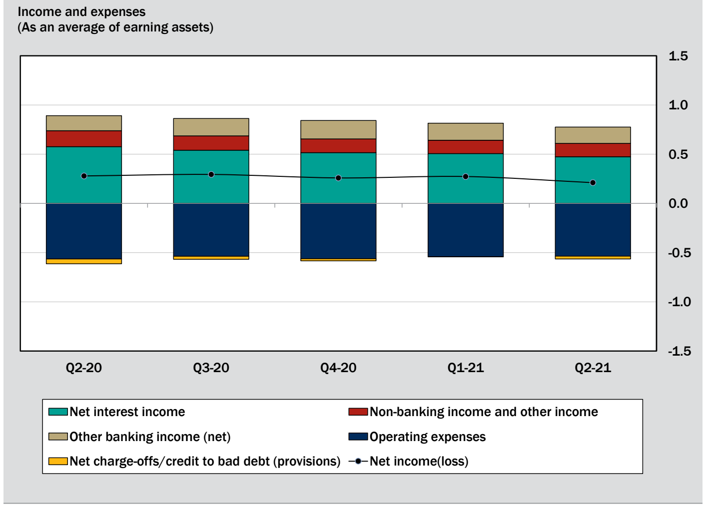
Table VI is a summary of profitability ratios for the sector for the last five quarters.

Table VI: Structure of Income Statement

	2021		2020		
	Jun	Mar	Dec	Sep	Jun
	%	%	%	%	%
Net interest income to total income	61.2	62.1	61.2	62.7	64.6
Annualised net interest income to (average) earning assets	2.0	2.1	2.1	2.2	2.3
Annualised interest income to (average) earning assets	2.3	2.4	2.5	2.5	2.6
Banking income to total income	82.5	83.4	83.4	83.1	81.8
Non-interest income to total income	38.8	37.9	38.8	37.3	35.4
Non-interest expenses to total income (efficiency ratio)	72.8	66.5	69.3	65.9	68.7
Personnel expenses to non-interest expenses	50.0	51.1	50.5	57.2	49.7
RoA	0.2	0.3	0.2	0.3	0.3
RoA (annualised)	0.8	1.1	1.0	1.2	1.1
RoE	2.4	3.1	2.8	3.0	2.8
RoE (annualised)	10.0	12.8	11.6	12.6	11.6

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



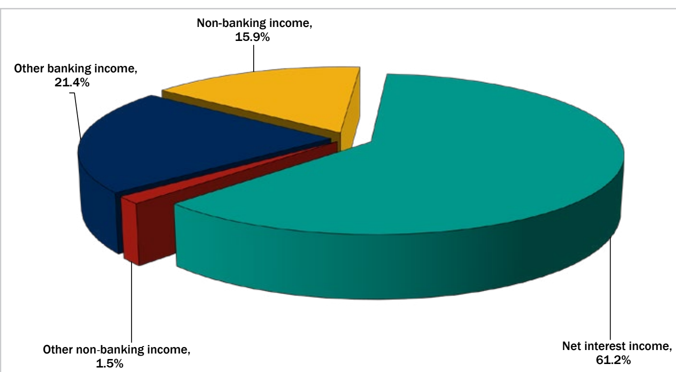
BANKING SECTOR PROFITABILITY

The banking sector after-tax net income of $51.9 million represents a decline of 20.0% (or $12.9 million) from Q1-2021. Net interest income fell by 2.3% (or $2.8 million) to $118.7 million compared with the prior quarter. Non-interest income increased by 1.7% (or $1.3 million) to $75.3 million over the same period. As a result, total income fell to $194.0 million, representing a 0.8% (or $1.6 million) decrease from the Q1-2021 total income. Operating expenses increased by 3.2% (or $4.2 million) to $134.1 million compared to the prior quarter. Net charge-offs for bad debts in Q2-2021 amounted to $7.3 million, a significant increase from the $0.1 million reported in the prior quarter.

The efficiency ratio deteriorated in Q2-2021, up 6.3 percentage points to 72.8%. The quarterly increase was due to higher operating and non-operating expenses (up 8.7%) relative to the decrease in total income (down 0.8%).

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

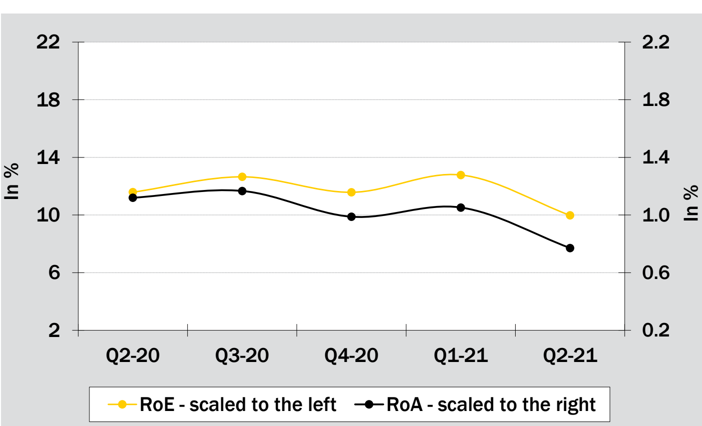


Chart IX: Quarterly RoE and RoA

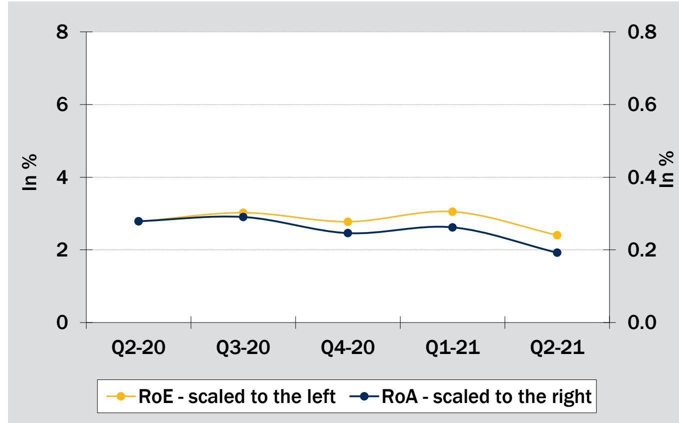
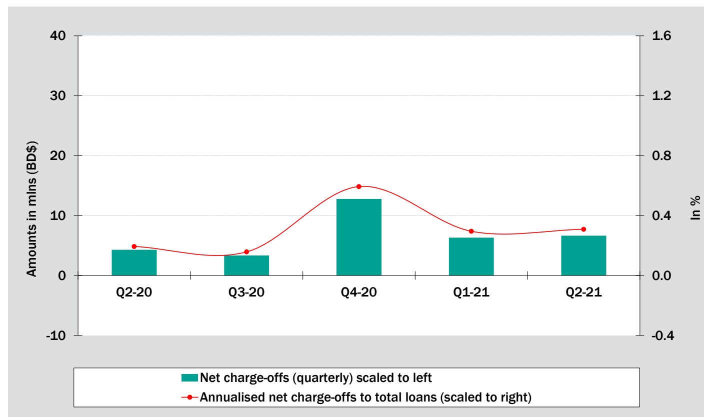


Chart X: Net Charge-off Amount and Proportion of Annualised Charge-offs to Loans



During the quarter, the amount of uncollectible loans written-off totalled $6.6 million (net of recoveries), slightly higher compared to write-offs reported in the prior quarter. The proportion of annualised net charge-offs to total loans remained low at 0.3% for Q2-2021.

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 %)	
	Jun	Mar	Dec	Sep	Jun	QoQ	YoY
Cash	0.1	0.1	0.1	0.1	0.1	–	–
Deposits (interbank)	5.0	3.5	3.8	3.2	3.3	42.9	**51.5**
Loans and advances	5.6	5.5	5.6	5.4	5.7	1.8	-1.8
Investments	13.2	12.5	12.3	11.6	10.6	5.6	24.5
Other assets	0.4	0.4	0.3	0.3	0.4	–	–
Total assets	24.3	22.0	22.1	20.6	20.1	10.5	20.8
Deposit liabilities	21.1	18.9	19.0	17.5	17.2	11.6	22.7

FX assets increased by 10.5% (or $2.3 billion) during the quarter while growing by 20.8% (or $4.2 billion) over the same quarter of last year.

FX customer deposit liabilities were up 11.6% (or $2.2 billion) to $21.1 billion over the quarter and up 22.7% (or $3.9 billion) compared to the same quarter of last year. The quarterly growth was driven by FX demand deposits up 21.5% (or $2.1 billion) to $11.8 billion, which were the largest contributor to the quarterly growth in customer deposit inflows, and FX savings deposits, up 3.5% (or $0.2 billion) to $6.0 billion. FX time deposits were unchanged at $3.3 billion over the same period.

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

Table VIII: FX Positions

	2021		2020		
	Jun	Mar	Dec	Sep	Jun
	%	%	%	%	%
FX-denominated assets to total assets	87.6	86.5	86.3	85.4	84.7
FX-denominated loans to total loans	65.1	64.7	64.7	63.7	64.1
FX-denominated deposits to total deposits	84.3	82.8	83.3	82.5	82.8
Changes in FX assets	10.2	-0.2	7.3	2.8	-2.5
Changes in FX loans and advances	1.8	-0.8	3.3	-5.1	1.3
Changes in FX customer deposits	11.6	-0.8	8.6	1.7	-3.6

Table IX: Net FX Positions

(BD$ billions)	2021		2020		
	Jun	Mar	Dec	Sep	Jun
Total FX assets	24.3	22.0	22.1	20.6	20.0
Less: other assets	0.4	0.4	0.3	0.3	0.4
Less: FX loans to residents	0.9	0.9	1.3	1.3	1.5
Net FX assets	23.0	20.7	20.5	19.0	18.1
FX liabilities*	21.3	19.1	19.2	17.8	17.5
Add: BD$ deposits of non-residents	0.1	0.1	0.1	0.1	0.1
Net FX liabilities	21.4	19.2	19.3	17.9	17.6
Net FX position	1.6	1.5	1.2	1.1	0.5

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

The net FX position continued to steadily increase, up to $1.6 billion for the quarter and $1.1 billion higher compared to the same period last year. During the quarter, the net FX liabilities were up 11.5% (or $2.2 billion), closely matching the 11.1% (or $2.3 billion) increase in net FX assets, resulting in a marginal increase in the net FX position held by the banking sector.

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

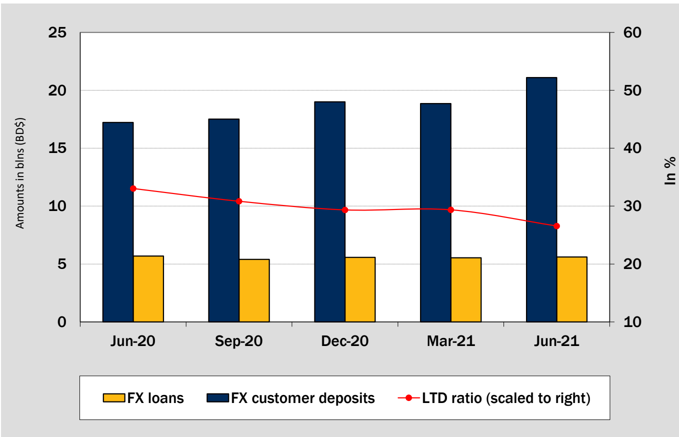
Table X: Liquidity Indicators (FX Positions)

	2021		2020		
	Jun	Mar	Dec	Sep	Jun
	%	%	%	%	%
Cash and cash equivalents to total assets	20.9	16.3	17.7	15.9	16.8
Cash and cash equivalents to total deposit liabilities	24.1	19.1	20.6	18.6	19.5
LTD ratio	26.6	29.4	29.3	30.8	33.0
Loans to total assets	23.1	25.1	25.3	26.3	28.5
Funding gap*	-63.8	-60.5	-60.9	-58.9	-57.7

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

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.

Chart XI: FX Loans and Customer Deposits



The FX loans to customer deposit ratio was 26.6%, down from 29.4% the previous quarter. During the quarter, FX loans and advances grew by 1.8% (or $0.1 billion) to $5.6 billion compared to the faster increase in FX customer deposits, up 11.6% (or $2.2 billion) to $21.1 billion. Customer deposit growth has been steady over the last four quarters, while lending remains static over the same period.

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 %)	
	Jun	Mar	Dec	Sep	Jun	QoQ	YoY
Loans and advances	3.1	3.1	3.2	3.2	3.3	–	-6.1
Total assets	3.9	3.9	4.0	4.0	4.1	–	-4.9
Deposit liabilities	3.9	3.9	3.8	3.7	3.6	–	8.3

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.

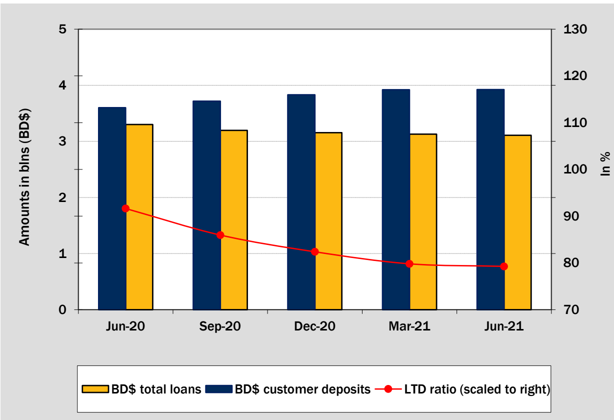
Table XII: Liquidity Indicators (BD$ Positions)

	2021		2020		
	Jun	Mar	Dec	Sep	Jun
	%	%	%	%	%
Cash and cash equivalents to total assets	1.9	1.9	2.1	1.5	1.6
Cash and cash equivalents to total deposit liabilities	1.9	1.9	2.1	1.6	1.8
LTD ratio	79.3	79.8	82.4	86.0	91.6
Loans to total assets	79.2	79.8	79.3	80.2	80.8
Funding gap to total assets*	-20.7	-20.2	-17.0	-13.1	-7.4

**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 experienced a marginal decline from the prior quarter, falling by 0.5 percentage points to 79.3% and was down 12.3 percentage points from a year earlier. For the quarter, loans and advances and deposit liabilities were unchanged at $3.1 billion and $3.9 billion, respectively. As a result, the overall BD$ surplus position was $0.8 billion* for the 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		
	Jun	Mar	Dec	Sep	Jun
Notes and coins in circulation	182	170	177	164	167
Deposit liabilities	3,923	3,921	3,830	3,717	3,601
Banks and deposit companies	**4,105**	**4,091**	**4,007**	**3,881**	**3,768**
Less: cash at banks and deposit companies	59	48	53	45	50
BD$ money supply	**4,046**	**4,043**	**3,954**	**3,836**	**3,718**
% growth on previous period	0.1	2.3	3.1	3.2	2.5
% growth YoY	8.8	11.5	11.8	8.2	5.5

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

The domestic money supply remained unchanged at $4.0 billion since the prior quarter and was up 8.8% (or $328 million) over the past year.

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 of England (BoE)

In June, the BoE published a paper on the new forms of digital money for public discussion.

https://www.bankofengland.co.uk/paper/2021/new-forms-of-digital-money

Bank for International Settlements (BIS)

In July, the BIS published a paper on regulating digital payment services and e-money.

https://www.bis.org/fsi/publ/insights33.pdf

In June, the BIS published a paper on the prudential treatment of crypto-asset exposures.

https://www.bis.org/bcbs/publ/d519.pdf

In June, the BIS released a paper on minimally invasive technology in relation to central bank digital currencies.

https://www.bis.org/publ/work948.pdf

In May, the BIS published its paper on the institutional arrangements for bank resolution.

https://www.bis.org/fsi/publ/insights32.pdf

In April, the BIS published its paper assessing the impact of Basel III from macroeconomic models.

https://www.bis.org/bcbs/publ/wp38.pdf

In April, the BIS published its international banking statistics and global liquidity indicators as of end-December 2020.

https://www.bis.org/statistics/rppb2104.pdf

In April, the BIS released a report on the conceptual issues related to climate-related financial risk measurement and methodologies, as well as practical implementation by banks and banking supervisors.

https://www.bis.org/bcbs/publ/d518.pdf

International Monetary Fund (IMF)

In July, the IMF published a report on central bank digital currencies and the extent of their use in cross-boarder payments.

https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/07/09/Central-bank-digital-currencies-for-cross-border-payments-461850

European Systemic Risk Board (ESRB)

In June, the ESRB released a paper on the macroprudential policy issues arising from the low-interest rate environment.

https://www.esrb.europa.eu/pub/pdf/reports/esrb.reports210601_low_interest_rate~199fb84437.en.pdf

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 all interest earned 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 earned less interest expense.

Non-interest income includes all other income earned 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

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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