QUARTERLY
Banking Digest
Q1-2018

BMA
BERMUDA MONETARY AUTHORITY

BASEL III REQUIREMENTS

- As of 1 January 2018, Bermuda's banks are required to meet a Net-Stable Funding Ratio (NSFR) as part of the Authority's implementation of Basel III standards. The NSFR is a measure used to ensure that banks maintain a minimum amount of Available Stable Funding (ASF) that is not less than the amount of its Required Stable Funding (RSF) over a one-year horizon.

- The phased-in Basel III Liquidity Coverage Ratio (LCR) requirement for 2018 is 90.0%. A fully phased-in LCR minimum of 100.0% will be in place by 1 January 2019.

- All banks are required to hold additional capital in the form of a Capital Conservation Buffer (CCB). The phased-in CCB for 2018 was 1.88% for all banks, raising the minimum Common Equity Tier 1 (CET1) plus CCB to 6.38% of Risk-Weighted Assets (RWAs).

- Banks deemed to be systemically important to the island's economy are required to maintain a Domestic Systemically Important Banks (D-SIB) buffer which can range from 0.0% to 3.0%.

PERFORMANCE HIGHLIGHTS

- **The Bermuda banking sector continued to maintain prudent levels of regulatory capital.** The sector's capital position was marginally better for the quarter, with the Risk-Asset Ratio increasing to 21.5%. The leverage ratio rose by 40 basis points (BPS) to 8.2%.

- **The total assets of Bermuda's banking sector contracted by 4.9% to $21.3 billion compared to a year ago.** The decline in total assets over the past year was attributed to the 32.8% fall in interbank deposits, while the other categories of banking assets experienced little change.

- **Q1 bank earnings remained positive.** Banks posted higher profits during the quarter, aided by higher net margins (up 2%) and lower reported total operating costs (down 31.7%), resulting in improved net profits and stable average returns.

SUMMARY INDICATORS

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

Table I: Selected Indicators

	2018	2017			
(Ratios in %)	Mar	Dec	Sep	Jun	Mar
Capital Position					
Basel III – RAR	21.5	21.0	22.3	21.4	20.9
Basel III – CET I ratio (5.75%)	20.7	19.9	20.8	19.8	19.3
Basel III – Leverage Ratio (5.0%)	8.2	7.8	8.4	7.7	7.4
Liquidity					
Cash/cash equivalents to total deposits liabilities	15.2	17.4	13.2	15.6	21.0
Loan-to-deposit ratio	45.5	44.5	47.3	46.2	43.3
Funding gap [a)]	-47.9	-48.9	-46.4	-47.2	-50.4
Profitability					
Interest margin to interest income	93.1	93.3	93.6	93.9	93.6
Return on assets (annualised)	0.4	0.4	0.4	0.3	0.3
Return on equity (annualised)	4.1	4.0	4.4	2.7	2.8
Loan Book					
Provisions to Non-Performing Loans (NPLs)	30.6	32.1	19.5*	20.1*	20.5
NPLs to total loans	6.2	6.3	7.1	7.1	7.3
NPLs to regulatory capital [b)]	28.2	28.8	32.1	33.8	34.2
Other					
Change in BD$ money supply	0.0	-2.4	-0.4	1.1	1.5
Change in assets	-1.9	1.8	-2.4	-2.4	-1.1
Change in RWAs [c)]	-1.3	0.5	0.6	-1.1	-1.5
Change in customer deposits	-1.9	1.9	-2.2	-3.6	-1.3

**Restated*

a) Loans, less deposits; divided by total assets
b) As of Q1-2016, Basel III capital will be used to calculate this ratio.
c) Basel III Risk-weighted assets (RWAs) from Q1-2016

BALANCE SHEET

Aggregate Balance Sheet

Table II provides a summary of key balance sheet trends in the sector.

Table II: Aggregate Balance Sheet

(BD$ blns)	2018 Mar	2017 Dec	2017 Sep	2017 Jun	2017 Mar	Change (In %) QoQ	Change (In %) YoY
Assets							
Cash	0.1	0.1	0.1	0.1	0.1	*-4.0*	*4.5*
Deposits	2.8	3.2	2.4	2.9	4.1	*-14.6*	*-32.8*
Loans & advances	8.6	8.5	8.9	8.9	8.6	*0.5*	*-0.9*
Investments	9.3	9.3	9.4	9.4	9.0	*-0.1*	*3.8*
Other assets	0.6	0.6	0.6	0.6	0.7	*4.8*	*-4.0*
Total assets	**21.3**	**21.8**	**21.4**	**21.9**	**22.5**	***-1.9***	***-4.9***
Liabilities							
Savings deposits	6.5	6.4	6.1	6.6	6.9	*1.2*	*-5.4*
Demand deposits	9.1	9.7	9.9	9.7	10.2	*-6.5*	*-11.6*
Time deposits	3.2	3.0	2.8	2.9	2.8	*6.3*	*14.2*
Total deposits	**18.8**	**19.2**	**18.8**	**19.2**	**19.9**	***-1.9***	***-5.8***
Other liabilities	0.6	0.6	0.5	0.6	0.5	*-9.8*	*9.9*
Total liabilities	**19.4**	**19.8**	**19.3**	**19.9**	**20.5**	***-2.2***	***-5.4***
Equity and subordinated debt	2.0	2.0	2.1	2.0	2.0	*0.5*	*0.3*
Total liabilities and equity	**21.3**	**21.8**	**21.4**	**21.9**	**22.5**	***-1.9***	***-4.9***

Totals may not add due to rounding.

- The amount of total assets held by the banking sector contracted by 1.9% (or $420 million) during the quarter and by 4.9% (or $1.1 billion) over the last four quarters. The overall decline in total assets was attributed to the decrease in interbank deposits, which fell by 32.8% (or $1.3 billion) over the past year. All other core assets have remained fairly stable over the same period, with the composition of asset holdings comprising predominantly of investments (43.6%) and loans (40.1%).

- On the liabilities side of the balance sheet, the deposit base continued to decline, falling by 1.9% (or $367 million) for the quarter and 5.8% (or $1.2 billion) compared to the same period last year. The year-on-year decline in total deposits was led by demand deposits (down 11.6% or $1.1 billion) to $9.1 billion followed by savings (down 5.4% or $375 million) to $6.5 billion. Time deposits continued to show positive growth, increasing by 14.2% (or $397 million) to $3.2 billion compared to a year ago.

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 Ratio

(In % unless indicated otherwise)	2018 Mar	2017 Dec	2017 Sep	2017 Jun	2017 Mar
Asset allocation					
Investments	43.6	42.8	44.0	42.8	39.9
Loans	40.1	39.1	41.5	40.6	38.4
Deposits	13.0	14.9	11.2	13.3	18.3
Other assets	3.0	2.8	2.9	2.9	2.9
Deposits allocation					
Savings	34.7	33.6	32.5	34.5	34.6
Demand	48.3	50.6	52.7	50.4	51.4
Time	17.0	15.7	14.8	15.0	14.1
Capital position					
Basel III – Risk Asset Ratio*	21.5	21.0	22.3	21.4	20.9
Basel III – Leverage Ratio	8.2	7.8	8.4	7.7	7.4

Totals may not add due to rounding.

Capital Adequacy

Chart I shows movement in the (RAR and Leverage Ratio over the last two years.

Chart I: Risk Asset Ratio and Leverage Ratio

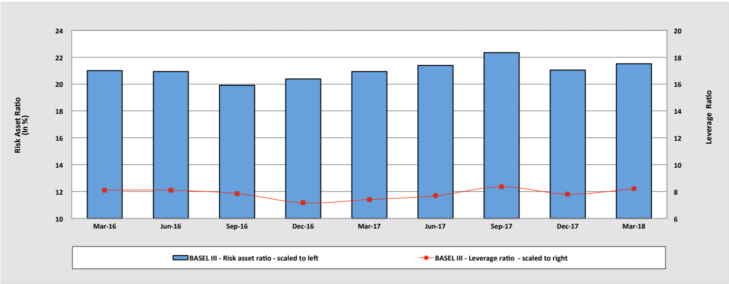
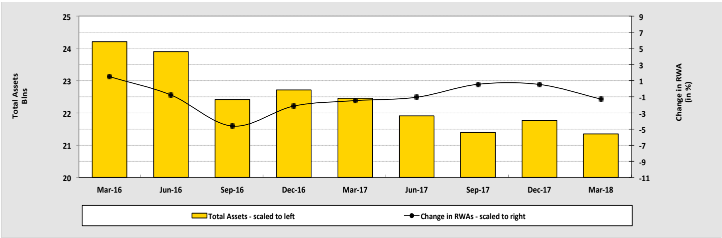


Chart II reflects the movement in total assets and the change in Risk Weighted Assets (RWAs) over the last two years.

Chart II: Total Assets and Change in RWAs



- The capital position as measured by the Risk-Asset Ratio (RAR) rose marginally to 21.5%. The banking sector reduced their risk exposure, as Risk-Weighted Assets (RWAs) fell by 1.3% to $8.7 billion during the quarter. The sector's core equity capital measured by the CET 1 ratio rose by 80 (BPS) to 20.7%, well-above the 5.75% minimum regulatory requirement.

- The banking sector's leverage position continued to improve as the leverage ratio rose from 7.8% to 8.2% in Q1, keeping above the 5.0% minimum requirement.

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

	2018	2017			
(In %)	Mar	Dec	Sep	Jun	Mar
Loans and advances quarter-over-quarter growth rate	0.5	-4.2	0.0	3.0	-1.6
Residential mortgages to total loans	48.6	48.5	46.0	45.6	46.8
Loan impairments					
NPLs to total loans (net)	6.2	6.3	7.1	7.1	7.3
NPLs to Basel III capital	28.2	28.8	32.1	33.8	34.2
Net charge-offs to loans (annualised)	0.1	0.1	0.2*	0.2	0.2
Loan provisioning					
Provisions to NPLs	30.6	32.1	19.5	20.1	20.5
Specific provisions to NPLs	27.1	25.5	11.9	11.3	11.3
Provisions to total loans (net)	2.5	2.7*	1.6	1.6	1.7

** Restated*

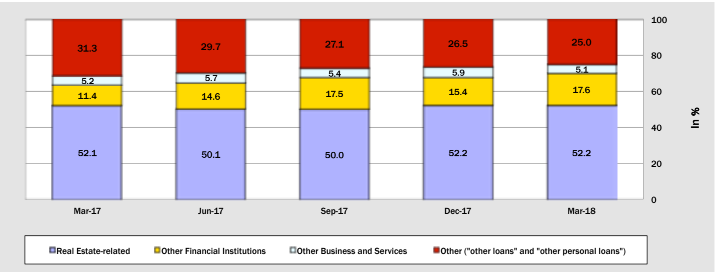
- Provision levels were comparatively lower during the quarter, down 5.0% (or $11.4 million) and 49.8% (or $72.4 million) higher than a year ago. Provisions to total loans were stable at 2.5% during the quarter, but were higher than the 1.7% ratio reported in the same quarter last year.

- Provisions to NPLs were down from 32.1% to 30.6% in Q1. The quality of the loan book portfolio as measured by the percentage of NPLs to total loans has gradually improved. Since Q1-2017, NPLs to total loans have steadily declined, falling to 6.2% for the quarter.

Sectoral Distribution of Loans

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

Chart III: Sectoral Distribution of Loans and Advances

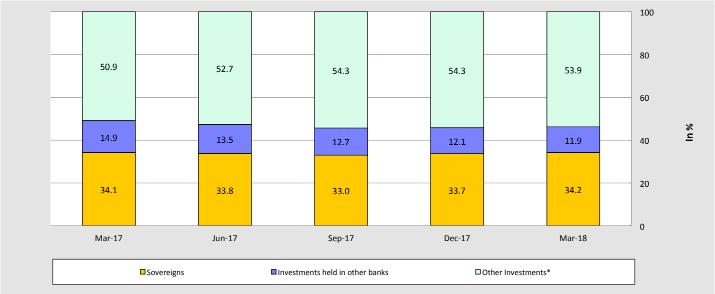


- Sectoral loans and advances experienced little movement in Q1. Loans to other financial institutions rebounded, increasing from 15.4% to 17.6% of all loans. Loans to "Other" sectors fell by 1.5 percent to 25% for the quarter.

Investment Book

Chart IV shows the structure of the aggregate investment book during the quarter.

Chart IV: Sectoral Structure of Investment Book



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

- The sector's investment structure shifted slightly during the quarter. Banks continued to invest heavily in "Other" forms of investments, mostly encompassing non-equity, government guaranteed securitised instruments (consisting of 85.1% of "Other" investments). Sovereign investments grew for a second consecutive quarter to 34.2% of total investments matching levels reported a year ago.

Liquidity and Liquidity Coverage Ratio (LCR)

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

Table V: Liquidity Indicators

	2018	2017			
(In %)	Mar	Dec	Sep	Jun	Mar
Cash and deposits to total assets	13.4	15.3	11.6	13.7	18.7
Cash and cash equivalents to total deposit liabilities	15.2	17.4	13.2	15.6	21.0
Loan-to-deposit ratio	45.5	44.5	47.3	46.2	43.3
Loans-to-total assets	40.1	39.1	41.5	40.6	38.4
Funding gap*	-47.9	-48.9	-46.4	-47.2	-50.4

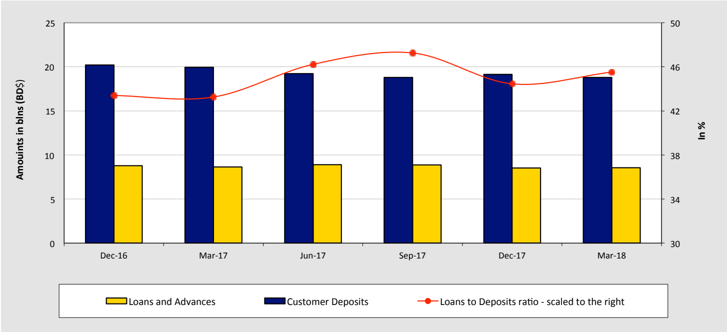
** The difference between total loans and total deposits divided by total assets.*

- As of the end-March all regulated financial institutions met the minimum LCR requirement and all other regulatory liquidity standards.

- For Q1-2018, all banks complied with the new Net-Stable Funding Ratio (NSFR) per Basel III requirements.

Chart V shows the change in total loans, customer deposits and the consolidated loan-to-deposit ratio (for both BD$ and FX) over the last six quarters.

Chart V: Total Loans and Deposits



- Loan-to-deposit ratio across the banking industry increased over the quarter, as the slight uptick in this metric was mainly due to the outflow of deposit liabilities. Loans remained stable during the quarter while the total deposit balance fell by 1.9% (down $367 million) over the same period; resulting in the liquidity ratio of deposits to loans to rise from 44.5% to 45.5%.

PROFIT AND LOSS

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

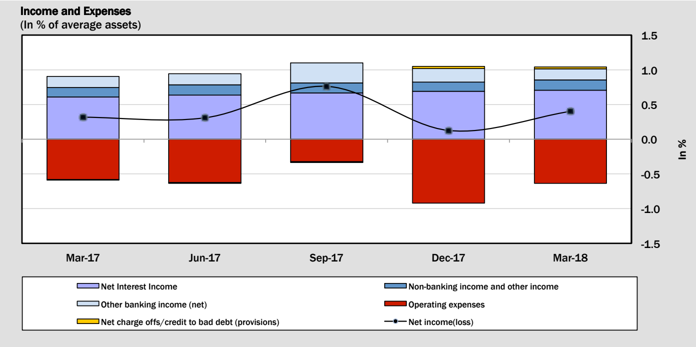
Table VI: Income structure of Income statement

(In %)	2018	2017			
	Mar	Dec	Sep	Jun	Mar
Net interest margin to total income	69.6	67.8	60.6	67.5	67.1
Annualised net interest margin to (average) earning assets*	2.8	2.8	2.6	2.5	2.4
Annualised interest income to (average) earning assets*	3.0	3.0	2.8	2.7	2.5
Banking income to total income	85.4	86.9	86.6	84.6	84.6
Non-interest income to total income	30.4	32.2	39.4	32.5	32.9
Non-interest expenses to total income	60.3	87.6	30.7	67.4	65.0
Personnel expenses to non-interest expenses	54.8	43.0	13.5	52.9	53.5
Annualised Return on Assets (RoA)*	0.4	0.4	0.4	0.3	0.3
Annualised Return on Equity (RoE)**	4.1	4.0	4.4	2.7	2.8

** Earning assets are averaged over the last four quarters.*
*** Shareholders' equity is averaged over the last four quarters.*

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



Margin Analysis

- The banking sector profits improved in the first quarter of 2018. Banks reported higher net interest margins (consisting of 69.6% of total income) during the quarter, up 2.0% to $147.4 million. Other banking-related income sources were down, falling by 18% to $33.4 million, while non-banking income grew by 10.5% to $30.9 million. Total income was marginally down for the quarter, decreasing by 1.0% to $211.7 million but was 7.7% (or $15.1 million) higher than amounts reported a year ago. Operating and non-operating expense declined by 31.7% to $127.6 million during the quarter equalling amounts reported a year earlier. Overall net profits were up 221.5% (or $57.7 million) during the quarter; mainly associated with unexpected other operating expenses for the quarter. Net profits were also 22% (or $15 million) higher over the past year.

- The sector's cost efficiency as measured by non-interest expenses to total income, improved during the quarter, falling from 87.6% to 60.3% (see Table VI). The improvement is mainly due to a decline in banking operating costs (down 31.7%) relative to the small decrease in total income (down 1.0%).

Chart VII reflects the distribution of income sources as of end-March 2018.

Chart VII: Distribution of Income Sources

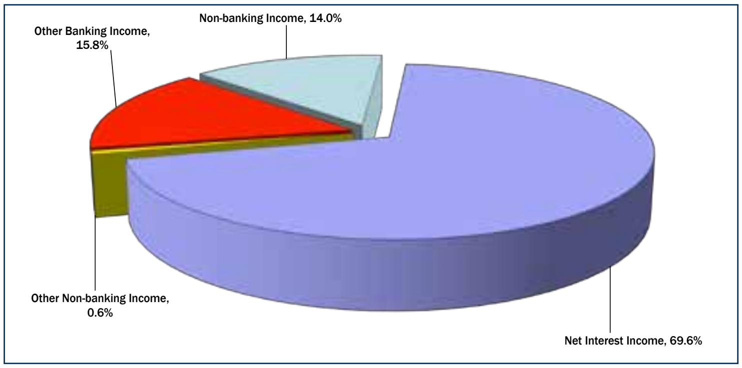
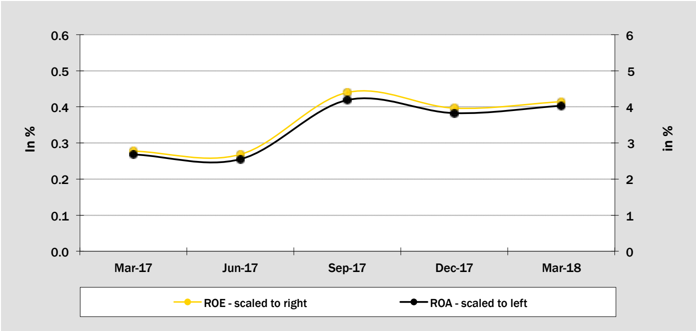


Chart VIII shows the trend in RoE and RoA over the last five quarters.

Chart VIII: Annualised RoA and RoE*

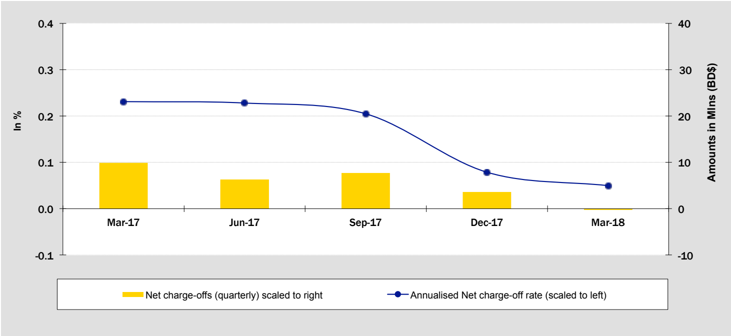


Percentages may not agree to scale due to rounding

- Banking sector returns remained positive, with annualised RoA increasing slightly to 4.1% and RoE holding steady at 0.4%.

Chart IX shows the actual net charge-offs and the annualised change relative to total loans over the last five quarters.

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



- The banking sector reported lower net write-offs due to recoveries reported during the quarter. Uncollectible loans written off by banks fell by 103.0% (down $10.2 million) compared to a year ago. The annualised net charge-offs to total loans was unchanged at 0.1%.

Foreign Currency (FX) Balance Sheet

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

Table VII: Foreign Currency Balance Sheet

	2018	2017				Change (In %)	
(In BD$ blns)	Mar	Dec	Sep	Jun	Mar	QoQ	YoY
Loans and advances	5.1	5.1	5.4	5.3	5.0	1.6	2.4
Total assets	17.5	17.9	17.4	17.9	18.3	-2.1	-4.7
Deposit liabilities	15.4	15.7	15.3	15.7	16.5	-2.3	-6.7

- Foreign currency assets contracted by 4.7% to $17.5 billion compared to the same quarter last year. The decline was primarily led by FX interbank deposits (down 32.7% or $1.3 billion), with FX investments (up 4.0% or $345 million) and FX loans (up 2.4% or $120.6 million) negating some of the overall decrease in total FX assets.

- Foreign currency customer deposits fell by 6.7% to $15.4 billion over the past year. The decline in core deposits was mainly driven by the outflows of FX demand deposits (down 12.3% or $1.1 billion) to $8 billion and FX saving deposits (down 7% or $366.3 million) to $2.3 billion. FX time deposits were comparatively higher, increasing by 19.4% (or $392.3 million) to $2.4 billion.

Table VIII shows the foreign currency position for the sector for the last five quarters.

Table VIII: Foreign Currency Positions

	2018	2017			
(In %)	Mar	Dec	Sep	Jun	Mar
FX-denominated assets to total assets	81.9	82.0	81.5	81.6	81.7
FX-denominated loans to total loans	60.0	59.3	60.6	60.0	58.1
FX-denominated deposits to total deposits	81.8	82.1	81.3	81.7	82.5
Changes in FX assets	-2.1	2.4	-2.5	-2.5	-1.3
Changes in FX loans and advances	1.6	-6.2	1.0	6.5	-2.1
Changes in FX customer deposits*	-2.3	2.8	-2.7	-4.5	-1.9

****Percentage change may not be consistent due to rounding.***

Table IX is a summary of ratios measuring the liquidity of the FX$-denominated bank balance sheet for the last five quarters.

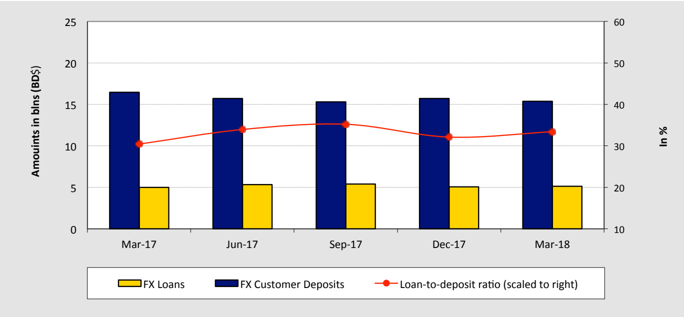
Table IX: Liquidity Indicators (FX Positions)

	2018	2017			
(In %)	Mar	Dec	Sep	Jun	Mar
Cash and deposits to total FX assets	16.0	18.3	13.9	16.4	22.5
Cash and cash equivalents to total FX deposit liabilities	18.2	20.8	15.9	18.7	25.1
Loan-to-deposit ratio	33.4	32.1	35.2	34.0	30.4
Loans to total FX assets	29.3	28.3	30.9	29.8	27.3
Funding gap*	-58.5	-59.8	-56.8	-58.0	-62.4

**** The difference between total loans and total deposits divided by total assets***

Chart X shows the movement in FX$-denominated loans and deposits, and the ratio of FX$-denominated loans to customer deposits for the last five quarters.

Chart X: FX Loans and Customer Deposit



Bermuda Dollar Balance Sheet

Table X shows the aggregate Bermuda Dollar balance sheet of the sector over the last five quarters.

Table X: Bermuda Dollar Balance Sheet

(In BD$ blns)	2018	2017				Change (In %)	
	Mar	Dec	Sep	Jun	Mar	*QoQ*	*YoY*
Loans and advances	3.4	3.5	3.5	3.6	3.6	*-1.2*	*-5.4*
Total assets	3.9	3.9	4.0	4.0	4.1	*-1.2*	*-5.8*
Deposit liabilities	3.4	3.4	3.5	3.5	3.5	*-0.1*	*-1.7*

Note: The BD$-denominated balance sheet of the sector aggregates data submitted by legal entities. This varies from the consolidated sector balance sheet banking statistics in the Regulatory Update.

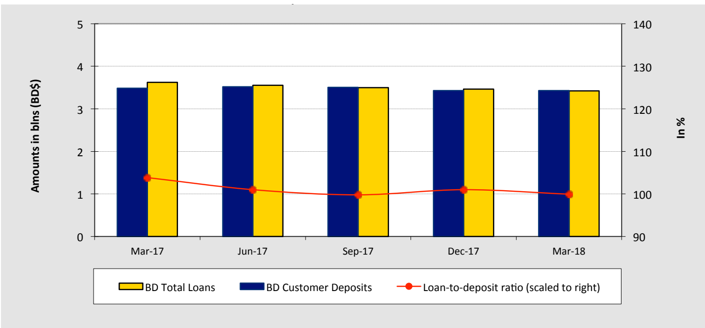
Table XI is a summary of ratios measuring the liquidity of the BD$-denominated balance sheet over the last five quarters.

Table XI: Liquidity Indicators (BD$ Positions)

(In %)	2018	2017			
	Mar	Dec	Sep	Jun	Mar
Cash and deposits to total assets	1.3	1.4	1.4	1.8	1.5
Cash and cash equivalents to total deposit liabilities	1.5	1.6	1.5	2.0	1.8
Loan-to-deposit ratio	99.9	101.0	99.8	101.0	103.8
Loans to total assets	88.5	88.5	88.6	88.3	88.1
Funding gap to total BD$ Assets	-0.1	0.9	-0.2	0.9	3.3

Chart XI shows the movement in BD$-denominated loans and deposits, along with the ratio of BD$-denominated loans to deposits for the last five quarters.

Chart XI: Bermuda Dollar Loans and Customer Deposits



- Bermuda dollar loan-to-deposit (LTD) ratio was slightly down, falling to 100.0%. Movement in domestic lending continued to be low, down 1.2% (or $40.9 million) to $3.4 billion for the quarter and down 5.4% compared to a year ago. BD$ customer deposits was unchanged at $3.4 billion, though were down 1.7% year-on-year.

Monetary Aggregates

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

Table XII: Bermuda Money Supply (Unconsolidated)

(In BD$ mln)	2018	2017			
	Mar	Dec	Sep	Jun	Mar
Notes and coins in circulation	136	141	133	138	131
Deposit liabilities	3,438	3,441	3,518	3,532	3,499
Banks and deposit companies	**3,575**	**3,582**	**3,651**	**3,670**	**3,630**
Less: cash at banks and deposit companies	37	43	36	40	38
Bermuda Dollar money supply	**3,538**	**3,538**	**3,614**	**3,630**	**3,592**
% Growth on previous period	0.0	-2.1	-0.4	1.1	1.5
% Growth y-o-y	-1.5	-0.0	2.1	2.3	2.5

The table includes the supply of Bermuda dollars only.

- The supply of Bermuda dollar currency within the banking sector was unchanged during Q1; however, supply levels are still lower than amounts reported a year earlier (down 1.5%).

SELECTED INTERNATIONAL DEVELOPMENTS

This section lists important publications issued during the last quarter by international organisations and national supervisory authorities. The listing does not reflect endorsement by the Bermuda Monetary Authority.

Banking Committee on Banking Supervision (BCBS)

In March, the BCBS published the results of its latest Basel III monitoring exercise based on data as of 30 June 2017. Findings show that all the banks in the sample meet both the Basel III risk-based capital minimum Common Equity Tier 1 (CET1) requirement of 4.5% and the target level CET1 requirement of 7.0%.

https://www.bis.org/bcbs/publ/d433.pdf

In February, the BCBS issued additional requirements under Pillar 3 framework arising from the finalisation of the Basel III post-crisis regulatory reforms in December 2017.

https://www.bis.org/bcbs/publ/d432.pdf

The BCBS published its Sound Practices on the implications of Fintech developments for banks and bank supervisors. The paper identifies 10 key implications and related considerations for banks, and bank supervisors relating to development of fintech within the financial sector.

https://www.bis.org/bcbs/publ/d431.pdf

Bank of England (BoE)

In March, the BoE published key elements of its 2018 stress test of the UK banking systems. The stresses applied to the economic and financial market prices, and measures of activity in the 2018 test will be the same as in 2017, while the hurdle rates will evolve from those used in earlier years.

https://www.bankofengland.co.uk/-/media/boe/files/stress-testing/2018/stress-testing-the-uk-banking-system-key-elements-of-the-2018-stress-test.pdf?la=en&hash=6A00F3E28248411FF638A2E55B6060B2FBB882A1

Committee on the Global Financial System (CGFS)

In January, the CGFS released a report that assessed the structural changes of banks following the global crisis. The report found that banks have become more resilient to risks and have strengthened their capital, and liquidity buffers since the crisis.

https://www.bis.org/publ/cgfs60.pdf

Committee on Payments and Market Infrastructures (CPMI)

In March, the CPMI published a report on central bank digital currencies (CBDCs), analysing their implications for payment systems, monetary policy and financial stability.

https://www.bis.org/cpmi/publ/d174.pdf

European Banking Authority (EBA)

In January, the EBA finalised guidelines on uniform disclosure requirements for transitional arrangements for IFRS 9. The guidelines covered, among other things, own funds, the risk-based capital ratio and the leverage ratio.

http://www.eba.europa.eu/documents/10180/2082000/Final+Report+on+Guidelines+on+uniform+disclosure+of+IFRS9+transitional+arrangements+(EBA-GL-2018-01).pdf

European Central Bank (ECB)

In March, the ECB published its Addendum to its Guidance to banks on non-performing loans (NPLs). The document sets out its supervisory expectations for prudential provisioning for NPLs and introduces a Pillar 2 backstop for newly non-performing loans.

https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.npl_addendum_201803.en.pdf?f94194ad8a1aee318f0b76a426485f74

Financial Stability Board (FSB)

In March, the FSB published its report addressing the declines in correspondent banking and recommendations on remittances.

http://www.fsb.org/wp-content/uploads/P160318-2.pdf

The FSB published its Global Shadow Banking Monitoring Report 2017. The report provides a number of observations on the interconnectedness and activities of the shadow banking sector.

http://www.fsb.org/wp-content/uploads/P050318-1.pdf

Prudential Regulation Authority (PRA)

In January, the PRA published a "Dear CFO" letter regarding expected credit loss (ECL) accounting requirements under the International Financial Reporting Standard 9 (IFRS 9). The letter sets out its expectations as to the minimum transition disclosures for International Financial Reporting Standard 9's expected credit loss accounting (ECL) requirements.

https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2017/letter-to-firms-on-ifrs9-transition-disclosures-january-2018.pdf?la=en&hash=3AF99C8E366CBFC4F55FB40A783AAEDF02B004E2

GLOSSARY

Adjusted return on assets is the return on assets computed using net income excluding extraordinary items.

Adjusted return on equity is the return on equity computed using net income excluding extraordinary items.

Additional Tier 1 Capital (AT1) is represented by allowable components of Tier One Capital other than Common Equity.

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

Capital Conservation Buffer (CCB) is designed to ensure that banks build up and retain capital buffers outside of periods of stress which can be drawn down in exceptional circumstances if severe losses are incurred.

Common Equity Tier 1 Capital (CET 1) is the primary and predominant form of regulatory capital, and will be used as the primary capital adequacy measure for all Bermuda banks once Basel III becomes fully implemented.

CET 1 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.

Coverage Ratio (Provisions to NPLs) is the ratio that shows the extent to which non-performing loans are already covered by provisions.

Domestic Systemic Important Banks (D-SIBs) are banks that are deemed to be systemically important to the local economy.

Earning assets includes deposits with other financial institutions, loans, advances and leases, and investments.

Equity refers to the shareholder equity.

Fees and commissions consist of net income from banking fees, charges and commissions, investment management fees, trust and company administration fees, trustee and custodian fees, and fund management fees.

Foreign currency 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 expenses to customer deposits is computed by dividing the annualised interest paid and payable by the average total customer deposit liabilities.

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.

Interest margin is calculated as interest received or receivable less interest paid or payable.

Leverage is calculated as shareholder equity divided by total assets.

Leverage ratio (Basel III) is the ratio of Tier 1 Capital (including AT1) to total exposure (on-balance sheet exposures, derivative exposures, Securities Financing Transaction (SFT) exposures, and Off-Balance Sheet (OBS) 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 Highly-Quality Liquid Assets (HQLA) that can be converted easily and quickly into cash to meet their liquidity needs over a 30 calendar day liquidity stress scenario period.

Mortgages refer to financing to purchase real estate /residential property.

Mortgages on residential property to total loans refer to mortgages secured by residential properties consisting of homes, apartments, townhouses and condominiums as a percentage of total loans.

Net charge-offs for loan losses and impaired loans is the sum of general and specific profit, and loss charge for doubtful debts and transfers made to suspended interest account (net of recoveries).

Net stable funding ratio (NSFR) is the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an ongoing basis.

Net income is derived by netting off provision for taxation from gross profit, and takes into account extraordinary items.

Non-interest income includes all other income received by the bank, including fees and commissions from the provision of services, gains and losses on financial instruments, and other income.

Non-interest expenses cover all expenses other than interest expenses, including fees and commissions.

Non-Performing Loans (NPLs) consist of those loans classified as substandard, doubtful and loss as per the Authority's guidance on the completion of the Prudential Information Return for banks. A loan is classified as substandard when the delay in repayment is between 31 and 90 days, as doubtful when the delay is between 91 and 180 days, and as loss when the delay exceeds 180 days.

Other income consists of changes in the book value of investments, other non-banking services income, profit or loss on fixed assets and any other income, that cannot be classified into any other specific income line item.

Other operating expenses consist of services by external service providers and other operating expenses.

Provisions include both specific and general provisions.

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 Tier 1 and Tier 2 capital net of applicable total capital deductions.

Regulatory capital to total assets is derived by dividing the regulatory capital by the total assets as provided in the Prudential Information Returns.

Annualised Return on assets is calculated by dividing the average net income by the average value of total assets over the same period. The average assets are obtained by averaging the total assets over the last four quarters.

Annualised Return on equity is calculated by dividing the average net income by the average value of shareholder equity over the same period. The average shareholder equity is obtained by averaging the shareholder equity over the last four quarters.

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

Risk-Weighted Assets (RWAs) refer to a concept developed by the BCBS for the capital adequacy ratio. Assets are weighted by factors representing their riskiness and potential for default.

Specific provisions are the outstanding amount of provisions made against the value of individual loans, collectively assessed groups of loans and loans to other deposit takers.

Tier 1 capital consists of Common Equity Tier 1 capital (CET1) plus Additional Tier 1 capital (AT1) 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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