QUARTERLY

Banking Digest

Q1-2016

BMA
BERMUDA MONETARY AUTHORITY

NEW BASEL III REQUIREMENTS

- Basel III adoption became effective 1st January 2015 with a phasing-in period for capital requirements commencing from 2016 to 2019 (full implementation). Basel II reporting was discontinued from 1st January 2016.

- Beginning 1st January 2016, the phased-in Basel III Liquidity Coverage Ratio (LCR) requirement was 70.0%, an increase from 60.0% (2015 requirement). A fully phased-in LCR minimum of 100.0% will be in place by 1st January 2019.

- As of 1st January 2016, all banks were required to hold additional capital until 1st January 2019 due to the phasing-in of the Capital Conservation Buffer (CCB). This year the phase-in requirement is 0.6% which resulted in the minimum CET 1 ratio increasing from 4.5% to 5.1%. The 2019 fully phased-in CCB will be 2.5%.

PERFORMANCE HIGHLIGHTS

- **Banking sector performance rebounded in Q1, with banks posting higher first quarter profits and declining operational costs.** The combination of lower expenses associated with banking operations (down 19.0% or $30.4 million) and higher total income (up 7.7% or $14.0 million) contributed to a quarterly increase in net income levels.

- **The sector's capital position, under the new Basel III standards, remained strong.** Capital adequacy levels remained well above minimum regulatory requirements. The Basel III Risk Asset Ratio (RAR) increased from 19.1% to 21.0%, while the CET 1 ratio rose from 15.9% to 17.7% during the quarter. The leverage position under Basel III also increased slightly, from 7.4% to 7.6%.

- **Loan book quality improved modestly.** The sector's non-performing loans (NPLs) as a percentage of total loans fell to 7.6%, their lowest level in over four years. Quarterly net charge-offs totalled $5.2 million, a decrease of $17.5 million (20.9%) compared with the prior quarter.

- **Overall loan growth remained positive.** Total loans increased by 2.9% during the first three months of 2016 (9.9% year-on-year). Bermuda's real estate sector continued to be challenged, as lending to this sector fell from 54.0% to 51.6% of total loans during the quarter.

SUMMARY INDICATORS

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

Table I: Selected Indicators

	2016	2015			
(Ratios in %)	Mar	Dec	Sep	Jun	Mar
Capital Position					
Risk Asset Ratio (RAR)	n/a	21.3	20.8	20.8	21.8
Basel III – RAR (8.0%)[a)]	21.0	19.1*	18.7*	18.6*	n/a
Tier 1 to Risk-Weighted Assets (RWAs)	n/a	19.7	19.2	19.3	20.2
Basel III – CET I Ratio (5.1%)[a)]	17.7	15.9	15.6	15.6*	n/a
Assets to regulatory capital (multiple)	n/a	11.9	11.6	12.0	11.2
Regulatory leverage ratio (equity to total assets)	n/a	8.4	8.8	8.4	9.2
Basel III – Leverage Ratio	7.6	7.4	7.7	7.4*	n/a
Liquidity					
Cash/cash equivalents to total deposits liabilities	18.0	18.2	24.2	27.1	25.3
Loan-to-deposit ratio	43.9	42.5	41.2	39.3	39.7
Funding gap[b)]	-49.3	-51.1	-51.9	-54.4	-53.5
Profitability					
Interest margin to interest income	92.2	91.5	92.2	91.5	91.5
Return on assets	1.1	0.4	1.0	0.8	1.0
Return on equity	12.6	4.0	11.2	8.4	9.8
Loan Book					
Provisions to Non-Performing Loans (NPLs)	23.5	23.5*	20.7	19.7	18.8
NPLs to total loans	7.6	8.0	9.4	9.5	10.1
NPLs to Basel III capital	42.5[c)]	35.7	39.6	40.3	39.8
Other					
Change in BD$ money supply	1.6	0.8	-2.4	0.4	2.1
Change in assets	0.6	2.8	-4.9	2.2	4.4
Change in RWAs[d)]	-8.0	-2.0	-1.5	-0.9	5.1
Change in customer deposits	-0.4	3.4	-6.3	3.2	5.1

**Restated*
a) Basel III requirements as per the Final Rules, subject to the phase-in period with full implementation commencing in 2019.
b) Loans, less deposits; divided by total assets
c) As of Q1-2016, Basel III capital will be used to calculate ratio
d) 1 Basel III Risk-weighted assests (RWA) from Q1-2016
n/a - No longer applicable

BALANCE SHEET

Aggregate Balance Sheet

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

Table II: Aggregate Balance Sheet

(BD$ blns)	2016	2015				Change (In %)	
	Mar	Dec	Sep	Jun	Mar	QoQ	YoY
Assets							
Cash	0.1	0.1	0.1	0.1	0.1	*-3.7*	*12.0*
Deposits	3.8	3.8	4.9	5.9	5.3	*-1.6*	*-29.7*
Loans & advances	9.3	9.1	8.5	8.7	8.5	*2.9*	*9.9*
Investments	10.3	10.4	9.2	9.3	9.4	*-0.8*	*9.6*
Other assets	0.7	0.7	0.7	0.7	0.8	*3.0*	*-8.9*
Total assets	**24.2**	**24.1**	**23.4**	**24.6**	**24.1**	***0.6***	***0.5***
Liabilities							
Savings deposits	7.1	6.5	6.0	6.2	6.4	*8.7*	*10.4*
Demand deposits	11.4	11.7	11.1	12.2	11.4	*-2.5*	*-0.2*
Time deposits	2.8	3.2	3.5	3.7	3.6	*-11.3*	*-20.8*
Total deposits	**21.3**	**21.4**	**20.7**	**22.1**	**21.4**	***-0.4***	***-0.5***
Other liabilities	0.7	0.6	0.6	0.4	0.4	*29.0*	*86.5*
Total liabilities	**22.0**	**21.9**	**21.2**	**22.5**	**21.8**	***0.3***	***1.1***
Equity and subordinated debt	2.2	2.1	2.2	2.2	2.3	*2.7*	*-5.5*
Total liabilities and equity	**24.2**	**24.1**	**23.4**	**24.6**	**23.1**	***0.6***	***0.5***

Totals may not add due to rounding.

- Sector assets were relatively even in Q1, similar to amounts reported in the same period last year. However, earning assets continued to show steady growth over the last four quarters, with loans up 9.9% (or $844.0 million) and investments up 9.6% (or $906.7 million) Conversely, interbank deposits have gradually declined, falling by 29.7% (or $1.6 billion) over the same period. This developing trend has resulted in a shift in asset composition, as investments (42.7%) and loans (38.6%) continued to grow steadily, while interbank deposits decreased (15.5%).

- Total liabilities remained static over the quarter with a 0.3% increase within the first three months of 2016. Deposit liabilities comprised the vast majority of the industry's liabilities at 97.0% of the total Q1-2016 figure, which fell 0.4% for an aggregate deposit balance of $21.3 billion. Of this amount demand deposits accounted for 53.5% followed by savings and time deposits at 33.2% and 13.3% respectively. During the first quarter of 2016, a $567.0 million growth in savings deposits was offset by a $296.0 million drop in demand deposits and a $361.0 million fall in time deposits.

Summary of Balance Sheet Ratios

Table III provides a summary of balance sheet ratios measuring asset quality and capital.

Table III: Summary of Balance Sheet Ratio

(In % unless indicated otherwise)	2016	2015			
	Mar	Dec	Sep	Jun	Mar
Asset allocation					
Investments	42.7	43.3	39.2	37.7	39.1
Loans	38.6	37.7	36.4	35.2	35.3
Deposits	15.5	15.8	21.0	23.9	22.1
Other assets	2.9	2.8	3.0	2.9	3.2
Deposits allocation					
Savings	33.2	30.4	29.2	28.1	29.9
Demand	53.5	54.6	53.7	55.1	53.3
Time	13.4	15.0	17.1	16.8	16.8
Capital position					
Risk Asset Ratio (RAR)	n/a	21.3	20.8	20.8	21.8
Basel III – Risk Asset Ratio**	21.0	19.1*	18.7*	18.6*	n/a
Equity to total assets	n/a	8.4	8.8	8.4	9.2
Basel III – Leverage Ratio	7.6	7.4	7.7	7.4*	n/a
Assets to regulatory capital (multiple)	n/a	11.9	11.6	12.0	11.2

Totals may not add due to rounding.
**** Restated***
***** Basel III requirements as per the Final Rules, subject to the phase-in period with full implementation commencing in 2019.***
n/a - No longer applicable

Capital Adequacy

Chart I below shows the movement in the Risk Asset Ratio (RAR) and the leverage ratio over the last two years.

Chart I: Risk Asset Ratio and Leverage Ratio

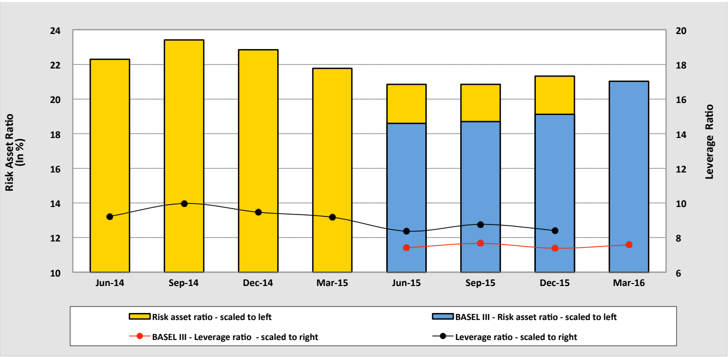
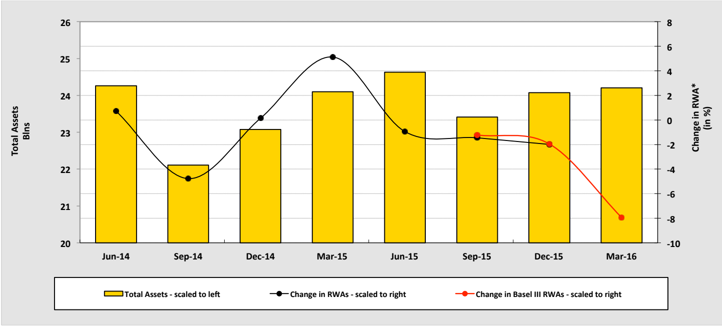


Chart II below reflects the movement in total assets and the change in Risk-Weighted Assets (RWAs) over the last two years.

Chart II: Total Assets and Change in RWAs



** Basel III RWA from Q1-2016*

- The capital position under the newly adopted Basel III requirements continued to be well above the minimum regulatory standard, as both the Basel III – RAR and the Common Equity Tier 1 (CET 1) ratio – increased to 21.0% (Q4-2015, 19.1%*) and 15.9% (Q4-2015, 15.9%), respectively. The combination of lower risk exposures and improved capital levels helped strengthen the banking sector's capital position.

- The Basel III Leverage Ratio remained stable at 7.6% during the quarter.

** restated*

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

	2016	2015			
(In %)	Mar	Dec	Sep	Jun	Mar
Loans and advances quarter-over-quarter growth rate	2.9	6.5	-1.7	2.0	2.5
Residential mortgages to total loans	43.8	46.0	49.0	48.7	48.8
Loan impairments					
NPLs to total loans	7.6	8.0	9.4	9.5	10.1
NPLs to capital	n/a	35.7	39.6	40.3	39.8
Net charge-offs to loans (annualised)	0.2	1.0	0.6	0.5	0.3
Loan provisioning					
Provisions to NPLs	23.5	23.5	20.7	19.7	18.8
Provisions to total loans	2.1	2.2	2.3	2.1	2.1

- The loan book quality as measured by non-performing loans (NPLs) to total loans continued to improve, falling for the sixth consecutive quarter to 7.6%. This is the lowest level in over four years (Q4-2011, 7.0%). Overall NPLs reported by banks decreased by 1.4% (or $10.0 million) relative to the increase in total loans (up 2.9% or $265.6 million).
- Sector provision levels dipped slightly as banks set aside $200.0 million to cover potential credit losses in the first quarter, but remained higher than a year ago ($184.0 million).
- Net charge-offs as a percentage of total loans fell to their lowest levels in over six years, decreasing from 1.0% to 0.2%.
- The coverage ratio of provisions to NPLs was unchanged at 23.5%, but remained higher than amounts reported a year earlier (18.8%). However, provisions as a percentage of total loans fell to 2.1% for the quarter, equalling levels a year earlier.

Sectoral Distribution of Loans

Charts III and IV reflect the sectoral distribution of loans during the quarter and the variation of lending to the different sectors over the last five quarters.

Chart III: Sectoral Distribution of Loans and Advances

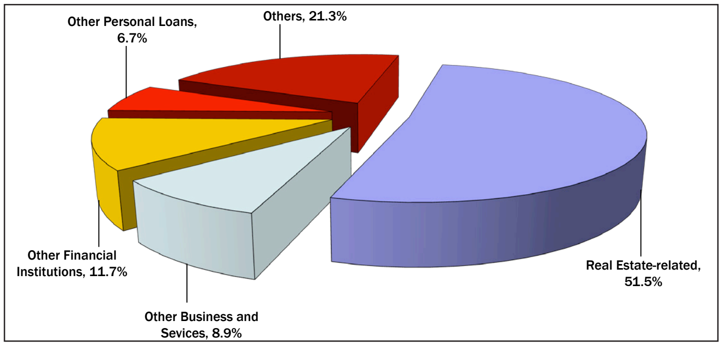
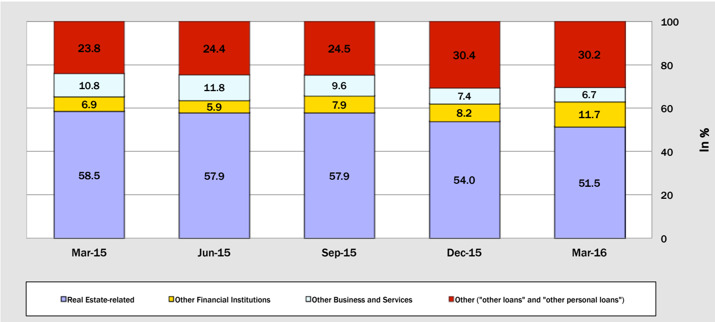


Chart IV: Sectoral Distribution of Loans and Advances

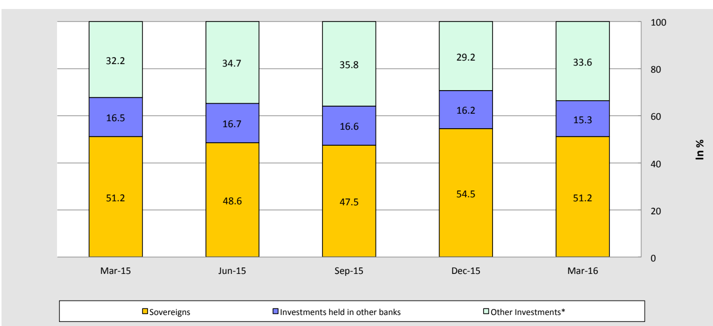


- While positive net lending to other major sectors increased, the overall stock of lending to the real estate market continued to decline, with real estate loans as a percentage of total loans falling from 54.0% to 51.5%. Loans to other financial institutions remained positive, jumping from 8.2% to 11.7% for the quarter, substantially higher than the 6.9% reported a year ago.

Investment Book

Chart V below shows the structure of the aggregate investment book during the quarter.

Chart V: Sectoral Structure of the 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 book structure remained fairly liquid and low-risk, despite a noticeable shift toward other forms of securities during the quarter. Highly-rated sovereign investment decreased from 54.5% to 51.2% of total investments, while growth in other investments rose from 29.2% to 33.6%. The increase in these securities was led by securitised (non-equity) investments (up 16.1%).

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

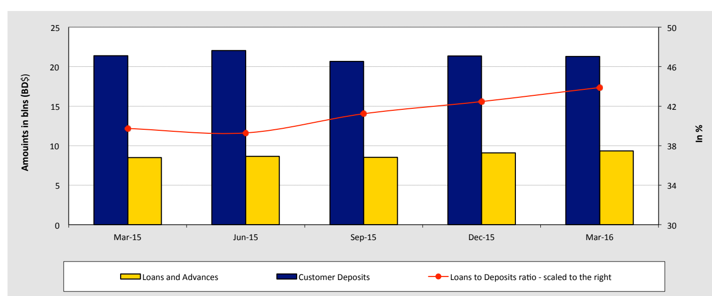
	2016	2015			
(In %)	Mar	Dec	Sep	Jun	Mar
Cash and deposits to total assets	15.8	16.2	21.4	24.2	22.4
Cash and cash equivalents to total deposit liabilities	18.0	18.2	24.2	27.1	25.3
Loan-to-deposit ratio	43.9	42.5	41.2	39.3	39.7
Loans-to-total assets	38.6	37.7	36.4	35.2	35.3
Funding gap*	-49.3	-51.1	-51.9	-54.4	-53.5

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

- All regulated financial institutions met the regulatory minimum liquidity requirements.
- As of the end-March 2016, all banks complied with the new phased-in 70.0% LCR requirement per the Authority's Final Rule.

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

Chart VI: Total Loans and Deposits



- The liquidity funding structure continued to improve, with the ratio of loans to total deposits rising from 42.5% to 43.9% during the quarter. Overall loans rose by 2.9% relative to the marginal change in customer deposits, resulting in a further narrowing in the sector's funding gap.

PROFIT AND LOSS

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

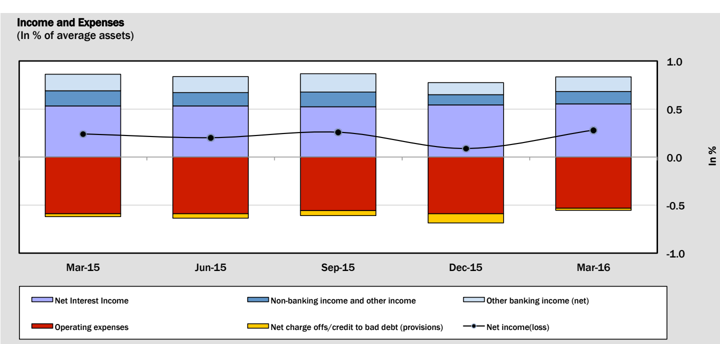
Table VI: Summary of Profitability Ratios

(In %)	2016	2015			
	Mar	Dec	Sep	Jun	Mar
Net interest margin to total income	66.3	69.9	60.4	63.4	61.8
Annualised net interest margin to (average) earning assets*	2.2	2.2	2.1	2.1	2.1
Annualised interest income to (average) earning assets*	2.4	2.4	2.3	2.3	2.3
Banking income to total income	84.6	86.0	82.5	83.4	81.8
Non-interest income to total income	15.4	14.0	17.5	16.6	18.2
Non-interest expenses to total income	66.5	88.5	70.2	76.0	72.1
Personnel expenses to non-interest expenses	48.0	45.1	49.7	48.5	50.3
Return on Assets (RoA)*	1.1	0.4	1.0	0.8	1.0
Return on Equity (RoE)**	12.6	4.0	11.2	8.4	9.8

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

Chart VII below shows the change in income and expense elements of the aggregate profit and loss statement of the sector over the last five quarters.

Chart VII – Income and Expenses



Margin Analysis

- Sector profitability increased during the quarter as the combination of higher reported earnings and lower operating expense boosted banking profits. Earnings arising from net interest income increased by 2.2%, while non-interest income sources from other banking income and non-banking income increased significantly by 22.5% and 18.2%, respectively. Total operating expenses fell by 9.7%, while non-operating expenses mainly associated with net charge-offs declined by 76.5% for the quarter.

- The banking sector's cost efficiency improved during the quarter, as non-interest expenses to total income fell from 88.5% to 66.5%. Operating and non-operating costs declined by 19.0%, while total income increased by 7.7%.

Chart VIII reflects the distribution of income sources as of end-March 2016.

Chart VIII: Distribution of Income Sources

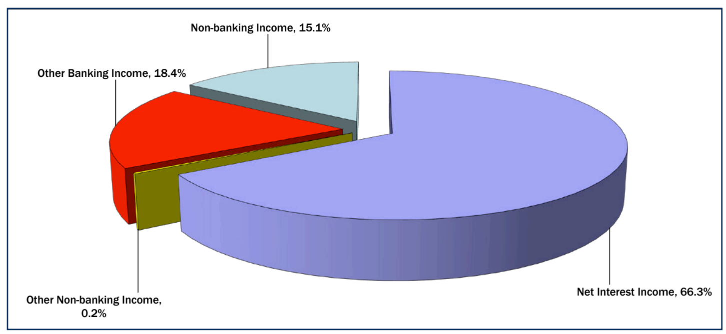
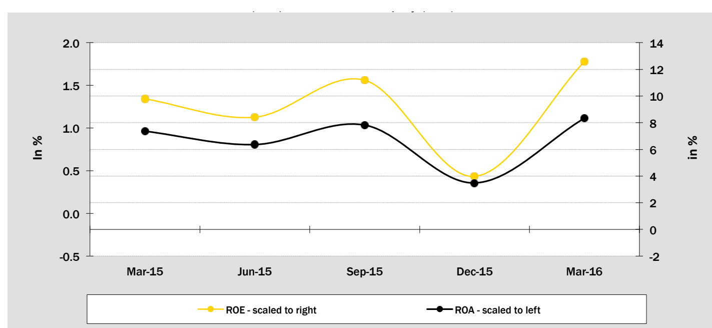


Chart IX shows the trend in RoE and RoA over the last five quarters.

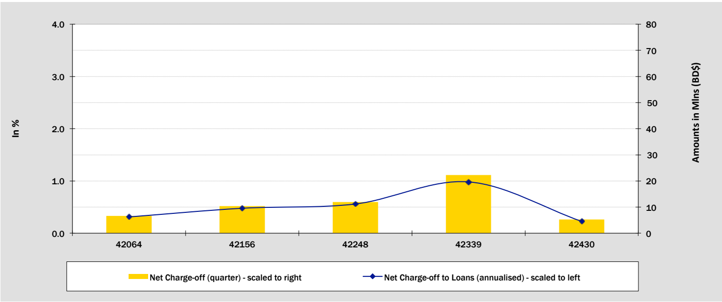
Chart IX: Annualised Return on Assets and Return on Equity



- The improvement in overall profitability helped generate favourable returns, as the annualised RoE and RoA reported by the banking sector rose to 12.6% and 1.1%, respectively.

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

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



Charge-offs for Loan Losses and Loan Impairments

- Net charge-offs totalled $5.2 million during the period, a decrease of $17.1 million (or 76.5%) over the previous quarter and $1.4 million (or 20.9%) year on year. This is the lowest quarterly total for the banking sector since Q3-2009.

Foreign Currency (FX) Balance Sheet

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

Table VII: Foreign Currency Balance Sheet

	2016	2015				Change (In %)	
(In BD$ blns)	Mar	Dec	Sep	Jun	Mar	*QoQ*	*YoY*
Loans and advances	5.5	5.2	4.6	4.6	4.4	*6.3*	*25.5*
Total assets	19.9	19.7	19.0	20.1	19.5	*1.0*	*2.3*
Deposit liabilities	17.9	18.0	17.4	18.7	18.1	*-0.9*	*-1.1*

- The FX$-denominated total assets increased by 1.0% during the quarter, 2.3% higher than the same quarter the previous year. Quarterly growth was led by FX$-denominated loans, which increased by 6.3% (or $327.5 million), 25.5% (or $1.1 billion) higher than the same period the previous year.

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

Table VIII: Foreign Currency Positions

	2016	2015			
(In %)	Mar	Dec	Sep	Jun	Mar
FX-denominated assets to total assets	82.2	81.9	81.2	81.6	80.8
FX-denominated loans to total loans	59.3	57.4	54.0	53.6	52.0
FX-denominated deposits to total deposits	84.0	84.4	84.0	84.9	84.5
Changes in FX assets	1.0	3.7	-5.4	3.2	6.1
Changes in FX loans and advances	6.3	13.3	-1.0	5.3	6.5
Changes in FX customer deposits*	-0.9	3.9	-7.4	3.7	5.3

** Percentage change based on absolute numbers.*

- The foreign currency position remains dominant, with a significant portion of FX-denominated assets representing 82.2% of total assets in Q1-2016. FX-denominated loans continue to increase, rising from 57.4% to 59.3% of total loans during the period.

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

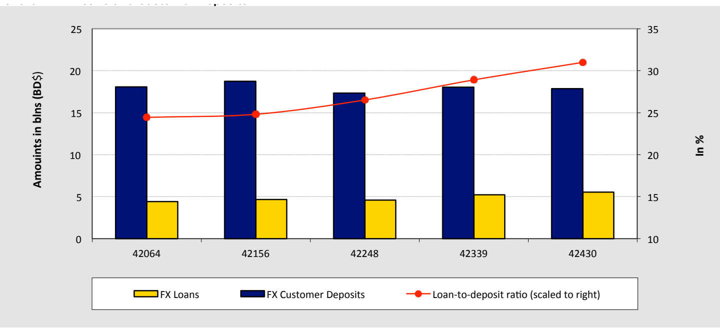
Table IX: Liquidity Indicators (FX Positions)

	2016	2015			
(In %)	Mar	Dec	Sep	Jun	Mar
Cash and deposits to total assets	18.9	19.4	26.0	29.3	27.3
Cash and cash equivalents to total deposit liabilities	21.0	21.2	28.5	31.4	29.5
Loan-to-deposit ratio	31.0	28.9	26.5	24.8	24.4
Loans to total assets	27.8	26.4	24.2	23.1	22.7
Funding gap*	-61.9	-65.0	-67.1	-70.1	-70.1

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

Chart XI 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 XI: FX Loans and Customer Deposit



- The sector's foreign currency liquidity funding ratio increased for the third consecutive quarter, as the percentage of loans to customer deposits increased from 28.9% to 31.0%.

Bermuda Dollar Balance Sheet

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

- The overall BD$-denominated balance sheet was relatively stable in Q1-2016, and has remained unchanged for the last four quarters.

Table X: Bermuda Dollar Balance Sheet

	2016	2015				Change (In %)	
(In BD$ blns)	Mar	Dec	Sep	Jun	Mar	*QoQ*	*YoY*
Loans and advances	3.8	3.9	3.9	4.0	4.1	*-1.6*	-6.9
Total assets	4.3	4.4	4.4	4.5	4.6	*-1.3*	*-7.3*
Deposit liabilities	3.4	3.3	3.3	3.3	3.3	*2.1*	*2.7*

Note: The BD$-denominated balance sheet of the sector aggregates data submitted on legal entity reporting basis, which is different from the presentation of the banking statistics in the Regulatory Update, which shows the consolidated sector balance sheet.

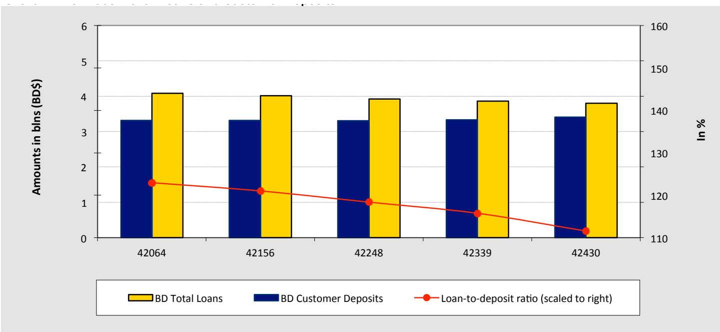
Table XI is a summary of ratios measuring the liquidity of the BD$-denominated balance sheet over the last five quarters.

Table XI: Liquidity Indicators (BD$ Positions)

	2016	2015			
(In %)	Mar	Dec	Sep	Jun	Mar
Cash and deposits to total assets	1.6	1.6	1.4	1.7	1.8
Cash and cash equivalents to total deposit liabilities	2.0	2.1	1.8	2.3	2.5
Loan-to-deposit ratio	111.6	115.8	118.4	121.0	123.0
Loans to total assets	88.4	88.7	89.0	88.5	88.0
Funding gap to total BD$ Assets	9.2	12.1	13.8	15.4	16.4

Chart XII 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 XII: Bermuda Dollar Loans and Customer Deposits



- BD$ liquidity position continues to show less reliance on foreign currency funding. The movement in the BD$ loan-to-deposit ratio keeps trending downward, falling to 111.6% as domestic lending fell by 1.6% (or $61.0 million) compared with the increase in BD$ deposits (up 2.1% or $70.5 million). Subsequently, the BD$ liquidity funding gap contracted even further, decreasing from 12.1% to 9.2% for the quarter.

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)	2016	2015			
	Mar	Dec	Sep	Jun	Mar
Notes and coins in circulation	125	133	124	122	118
Deposit liabilities	3,416	3,359	3,333	3,340	3,329
Banks and deposit companies	**3,541**	**3,492**	**3,457**	**3,462**	**3,447**
less: cash at banks and deposit companies	38	45	38	36	33
Bermuda Dollar money supply	**3,503**	**3,447**	**3,419**	**3,426**	**3,414**
% Growth on previous period	1.6	0.8	-0.2	0.4	2.1
% Growth y-o-y	2.6	3.1	1.3	2	-1.9

The table includes the supply of Bermuda dollars only.

- The BD$ money supply increased by 1.6% during the first quarter and 2.6% year-on-year. The quarterly growth was primarily due to higher inflow of deposit liabilities (up 1.7% or $57.4 million). Notes and coins in circulation declined by 6.0% (or $7.9 million) during the quarter, but remained higher year-on-year.

SELECTED INTERNATIONAL DEVELOPMENTS

This section lists important publications issued during the last quarter by international organisations and national supervisory authorities. This section does not reflect the views of the Bermuda Monetary Authority (the Authority).

Bank for International Settlements

In April, the Basel Committee on Banking Supervision (BCBS) released a revised version of the Basel III leverage ratio framework to address the errors in select paragraphs of the earlier proposed revision to the framework text, which was published on April 06, 2016.

http://www.bis.org/bcbs/publ/d365.pdf

The BCBS issued a consultation on the prudential treatment of problem assets, particularly definitions of non-performing exposures and forbearance. The definitions proposed by the BCBS aim to foster harmonisation in the measurement and application of two important measures of asset quality and thereby promote consistency in supervisory reporting and disclosures by banks.

http://www.bis.org/bcbs/publ/d367.pdf

In January, the BCBS published the revised standards for minimum capital requirements for market risks. The revised framework is to ensure that the standardised and internal model approaches to market risk deliver credible capital outcomes and promote consistent implementation of the standards across jurisdictions.

http://www.bis.org/bcbs/publ/d352.pdf

European Banking Authority

In February, the EBA published the final methodology and macroeconomic scenarios for the 2016 EU stress testing exercise. The EU-wide stress test will be conducted on a sample of 51 EU banks covering 70.0% of the banking sector in the EU and will be run at the highest level of consolidation.

https://www.eba.europa.eu/-/eba-launches-2016-eu-wide-stress-test-exercise

In January, the EBA published a revised final draft technical standards and guidelines on the further specification of the indicators of global systemic importance and their disclosure. The revisions closely follow the approach of the BCBS for identifying global systemically important banks.

http://www.eba.europa.eu/documents/10180/1388592/Guidelines+on+G-SII+identification

The Federal Reserve

In January, the Fed released supervisory scenarios for the 2016 Comprehensive Capital Analysis and Review (CCAR) and Dodd-Frank Act stress test exercises, and also issued instructions to firms participating in CCAR.

http://www.federalreserve.gov/newsevents/press/bcreg/20160128a.htm

The Financial Stability Board

In May, the FSB published its thematic peer review on the progress made by FSB member jurisdictions in implementing its framework for strengthening oversight and regulation of shadow banking entities. The principles included defining and updating the regulatory perimeter, collecting information and assessing shadow banking risks, and adopting appropriate policy tools to mitigate identified risks.

http://www.fsb.org/wp-content/uploads/Shadow-banking-peer-review.pdf

Prudential Regulatory Authority

In January, the PRA launched a consultation on the framework from the Financial Policy Committee covering the systemic risk buffer. The proposal is that those banks and building societies with total assets above £175bn will set progressively higher SRB rates as total assets increase through defined buckets.

http://www.bankofengland.co.uk/publications/Pages/news/2016/026.aspx

International Monetary Fund

In April, the IMF published a working paper examining the state of financial development in the Latin America and Caribbean region as well as potential growth and stability implications from further development.

http://www.imf.org/external/pubs/ft/wp/2016/wp1681.pdf

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.

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 Risk-Weighted Assets. 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.

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 for land and buildings for purchasing real estate 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 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. Included are fees and commissions from 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 BMA 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.

Return on assets is calculated by dividing the net income by the average value of total assets over the same period. The average assets are obtained by averaging the total assets at the beginning and at the end of the quarter.

Return on equity is calculated by dividing net income by the average value of shareholder equity over the same period. The average shareholder equity is obtained by averaging the shareholder equity at the beginning and at the end of the quarter.

Risk Asset Ratio is calculated as total (net) regulatory capital divided by total risk-weighted assets.

Risk-weighted assets (RWAs) refer to a concept developed by the Basel Committee on Banking Supervision (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 ordinary shares, perpetual non-cumulative preference shares, reserves verified by the auditors, current year's losses and minority interest (in Tier 1) adjusted for goodwill and other intangibles, and securitisation but before capital deductions.

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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