QUARTERLY

Banking Digest

Q4-2017

BMA
BERMUDA MONETARY AUTHORITY

NEW BASEL III REQUIREMENTS

- Beginning 1st January 2017, the phased-in Basel III Liquidity Coverage Ratio (LCR) requirement was 80%. A fully phased-in LCR minimum of 100% will be in place by 1st January 2019.
- All banks were required to hold additional capital in the form of a Capital Conservation Buffer (CCB). The phased-in CCB for 2017 was 1.25% for all banks, raising the minimum CET1 plus CCB to 5.75% of Risk Weighted Assets (RWAs).
- Banks deemed to be systemically important to Bermuda's economy were allocated Domestic Systemically Important Banks (D-SIB) buffers ranging from 0.0% to 3.0%.
- Commencing 1st January 2018, banks will be required to meet the Net-Stable Funding Ratio (NSFR) per the Authority's implementation of Basel standards. The NSFR is a measure used to ensure that banks maintain a minimum amount of Available Stable Funding (ASF) no less than the amount of its Required Stable Funding (RSF) over a one year horizon.

BANKING SECTOR INSIGHT

- **The US Federal Reserve increased interest rates three times in 2017.** As a result, the benchmark Federal Funds rate increased to a range from 1.25 percent to 1.5 percent, prompting some local banks to raise their savings and lending rates.
- **Effective 1st January 2018, local banks under International Accounting Standards (IAS)** will be subject to International Financial Reporting Standards 9 (IFRS 9), which sets out new rules for accounting for financial instruments, replacing the current rules in IAS 39. The most significant change for banks relates to the introduction of a forward-looking Expected Credit Loss (ECL) model.

PERFORMANCE HIGHLIGHTS

- **Banking assets grew 1.8% during Q4 to $21.8 billion.** The growth in total assets was mainly driven by a rise in interbank deposits, up 35.7% (or $853.3 million); while all other earning assets declined during the quarter.
- **Capital levels experienced a decline, but continue to exceed regulatory minimum requirements.** The sector's capital position was lower in Q4, as the Risk-Asset Ratio (RAR) fell by 130bps to 21.0%; while the overall leverage position was down to 7.8%.

SUMMARY INDICATORS

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

Table I: Selected Indicators

	2017				2016
(Ratios in %)	Dec	Sep	Jun	Mar	Dec
Capital Position					
Basel III – RAR	21.0	22.3	21.4	20.9	20.4
Basel III – CET I ratio (5.75%)	19.9	20.8	19.8	19.3	18.6
Basel III – Leverage Ratio (5.0%)	7.8	8.4	7.7	7.4	7.2
Liquidity					
Cash/cash equivalents to total deposits liabilities	17.4	13.2	15.6	21.0	18.1
Loan-to-deposit ratio	44.5	47.3	46.2	43.3	43.4
Funding gap [a)]	-48.9	-46.4	-47.2	-50.4	-50.4
Profitability					
Interest margin to interest income	93.3	93.6	93.9	93.6	93.3
Return on assets (annualised)	0.4	0.4	0.3	0.3	0.3*
Return on equity (annualised)	4.0	4.4	2.7	2.8	2.7*
Loan Book					
Provisions to Non-Performing Loans (NPLs)	32.1	19.5*	20.1*	20.5	21.4
NPLs to total loans	6.3	7.1	7.1	7.3	7.2
NPLs to regulatory capital [b)]	28.8	32.1	33.8	34.2	34.7
Other					
Change in BD$ money supply	-2.4	-0.4	1.1	1.5	0.0
Change in assets	1.8	-2.4	-2.4	-1.1	1.3
Change in RWAs [c)]	0.5	0.6	-1.1	-1.5	-2.2
Change in customer deposits	1.9	-2.2	-3.6	-1.3	3.7

**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)	2017				2016	Change (In %)	
	Dec	Sep	Jun	Mar	Dec	QoQ	YoY
Assets							
Cash	0.1	0.1	0.1	0.1	0.1	*-2.9*	*-16.3*
Deposits	3.2	2.4	2.9	4.1	3.6	*35.7*	*-9.0*
Loans & advances	8.5	8.9	8.9	8.6	8.8	*-4.1*	*-3.0*
Investments	9.3	9.4	9.4	9.0	9.6	*-0.9*	*-2.9*
Other assets	0.6	0.6	0.6	0.7	0.7	*-2.4*	*-10.6*
Total assets	**21.8**	**21.4**	**21.9**	**22.5**	**22.7**	***1.8***	***-4.2***
Liabilities							
Savings deposits	6.4	6.1	6.6	6.9	6.6	*5.4*	*-2.6*
Demand deposits	9.7	9.9	9.7	10.2	10.6	*-2.2*	*-8.6*
Time deposits	3.0	2.8	2.9	2.8	3.0	*8.6*	*0.5*
Total deposits	**19.2**	**18.8**	**19.2**	**19.9**	**20.2**	***1.9***	***-5.3***
Other liabilities	0.6	0.5	0.6	0.5	0.6	*19.7*	*3.0*
Total liabilities	**19.8**	**19.3**	**19.9**	**20.5**	**20.8**	***2.6***	***-4.8***
Equity and subordinated debt	2.0	2.1	2.0	2.0	1.9	*-5.9*	*2.5%*
Total liabilities and equity	**21.8**	**21.4**	**21.9**	**22.5**	**22.7**	***1.8***	***-4.2***

Totals may not add due to rounding.

- The sector's total assets increased by 1.8% (or $376.8 million) to $21.8 billion in the fourth quarter, but were down 4.2% compared to a year earlier. In contrast to the prior quarter, interbank activity grew by 35.7% to $3.2 billion, helping to boost total asset growth and negating the overall decline in the other remaining interest-earning assets.

- Total deposit liabilities increased 1.9% to $19.2 billion, but remained 5.3% lower compared to a year earlier. Factors contributing to the quarterly increase were positive inflows from saving deposits (up 5.4% or $330.4 million) to $6.4 billion and time deposits (up 8.6% or $237.6 million) to $3.0 billion, while demand deposits were down 2.2% (or $217.6 million) to $9.7 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 Ratio

(In % unless indicated otherwise)	2017				2016
	Dec	Sep	Jun	Mar	Dec
Asset allocation					
Investments	42.8	44.0	42.8	39.9	42.3
Loans	39.1	41.5	40.6	38.4	38.6
Deposits	14.9	11.2	13.3	18.3	15.7
Other assets	2.8	2.9	2.9	2.9	3.0
Deposits allocation					
Savings	33.6	32.5	34.5	34.6	32.7
Demand	50.6	52.7	50.4	51.4	52.5
Time	15.7	14.8	15.0	14.1	14.8
Capital position					
Basel III – Risk Asset Ratio*	21.0	22.3	21.4	20.9	20.3
Basel III – Leverage Ratio	7.8	8.4	7.7	7.4	7.2

Totals may not add due to rounding.
**** Basel III requirements as per the Final Rules, subject to the phase-in period with full implementation commencing in 2019.***

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

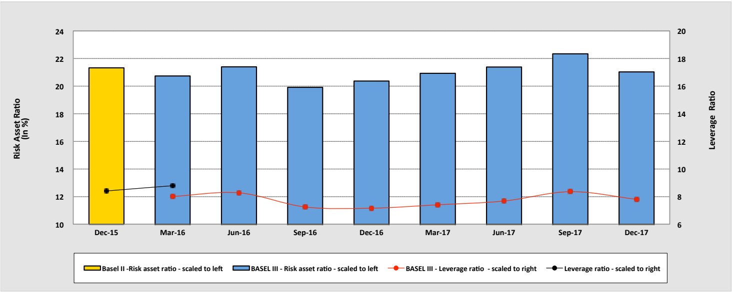
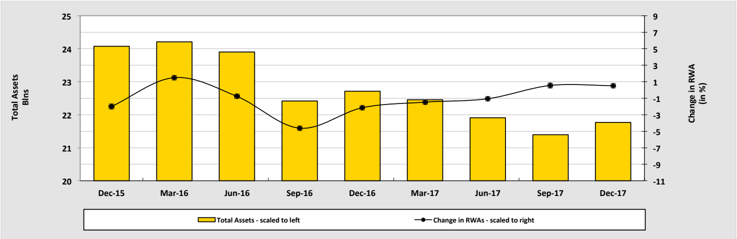


Chart II reflects the movement in total assets and the change in Risk Weighted Assets (RWAs) over the last two years.

Chart II: Total Assets and Change in RWAs



- The sector's overall capital ratio fell, as the Risk-Asset Ratio (RAR) decreased from 22.3% to 21.0%. Total regulatory capital fell by 5.4% (or $105 million), reaching $1.9 billion during Q4. Risk-Weighted Assets (RWAs) were slightly higher, up 50 bps to $8.8 billion in Q4. The sector's CET 1 ratio of 19.9% exceeds the 5.75% minimum regulatory requirement.

- The leverage ratio remained above the minimum requirement of 5.0% at 7.8%.

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

(In %)	2017				2016
	Dec	Sep	Jun	Mar	Dec
Loans and advances quarter-over-quarter growth rate	-4.2	0.0	3.0	-1.6	-4.9
Residential mortgages to total loans	48.5	46.0	45.6	46.8	45.8
Loan impairments					
NPLs to total loans (net)	6.3	7.1	7.1	7.3	7.2
NPLs to Basel III capital	28.8	32.1	33.8	34.2	34.7
Net charge-offs to loans (annualised)	0.1	0.2*	0.2	0.2	0.2*
Loan provisioning					
Provisions to NPLs	32.1	19.5	20.1	20.5	21.4
Specific provisions to NPLs	25.5	11.9	11.3	11.3	12.0
Provisions to total loans (net)	2.7	1.6	1.6	1.7	1.7

** Restated*

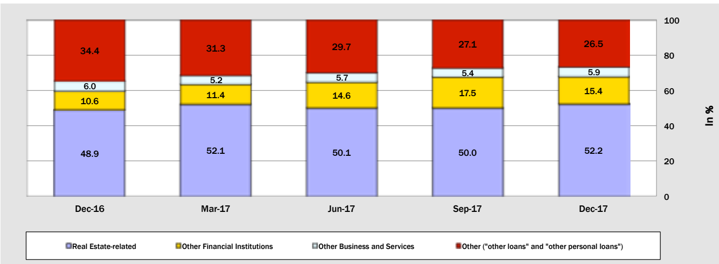
- Provision levels increased during the quarter, by $70.0 million (or 46.0%) and were 49.7% (or $76.2 million) higher relative to a year ago, raising the overall percentage of provisions to total loans from 1.6% to 2.7% for the year.

- The overall coverage of NPLs by provisions rose in Q4; from 21.4% to 32.1% year-on-year. NPLs to total loans decreased year-on-year, from 7.2% to 6.3%.

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

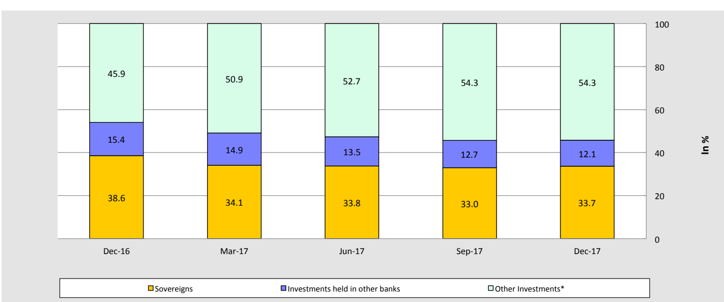


- Sectoral loans and advances were down 4.1% to $8.5 billion for Q4. The loan composition continued to be dominated by the real estate sector, making up more than half the loans held. Loans to other financial institutions declined following four quarters of steady growth, falling to 15.4%. All other remaining sectors were slightly lower during 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 structure of the investment book experienced little change in Q4. The sector has predominantly invested in "Other" types of investments, consisting mainly of non-equity, government guaranteed securitised instruments (representing 86.0% of "Other" investments). Other investments grew from 45.9% to 54.3% year-on-year. During 2017, overall activity was depressed by a decline in the remaining instruments held by banks, which included sovereign investments and investments held in other banks.

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

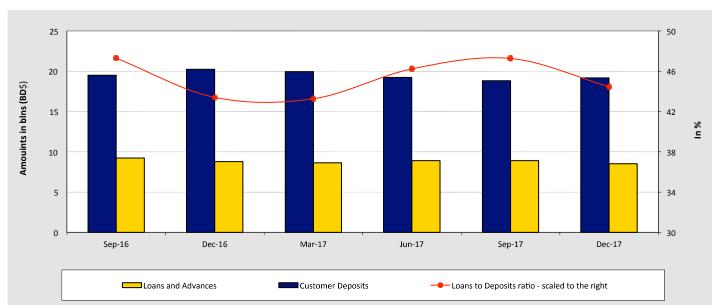
	2017				2016
(In %)	Dec	Sep	Jun	Mar	Dec
Cash and deposits to total assets	15.3	11.6	13.7	18.7	16.1
Cash and cash equivalents to total deposit liabilities	17.4	13.2	15.6	21.0	18.1
Loan-to-deposit ratio	44.5	47.3	46.2	43.3	43.4
Loans-to-total assets	39.1	41.5	40.6	38.4	38.6
Funding gap*	-48.9	-46.4	-47.2	-50.4	-50.4

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

- At the end of December, all regulated financial institutions complied with the minimum LCR requirement and all other regulatory liquidity standards.

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



- The banking sector continued to maintain a sound liquidity position with a sizeable surplus of customer deposits over customer loans. Overall loans were down 4.2% (or $372.0 million) relative to the increase in customer deposits (up 1.9% or $350.4 million) in Q4. The liquidity ratio of deposits to loans therefore dropped from 47.3% to 44.5%.

PROFIT AND LOSS

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

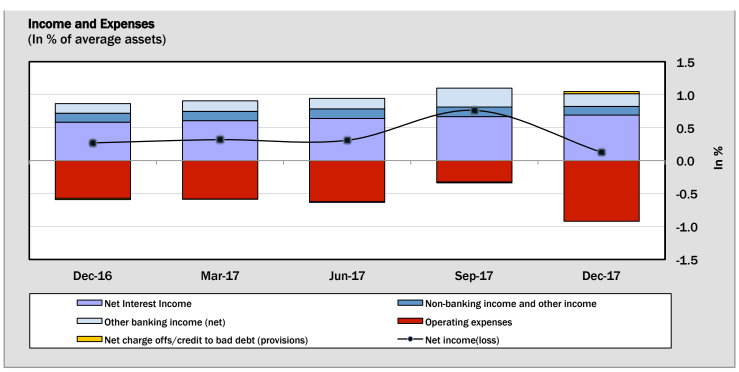
Table VI: Summary of Profitability Ratios

(In %)	2017				2016
	Dec	Sep	Jun	Mar	Dec
Net interest margin to total income	67.8	60.6	67.5	67.1	67.6
Annualised net interest margin to (average) earning assets*	2.8	2.6	2.5	2.4	2.3
Annualised interest income to (average) earning assets*	3.0	2.8	2.7	2.5	2.5
Banking income to total income	86.9	86.6	84.6	84.6	84.3
Non-interest income to total income	32.2	39.4	32.5	32.9	32.4
Non-interest expenses to total income	87.6	30.7	67.4	65.0	68.9
Personnel expenses to non-interest expenses	43.0	13.5	52.9	53.5	51.5
Annualised Return on Assets (RoA)*	0.4	0.4	0.3	0.3	0.3
Annualised Return on Equity (RoE)**	4.0	4.4	2.7	2.8	2.7

** 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's profits declined in the fourth quarter, due to lower reported non-operating income and higher operating expenses. Interest margins remained positive, resulting from modest earnings in interest-bearing assets. Banks reported higher net interest margins (consisting of 67.8% of total income) during the quarter, up 2.7% to $144.7 million. Income from 'other' banking-related income was lower, decreasing 32.6% (or $19.7 million) to $40.8 million, while non-operating income from non-banking services fell by 11.4% to $26.5 million; resulting in a decline in reported total income, down 8.1% (or $18.9 million) to $213.4 million. Operating and non-operating expenses rose by 162.5% (or $115.7 million) to $186.9 million. The combination of increased expenses and lower income eroded profits, causing net profits to decline by 83.8% during the quarter and 56.0% over the past year.

- Cost efficiency measured by non-interest expense to total income, deteriorated over the prior quarter, and rose from 30.7% to 87.6% (see Table VI).

Chart VII reflects the distribution of income sources as of end-Dec 2017.

Chart VII: Distribution of Income Sources

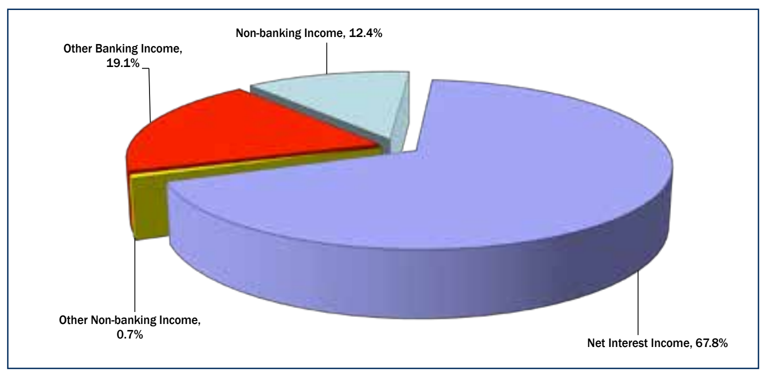
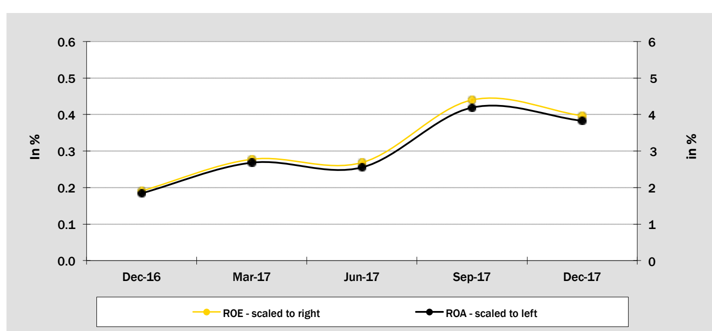


Chart VIII shows the trend in RoE and RoA over the last five quarters.

Chart VIII: Annualised RoA and RoE*

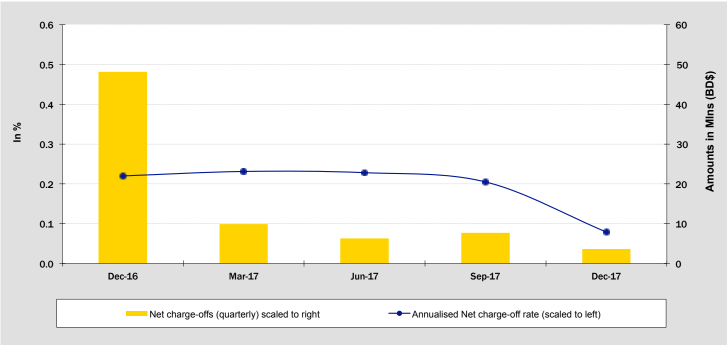


Percentages may not agree to scale due to rounding

- Returns were down slightly for the last quarter of the year; annualised RoA stood at 0.4%, while RoE fell to 4.0%.

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



- Throughout 2017, bank write-offs have been average at $6.9 million. Banks charged off $3.6 million in uncollectible loans during Q4, a decrease of $44.6 million (or 92.5%) from the previous year. Annualised net charge-offs to total loans was also down for the quarter, falling to 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

	2017				2016	Change (In %)	
(In BD$ blns)	Dec	Sep	Jun	Mar	Dec	*QoQ*	*YoY*
Loans and advances	5.1	5.4	5.3	5.0	5.1	-6.2	*-1.3*
Total assets	17.9	17.4	17.9	18.3	18.6	*2.4*	*-4.0*
Deposit liabilities	15.7	15.3	15.7	16.5	16.8	*2.8*	*-6.3*

- Foreign currency assets increased by 2.4% in Q4 to $17.9 billion, but were still down 4.0% compared to a year ago. Asset growth was driven mainly by an increase in interbank deposits (up 35.1% or $839.5 million), while the decline in loans (down 6.2% or $336.3 million) and investments (down 1.0% or $86.3 million) offset some of the increase in total FX assets.

- Foreign currency customer deposits grew by 2.8% to $15.7 billion, but were down 6.3% compared to a year earlier. The growth in asset funding sources was led by inflows from FX savings deposits (up 7.6% or $345.1 million) to $4.9 billion and FX time deposits (up 12.4% or $247.8 million) to $2.3 billion. FX demand deposits fell during the quarter by 2.0% (or $165.1 million) to $8.6 billion in Q4.

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

Table VIII: Foreign Currency Positions

	2017				2016
(In %)	Dec	Sep	Jun	Mar	Dec
FX-denominated assets to total assets	82.0	81.5	81.6	81.7	81.8
FX-denominated loans to total loans	59.3	60.6	60.0	58.1	58.3
FX-denominated deposits to total deposits	82.1	81.3	81.7	82.5	83.0
Changes in FX assets	2.4	-2.5	-2.5	-1.3	1.9
Changes in FX loans and advances	-6.2	1.0	6.5	-2.1	-7.4
Changes in FX customer deposits*	2.8	-2.7	-4.5	-1.9	4.4

****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.

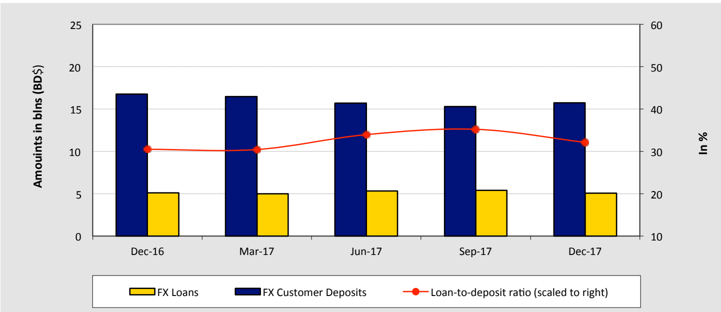
Table IX: Liquidity Indicators (FX Positions)

	2017				2016
(In %)	Dec	Sep	Jun	Mar	Dec
Cash and deposits to total FX assets	18.3	13.9	16.4	22.5	19.4
Cash and cash equivalents to total FX deposit liabilities	20.8	15.9	18.7	25.1	21.5
Loan-to-deposit ratio	32.1	35.2	34.0	30.4	30.5
Loans to total FX assets	28.3	30.9	29.8	27.3	27.5
Funding gap*	-59.8	-56.8	-58.0	-62.4	-62.8

**** 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

	2017				2016	Change (In %)	
(In BD$ blns)	Dec	Sep	Jun	Mar	Dec	*QoQ*	*YoY*
Loans and advances	3.5	3.5	3.6	3.6	3.7	*-1.0*	*-5.3*
Total assets	3.9	4.0	4.0	4.1	4.1	*-1.0*	*-5.3*
Deposit liabilities	3.4	3.5	3.5	3.5	3.4	*-2.2*	*-0.1*

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.

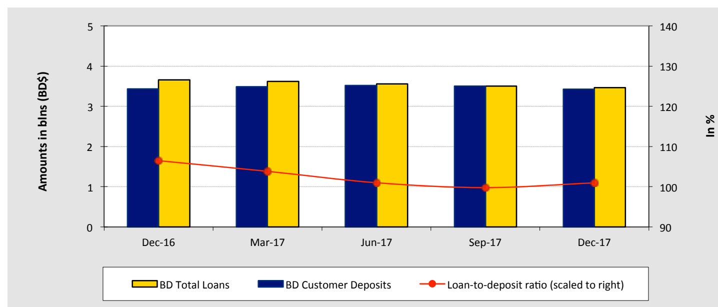
Table XI is a summary of ratios measuring the liquidity of the BD$-denominated balance sheet over the last five quarters.

Table XI: Liquidity Indicators (BD$ Positions)

	2017				2016
(In %)	Dec	Sep	Jun	Mar	Dec
Cash and deposits to total assets	1.4	1.4	1.8	1.5	1.5
Cash and cash equivalents to total deposit liabilities	1.6	1.5	2.0	1.8	1.8
Loan-to-deposit ratio	101.0	99.8	101.0	103.8	106.5
Loans to total assets	88.5	88.6	88.3	88.1	88.5
Funding gap to total BD$ Assets	0.9	-0.2	0.9	3.3	5.4

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 fairly stable during Q4, reaching 101.0%. Domestic loan growth continued to steadily decline, down 1.0% to $3.5 billion during the quarter; down 5.3% year-on-year. BD$ customer deposits was also down, falling by 2.2% to $3.4 billion during the quarter, but was unchanged compared to a year ago.

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)	2017				2016
	Dec	Sep	Jun	Mar	Dec
Notes and coins in circulation	141	133	138	131	137
Deposit liabilities	3,441	3,518	3,532	3,499	3,448
Banks and deposit companies	**3,582**	**3,651**	**3,670**	**3,630**	**3,585**
Less: cash at banks and deposit companies	43	36	40	38	46
Bermuda Dollar money supply	**3,538**	**3,614**	**3,630**	**3,592**	**3,540**
% Growth on previous period	-2.1	-0.4	1.1	1.5	0.0
% Growth y-o-y	0.0	2.1	2.3	2.5	2.7*

The table includes the supply of Bermuda dollars only.
****Restated***

- Bermuda Dollar money supply fell 2.1% to $3.5 billion for the last quarter of the year. The overall decline was driven by a decrease in local customer deposits, which fell by 2.2% (or $77.1 million) to $3.4 billion. Notes and coins rose to its highest level for the year, and were up 1.8% to $141.0 million due to higher seasonal activity.

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 December, the BCBS published its final Basel III framework. The final revisions seek to restore credibility in the calculation of Risk-Weighted Assets (RWAs) and improve the comparability of banks' capital ratios. Other elements of the framework, including revisions to the standardised approaches for credit and operational risk and constraints on the use of IRB approaches, will apply from January 2022.

https://www.bis.org/bcbs/publ/d424.pdf

The BCBS issued a proposed technical amendment to the Net Stable Funding Ratio. The amendment proposes to allow reduced required stable funding factors for central bank claims with a maturity of more than six months.

https://www.bis.org/bcbs/publ/d429.pdf

The BCBS published a discussion paper on the regulatory treatment of sovereign exposures. The paper looks at the main sources, channels, uses and regulatory treatment of sovereign risk in the banking system.

https://www.bis.org/bcbs/publ/d425.pdf

In October, the BCBS published its progress report on the adoption of Basel III. The report revealed that progress has been made in implementing the Interest Rate Risk in the Banking Book (IRRBB), the net stable funding ratio (NSFR), and the large exposures framework.

https://www.bis.org/bcbs/publ/d418.pdf

Bank of England (BoE)

In November, the BoE released its 2017 financial stability report. The report revealed that the UK's banking system showed resilience against simultaneous deep recessions in both the UK and global economies.

https://www.bankofengland.co.uk/-/media/boe/files/financial-stability-report/2017/november-2017.pdf?la=en&hash=F6D65F714A7DC28394BC4FCC9909CCD39E28AD10

In October, the BoE published its latest Approach to Resolution report. The report looks at how the bank would likely implement a resolution using one of three strategies.

https://www.bankofengland.co.uk/-/media/boe/files/news/2017/october/the-bank-of-england-approach-to-resolution.pdf?la=en&hash=FC806900972DDE7246AD8CD1DF8B8C324BE7652F

European Banking Authority (EBA)

In October, the EBA published its latest Risk Dashboard, summarising the main risks and vulnerabilities in the EU banking sector in Q2-2017. The report revealed that banks' loan portfolios had improved and that EU banks' profitability continued to slightly improve.

http://www.eba.europa.eu/documents/10180/1981506/EBA+Dashboard+-+Q2+2017.pdf

European Central Bank (ECB)

In October, the ECB released its report on the ongoing consolidation in the banking sector. The report found that the number of credit institutions declined further in 2016, bringing the cumulative decline since 2008 to 25%.

https://www.ecb.europa.eu/pub/pdf/other/reportonfinancialstructures201710.en.pdf

Financial Stability Board (FSB)

In November, the FSB released two proposals for the implementation of particular aspects of its "Key Attributes of Effective Resolution Regimes" for global systemically important banks (G-SIBs) in order to end "too-big-to-fail". The first proposal sets out principles on the execution of bail-in to assist the work of authorities as they operationalise resolution strategies and plans. The second proposal provides guidance on the development of a plan for funding in resolution.

http://www.fsb.org/wp-content/uploads/P301117-1.pdf

http://www.fsb.org/wp-content/uploads/301117-2.pdf

Prudential Regulation Authority (PRA)

In December, the PRA updated its supervisory statement on recovery plans and group recovery plans, which sets out the final expectations on the content of recovery plans and on the approach to recovery planning for groups containing a ring-fenced body.

https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2017/ss917.pdf?la=en&hash=D5317FDD3B9858CF1ADA8FD6B6BB69E459762D03

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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