QUARTERLY

# Banking Digest

Q3-2018

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%. A fully phased-in LCR minimum of 100% 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%, depending with bank's balance sheet size.

## BANKING INSIGHT

- Amendments to the Banks and Deposit Companies Act 1999 approved by the Legislature in Q3 will create a new form of a banking license, which would allow a new class of banks to serve local Fintech and Blockchain companies.

## PERFORMANCE HIGHLIGHTS

- **The capital position within the banking sector improved,** with the CET 1 ratio and Risk-Asset Ratio (RAR) increasing to 23.1% and 24.7%, respectively. The leverage ratio reached its highest level for a quarter, rising to 9.2%.

- **Total assets declined by 7.0% to $19.9 billion from a year ago,** primarily driven by the fall in interbank deposits (down 13.5%), loans (down 8.6%) and investments (down 4.2%).

- **Profitability was down in Q3, with most of the quarterly decline coming from banking and non-banking income,** which fell by 7.8% to $219.0 million; relative to the minimal increase in overall operating expenses (up 2.2%) to $136.0 million.

## SUMMARY INDICATORS

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

**Table I: Selected Financial Soundness Indicators**

| (Ratios in %) | 2018 | | | 2017 | |
|---|---|---|---|---|---|
| | Sep | Jun | Mar | Dec | Sep |
| **Capital Position** | | | | | |
| Basel III - RAR | 24.7 | 23.1 | 21.5 | 21.0 | 22.3 |
| Basel III - CET 1 ratio (5.75%) | 23.1 | 21.5 | 20.7 | 19.9 | 20.8 |
| Basel III - Leverage Ratio (5.0%) | 9.2 | 8.4 | 8.2 | 7.8 | 8.4 |
| **Liquidity** | | | | | |
| Cash/cash equivalents to total deposits liabilities | 12.5 | 17.7 | 15.2 | 17.4 | 13.2 |
| Loan-to-deposit ratio | 47.1 | 44.1 | 45.5 | 44.5 | 47.3 |
| Funding gap [a)] | -45.9 | -49.3 | -47.9 | -48.9 | -46.4 |
| **Profitability** | | | | | |
| Interest Margin to interest income | 91.0 | 92.1 | 93.1 | 93.3 | 93.6 |
| Return on assets (quarterly) | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Return on equity (quarterly) | 3.7 | 4.6 | 4.1 | 4.0 | 4.4 |
| **Loan Book** | | | | | |
| Provisions to Non-Performing Loans (NPLs) | 29.5 | 29.5 | 30.6 | 32.1 | 19.5* |
| NPLs to total loans | 5.9 | 5.9 | 6.2 | 6.3 | 7.1 |
| NPLs to Basel III capital | 23.9 | 24.9 | 28.2 | 28.8 | 32.1 |
| **Other** | | | | | |
| Change in BD$ money supply (QoQ) | 0.2 | 1.0 | 0.0 | -2.4 | -0.4 |
| Change in assets (QoQ) | -7.9 | 1.3 | -1.9 | 1.8 | -2.4 |
| Change in RWAs (QoQ) | -5.9 | -0.3 | -1.3 | 0.5 | 0.6 |
| Change in customer deposits (QoQ) | -9.4 | 1.4 | -1.9 | 1.9 | -2.2 |

**Restated*

*a) Loans, less deposit liabilities; divided by total assets.*
*QoQ - percentage change over prior quarter.*

# 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 | | | 2017 | | Change (In %) | |
|---|---|---|---|---|---|---|---|
| | Sep | Jun | Mar | Dec | Sep | QoQ | YoY |
| **Assets** | | | | | | | |
| Cash | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | *-0.5* | *-3.0* |
| Deposits (Interbank) | 2.1 | 3.3 | 2.8 | 3.2 | 2.4 | *-37.0* | *-13.5* |
| Loans & advances (net) | 8.1 | 8.4 | 8.6 | 8.5 | 8.9 | *-3.3* | *-8.6* |
| Investments | 9.0 | 9.2 | 9.3 | 9.3 | 9.4 | *-2.0* | *-4.2* |
| Other assets | 0.6 | 0.7 | 0.6 | 0.6 | 0.6 | *-6.4* | *-0.9* |
| **Total Assets** | **19.9** | **21.6** | **21.3** | **21.8** | **21.4** | ***-7.9*** | ***-7.0*** |
| **Liabilities** | | | | | | | |
| Savings deposits | 5.7 | 6.5 | 6.5 | 6.4 | 6.1 | *-11.7* | *-6.3* |
| Demand deposits | 8.4 | 9.7 | 9.1 | 9.7 | 9.9 | *-13.0* | *-14.9* |
| Time deposits | 3.1 | 2.9 | 3.2 | 3.0 | 2.8 | *7.7* | *11.4* |
| **Total deposits** | **17.3** | **19.1** | **18.8** | **19.2** | **18.8** | ***-9.4*** | ***-8.4*** |
| Other liabilities | 0.6 | 0.5 | 0.6 | 0.6 | 0.5 | *13.9* | *26.2* |
| **Total liabilities** | **17.9** | **19.6** | **19.4** | **19.8** | **19.3** | ***-8.8*** | ***-7.4*** |
| Equity and subordinated debt | 2.0 | 2.0 | 2.0 | 2.0 | 2.1 | *0.1* | *-3.4* |
| **Total liabilities and equity** | **19.9** | **21.6** | **21.3** | **21.8** | **21.4** | ***-7.9*** | ***-7.0*** |

***Totals may not add due to rounding.***

- The total asset size of the banking system contracted by 7.9% (or $1.7 billion) to $19.9 billion at the end of the third quarter, down 7.0% (or $1.5 billion) compared to the same period last year. All interest-earning assets experienced declines over the quarter, led by interbank deposits (down 37.0% or $1.2 billion) to $2.1 billion, followed by loans and advances (down 3.3% or $274.2 million) to $8.1 billion and investments (down 2.0% or $184.5 million) to $9.0 billion. Year-on-year, the decrease in banking sector assets was mostly led by declines in interbank deposits (down 13.5%), lending (down 8.6%) and investments (down 4.2%).

- Total liabilities fell 8.8% (or $1.7 billion) to $17.9 billion during the quarter, down 7.4% (or $1.4 billion) compared to a year ago. Most of the quarterly decline was driven by the decrease in demand deposits (down 13.0% or $1.3 billion) to $8.4 billion and saving deposits (down 11.7% or $756.8 million) to $5.7 billion; negating the growth in time deposits (up 7.7% or $220.5 million) to $3.1 billion over the same period.

## Summary of Balance Sheet Ratios

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

### Table III: Summary of Balance Sheet Ratios

| (In % unless indicated otherwise) | 2018 | | | 2017 | |
|---|---|---|---|---|---|
| | Sep | Jun | Mar | Dec | Sep |
| **Asset allocation** | | | | | |
| Investments | 45.3 | 42.6 | 43.6 | 42.8 | 44.0 |
| Loans | 40.8 | 38.8 | 40.1 | 39.1 | 41.5 |
| Deposits (Interbank) | 10.4 | 15.2 | 13.0 | 14.9 | 11.2 |
| Other assets | 3.1 | 3.0 | 3.0 | 2.8 | 2.9 |
| **Deposits allocation** | | | | | |
| Savings | 33.2 | 34.1 | 34.7 | 33.6 | 32.5 |
| Demand | 48.9 | 50.9 | 48.3 | 50.6 | 52.7 |
| Time | 17.9 | 15.1 | 17.0 | 15.7 | 14.8 |
| **Capital position** | | | | | |
| Basel III - RAR | 24.7 | 23.1 | 21.5 | 21.0 | 22.3 |
| Basel III - Leverage Ratio | 9.2 | 8.4 | 8.2 | 7.8 | 8.4 |

***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

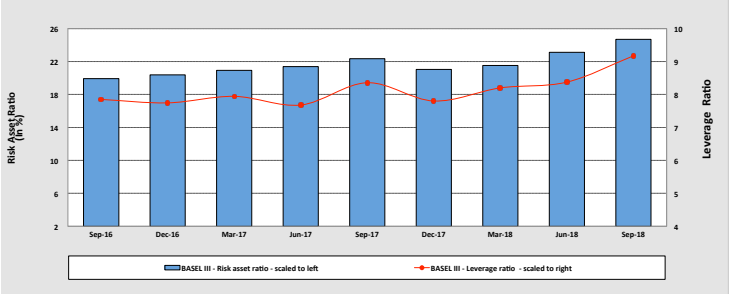
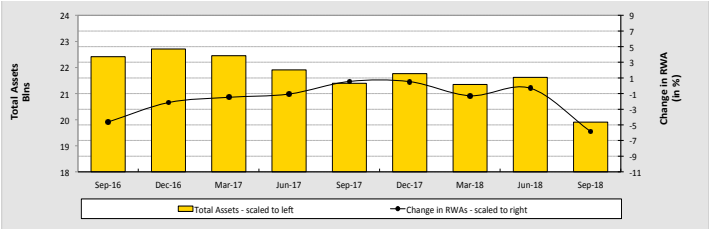



Chart II reflects the movement in total assets and the change in Risk Weighted Assets (RWAs) over the last two years.

### Chart II: Total Assets and Change in RWAs




- The banking sector's RAR was 24.7%, an improvement of 1.6 percentage points relative to the prior quarter. The CET 1 ratio was higher, rising from 21.5% to 23.1% over the same period. The sector's regulatory capital levels were marginally higher, increasing by 0.6% (or $12.2 million) to $2.0 billion; while the risk-weighted assets (RWAs) fell by 5.9% (or $510.0 million) to $8.1 billion for the quarter.

- The leverage position improved, with the supplemental leverage ratio increasing by 0.8 percentage points to 9.2% during the quarter.

## 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 %) | 2018 | | | 2017 | |
|---|---|---|---|---|---|
| | Sep | Jun | Mar | Dec | Sep |
| Loans and advances quarter-over-quarter growth rate | -3.3 | -1.8 | 0.5 | -4.2 | 0.0 |
| Residential mortgages to total loans | 51.5 | 49.2 | 48.6 | 48.5 | 46.0 |
| **Loan impairments** | | | | | |
| NPLs to total loans (net) | 5.9 | 5.9 | 6.2 | 6.3 | 7.1 |
| NPLs to Basel III capital | 23.9 | 24.9 | 28.2 | 28.8 | 32.1 |
| Net charge-offs to loans (annualised) | 0.0 | 0.0 | -0.2 | 0.1 | 0.2* |
| **Loan provisioning** | | | | | |
| Provisions to Gross NPLs | 29.5 | 29.5 | 30.6 | 32.1 | 19.5 |
| Specific provisions to NPLs | 26.8 | 26.1 | 27.1 | 25.5 | 11.9 |
| Provisions to total loans (net) | 2.3 | 2.3 | 2.5 | 2.7* | 1.6 |

** Restated*

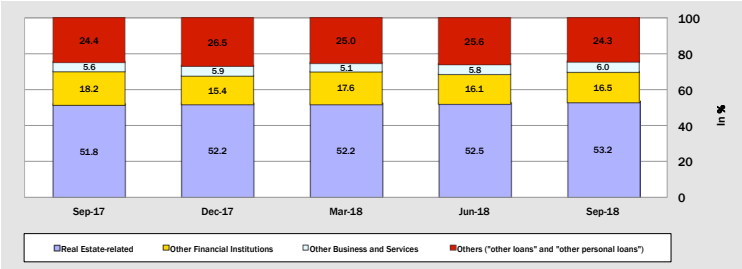
- The quality of the loan portfolio remained stable over the quarter with loan impairment indicators showing the ratio of net non-performing loans (NPLs) to total loans staying even at 5.9%, while NPLs to regulatory (Basel III) capital was down 1 percentage point, falling to 23.9%. The percentage of provisions to NPLs was unchanged at 29.5%.

- Loan loss provisions were down during the quarter, by 2.8% (down $5.5 million) to $190.5 million, but were up 37.4% (or $51.8 million) higher compared to a year ago. Provisions to total loans were even at 2.3% during 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**

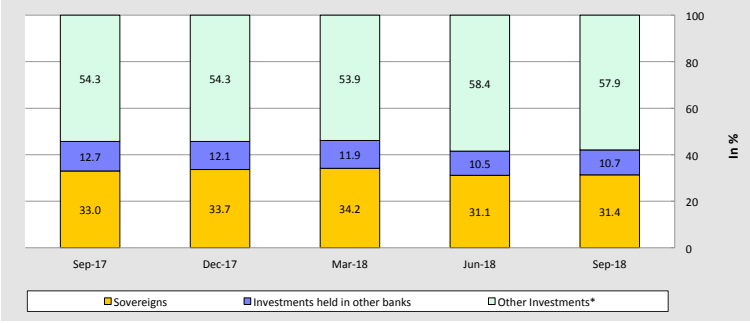



- The stock of loans reported in the quarter amounted to $8.1 billion, with the majority of loans concentrated within the real estate-related sector. Loans to "other" sectors fell from 25.6% to 24.3% of all loans outstanding over the quarter.

### 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 investment structure was relatively stable in Q3, as banks continued to hold a higher percentage of investments in "Other" types of investments. Year-on-year, "Other" types of investments have steadily increased, rising by 3.6 percentage points to 57.9% of total investments. All remaining investment classes have declined over the same period, with "sovereign" investments falling by 1.6 percentage points to 31.4% and "investments held in other banks" down by 2.0 percentage points to 10.7% of total investments.

### Liquidity and Liquidity Coverage Ratio (LCR)

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

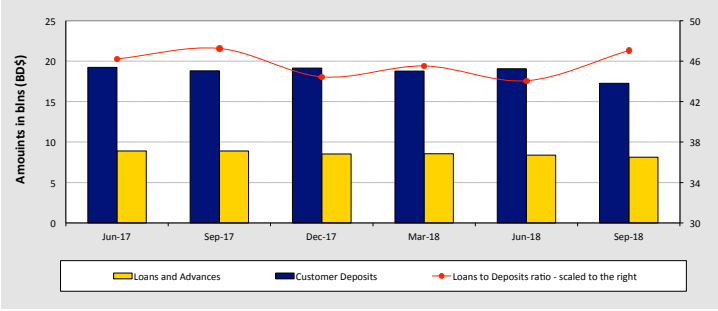
**Table V: Liquidity Indicators**

| (In %) | 2018 | | | 2017 | |
|---|---|---|---|---|---|
| | Sep | Jun | Mar | Dec | Sep |
| Cash and deposits to total assets | 10.8 | 15.6 | 13.4 | 15.3 | 11.6 |
| Cash and cash equivalents to total deposit liabilities | 12.5 | 17.7 | 15.2 | 17.4 | 13.2 |
| Loan-to-deposit ratio | 47.1 | 44.1 | 45.5 | 44.5 | 47.3 |
| Loans to total assets | 40.8 | 38.8 | 40.1 | 39.1 | 41.5 |
| Funding gap* | -45.9 | -49.3 | -47.9 | -48.9 | -46.4 |

- During the quarter, all banks continued to comply with the minimum LCR requirement and the Net-Stable Funding Ratio (NSFR) per Basel III 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 sector's liquidity position as measured by the loan-to-deposit metric was higher in Q3, rising from 44.1% to 47.1. The higher outflow of customer deposits (down 9.4% or $1.8 billion) to $17.3 billion outpaced the decline in loans and advances (down 3.3% or $274.2 million) to $8.1 billion.

## PROFIT AND LOSS

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

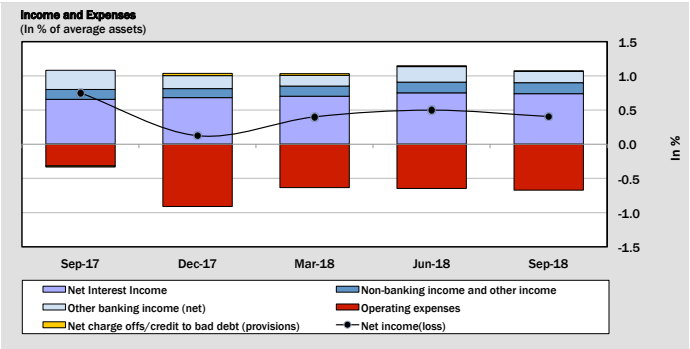
### Table VI: Structure of Income statement

| (In %) | 2018 | | | 2017 | |
|---|---|---|---|---|---|
| | Sep | Jun | Mar | Dec | Sep |
| Net interest margin to total income | 69.4 | 66.1 | 69.6 | 67.8 | 60.6 |
| Annualised net interest margin to (average) earning assets* | 3.0 | 3.0 | 2.8 | 2.8 | 2.6 |
| Annualised interest income to (average) earning assets* | 3.3 | 3.3 | 3.0 | 3.0 | 2.8 |
| Banking income to total income | 85.0 | 86.0 | 85.4 | 86.9 | 86.6 |
| Non-interest income to total income | 30.6 | 33.9 | 30.4 | 32.2 | 39.4 |
| Non-interest expenses to total income | 62.1 | 56.1 | 60.3 | 87.6 | 30.7 |
| Personel expenses to non-interest expenses (Efficiency Ratio) | 55.2 | 56.9 | 54.8 | 43.0 | 13.5 |
| Quarterly Return on Assets (RoA)* | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Quarterly Return on Equity (RoA)** | 3.7 | 4.6 | 4.1 | 4.0 | 4.4 |

** 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 reported $83.0 million in profits in the third quarter, down 20% quarter-on-quarter and 48.5% when compared to the same quarter last year. Net interest margin was down 3.2% (or $5.0 million) to $152.0 million over the prior quarter; while revenue sources from non-banking income was down 6.1% (or $2.1 million) to $32.0 million and non-interest income fell by 16.8% (down $13.5 million) to $67.0 million. Total income decreased by 7.8% (down $18.5 million) to $219.0 million during the quarter and 5.8% (down $13.4 million) over the same quarter last year. Overall operating expenses were higher, up 2.2% (or $2.9 million) to $136.0 million over the quarter.

- The sector's cost efficiency ratio rose during the quarter, increasing from 56.1% to 62.1% (see Table VI). Total income fell by 7.8% to $219.0 million compared to the increase in overall operating costs (up 2.2%) to $136.0 million during the quarter.

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

### Chart VII: Distribution of Income Sources

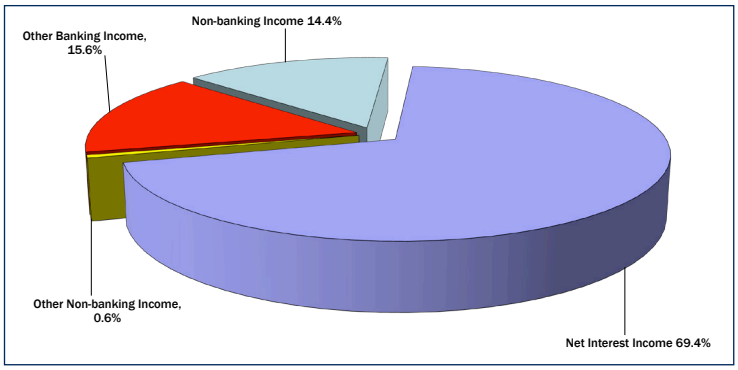
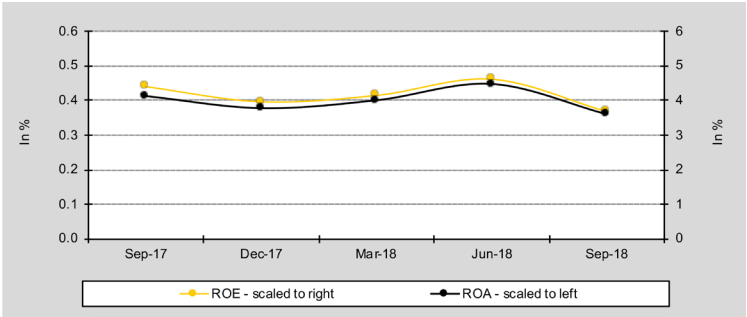



Chart VIII shows the trend in RoE and RoA over the last five quarters.

### Chart VIII: Quarterly RoA and RoE

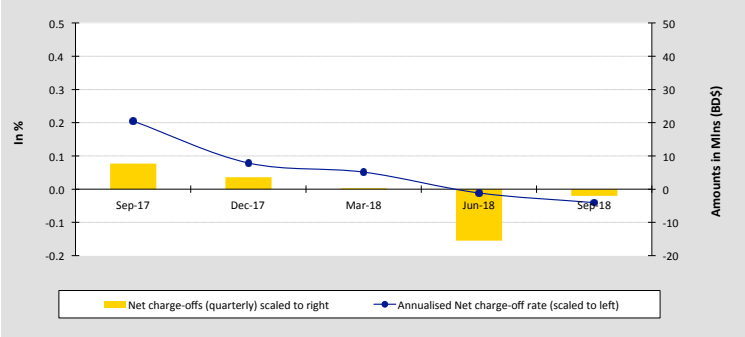



*Percentages may not agree to scale due to rounding*

- The banking sector's quarterly performance as reflected by lower reported profits, resulted in quarterly RoE falling slightly to 3.7% and quarterly RoA unchanged 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***




** Amounts may not agree due to rounding.*

- Net charge-offs reported during the quarter remained favourable, as the combination of positively adjusted write-offs and recoveries helped improve the overall net charge-off position.

## 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**

| (In BD$ blns) | 2018 | | | 2017 | | Change (In %) | |
|---|---|---|---|---|---|---|---|
| | Sep | Jun | Mar | Dec | Sep | QoQ | YoY |
| Loans and advances | 4.8 | 5.0 | 5.1 | 5.1 | 5.4 | -4.7 | *-11.4* |
| Deposits (Interbank) | 2.1 | 3.3 | 2.8 | 3.2 | 2.4 | *-37.0* | *-13.6* |
| Investments | 9.0 | 9.2 | 9.3 | 9.3 | 9.4 | *-1.9* | *-4.2* |
| Total assets | 16.1 | 17.8 | 17.5 | 17.9 | 17.4 | *-9.3* | *-7.7* |
| Deposit liabilities | 13.8 | 15.6 | 15.4 | 15.7 | 15.3 | *-11.5* | *-9.8* |

*Totals may not add up due to rounding.*

- Foreign currency assets contracted by 9.3% (or $1.7 billion) to $16.1 billion over the prior quarter, down 7.7% (or $1.3 billion) compared to a year ago. The majority of the quarterly decrease was experienced in FX interbank deposits (down 37.0% or $1.2 billion) to $2.1 billion, followed by FX loans (down 4.7% or $234.9 million) to $4.8 billion and FX investments (down 1.9% or $177.1 million) to $9.0 billion.

- Foreign currency customer deposits liabilities fell 11.5% (or $1.8 billion) to $13.8 billion for the quarter, down 9.8% (or $1.5 billion) from a year ago. Most of the quarterly outflows occurred in FX demand deposits (down 15.0% or $1.3 billion) to $7.4 billion and FX saving deposits (down 15.0% or $733.3 million) to $4.2 billion; while FX time deposits grew by 9.6% (or $200.0 million) to $2.3 billion.

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

**Table VIII: Foreign Currency Positions**

| (In %) | 2018 | | | 2017 | |
|---|---|---|---|---|---|
| | Sep | Jun | Mar | Dec | Sep |
| FX-denominated assets to total assets | 80.9 | 82.1 | 81.9 | 82.0 | 81.5 |
| FX-denominated loans to total loans | 58.8 | 59.6 | 60.0 | 59.3 | 60.6 |
| FX-denominated deposits to total deposits | 79.9 | 81.9 | 81.8 | 82.1 | 81.3 |
| Changes in FX assets (QoQ) | -9.3 | 1.6 | -2.1 | 2.4 | -2.5 |
| Changes in FX loans and advances (QoQ) | -4.7 | -2.4 | 1.6 | -6.2 | 1.0 |
| Changes in FX customer deposits (QoQ)* | -11.5 | 1.5 | -2.3 | 2.8 | -2.7 |

**Percentage change may not be consistent due to rounding.*
*QoQ - percentage change over prior quarter*

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

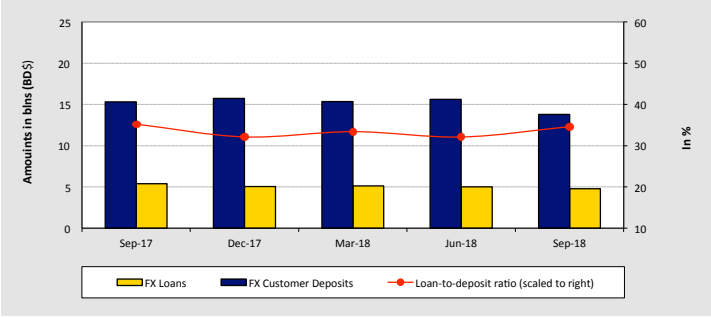
**Table IX: Liquidity Indicators (FX Positions)**

| (In %) | 2018 | | | 2017 | |
|---|---|---|---|---|---|
| | Sep | Jun | Mar | Dec | Sep |
| Cash and deposits to total FX assets | 13.1 | 18.7 | 16.0 | 18.3 | 13.9 |
| Cash and cash equivalents to total FX deposit liabilities | 15.3 | 21.2 | 18.2 | 20.8 | 15.9 |
| Loans-to-deposits ratio | 34.6 | 32.1 | 33.4 | 32.1 | 35.2 |
| Loans to total FX assets | 29.6 | 28.2 | 29.3 | 28.3 | 30.9 |
| Funding gap* | -56.0 | -59.6 | -58.5 | -59.8 | -56.8 |

** 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

| (In BD$ blns) | 2018 | | | 2017 | | Change (In %) | |
|---|---|---|---|---|---|---|---|
| | Sep | Jun | Mar | Dec | Sep | QoQ | YoY |
| Loans and advances | 3.3 | 3.4 | 3.4 | 3.5 | 3.5 | *-1.2* | *-4.3* |
| Total assets | 3.8 | 3.9 | 3.9 | 3.9 | 4.0 | *-1.6* | *-3.9* |
| Deposit liabilities | 3.5 | 3.5 | 3.4 | 3.4 | 3.5 | *0.2* | *-1.3* |

***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.***

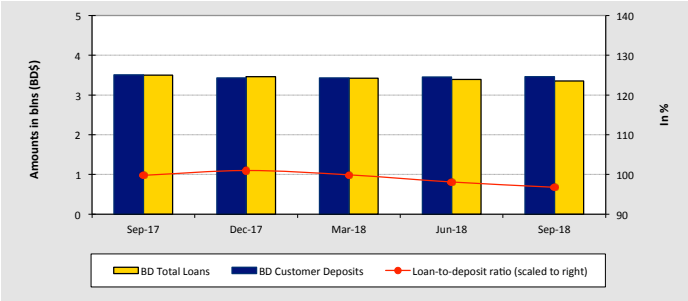
Table XI is a summary of ratios measuring the liquidity of the BD$-denominated balance sheet over the last five quarters.

### Table XI: Liquidity Indicators (BD$ Positions)

| (In %) | 2018 | | | 2017 | |
|---|---|---|---|---|---|
| | Sep | Jun | Mar | Dec | Sep |
| Cash and deposits to total assets | 1.3 | 1.5 | 1.3 | 1.4 | 1.4 |
| Cash and cash equivalents to total deposit liabilities | 1.4 | 1.7 | 1.5 | 1.6 | 1.5 |
| Loan-to-deposit ratio | 96.8 | 98.1 | 99.9 | 101.0 | 99.8 |
| Loans to total assets | 88.2 | 87.8 | 88.5 | 88.5 | 88.6 |
| Funding gap to total BD$ assets | -3.0 | -1.7 | -0.1 | 0.9 | -0.2 |

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




- The Bermuda dollar loan-to-deposit (LTD) ratio continued to decline in the third quarter, falling from 98.1% to 96.8%. Domestic loans were down 1.2% (or $39.3 million) to $3.3 billion, relative to local customer deposits which were unchanged at $3.5 billion.

## 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 | |
|---|---|---|---|---|---|
| | Sep | Jun | Mar | Dec | Sep |
| Notes and coins in circulation | 139 | 140 | 136 | 141 | 133 |
| Deposit liabilities | 3,480 | 3,472 | 3,438 | 3,441 | 3,518 |
| **Banks and deposit companies** | **3,618** | **3,612** | **3,575** | **3,582** | **3,651** |
| Less: cash at banks and deposit companies | 40 | 39 | 37 | 43 | 36 |
| **Bermuda dollar money supply** | **3,578** | **3,573** | **3,538** | **3,538** | **3,614** |
| % Growth on previous period | 0.2 | 1.0 | 0.0 | -2.1 | -0.4 |
| % Growth YoY | -1.0 | -1.6 | -1.5 | 0.0 | 2.1 |

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

- The Bermuda money supply within the local economy was fairly even compared to the previous quarter, yet remained 1.0% (or $36.0 million) lower than money supply levels reported a year earlier.

## 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 August, the BCBS released a technical amendment on additional Pillar 3 disclosure requirements for those jurisdictions implementing an expected credit loss (ECL) accounting model as well as for those adopting transitional arrangements for the regulatory treatment of accounting provisions.

https://www.bis.org/bcbs/publ/d446.pdf

In July, BCBS published its revised assessment methodology and the higher loss absorbency requirement for globally systemic banks (G-SIBs).

https://www.bis.org/bcbs/publ/d445.pdf

In July, the Bank for International Settlements (BIS) published a paper on innovative technology in financial supervision (SupTech). The paper revealed that SupTech can help enhance supervisory effectiveness, cut costs and improve capabilities.

https://www.bis.org/fsi/publ/insights9.pdf

### Bank of England (BoE)

In July, the BoE published its Financial Stability Report, which revealed that the 2017 stress test showed that the UK banking system is resilient to severe domestic, global and market shocks. The report also notes that the Financial Policy Committee (FPC) decided to set the UK counter-cyclical buffer (CCyB) rate at 1%, unchanged since November 2017.

https://www.bankofengland.co.uk/-/media/boe/files/financial-stability-report/2018/june-2018.pdf?la=en&hash=9D057C7302B80EF57D634020F50C6F46D782904C

### European Banking Authority (EBA)

In July, the EBA updated its Risk Dashboard and found that the average ratio of non-performing loans (NPLs) had reached its lowest level of 3.9% since Q4 2014; while other notable observations by the EBA was that the overall quality loans continued to improve.

http://www.eba.europa.eu/documents/10180/2282718/Risk+Dashboard+-+data+as+of+Q1+2018.pdf

The EBA published a report assessing the risks and opportunities from FinTech and published a report on Fintech's impact on incumbents' business models.

http://www.eba.europa.eu/documents/10180/2270909/Report+on+prudential+risks+and+opportunities+arising+for+institutions+from+FinTech.pdf

http://www.eba.europa.eu/documents/10180/2270909/Report+on+the+impact+of+Fintech+on+incumbent+credit+institutions%27%20business+models.pdf

### European Council Board (ECB)

In July, the ECB published a report on recovery planning. The ECB highlighted that not all banks adequately comply with the EBA guidelines on recovery plan indicators, as some banks fail to reflect in their indicator frameworks.

https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.reportrecoveryplans201807.en.pdf?cf305b99ef1ddc362726523703c6b371

### Financial Stability Board (FSB)

In July, the FSB published a report to the G20 on the work by the FSB and standard-setting bodies on crypto-asset markets. The FSB, in collaboration with CPMI, has developed a framework and identified metrics to monitor the financial stability implications of crypto-assets markets.

http://www.fsb.org/wp-content/uploads/P160718-1.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.

**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.

**(Quarterly) Return on assets** is calculated by dividing the average net income over the last four quarters by the average value of interest-earning assets over the same period and multiplying by four.

**(Quarterly) Return on equity** is calculated by dividing the average net income over the last four quarters by the average value of shareholder equity over the same period and multiplying it by four.

**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.

**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.***

**BERMUDA MONETARY AUTHORITY**

BMA House • 43 Victoria Street • Hamilton HM 12 Bermuda
P.O. Box HM 2447 • Hamilton HM JX Bermuda
tel: (441) 295 5278 • fax: (441) 292 7471
email: enquiries@bma.bm • website: www.bma.bm