BMA
BERMUDA MONETARY AUTHORITY
ANNIVERSARY

Quarterly Banking Digest

Q1 – 2019

BASEL III REQUIREMENTS

- All banking institutions are required to meet the fully phased-in Liquidity Coverage Ratio (LCR) minimum of 100% as of 1 January 2019
- All banks are required to hold additional capital in the form of a Capital Conservation Buffer (CCB)
- The fully phased-in CCB for 2019 was 2.5% for all banks, increasing the minimum Common Equity Tier 1 (CET1) plus CCB to 7.0% 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 on the bank's balance sheet size

PERFORMANCE HIGHLIGHTS

- Total assets were fairly even compared to a year ago; over the quarter, total assets grew by 2.6% to $21.2 billion, with loans and investments experiencing the most growth
- The capital position was marginally down in Q1, but remains above the minimum regulatory capital requirements
- The banking sector posted higher profits in Q1 compared to a year ago
- The leverage position continued to be stable at 8.6%

SUMMARY INDICATORS

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

Table I: Selected Financial Soundness Indicators

(Ratios in %)	2019	2018			
	Mar	Dec	Sep	Jun	Mar
Capital Position					
Basel III – RAR	23.8	24.1	24.7	23.1	21.5
Basel III – CET I ratio (4.50%)	22.3	22.6	23.1	21.5	20.7
Basel III – Leverage ratio (5.0%)	8.6	8.9	9.2	8.4	8.2
Liquidity					
Cash/cash equivalents to total deposit liabilities	17.2	20.5	12.5	17.7	15.2
Loan-to-deposit ratio	45.7	43.9	47.1	44.1	45.5
Funding gap*	-47.7	-49.1	-45.9	-49.3	-47.9
Profitability					
Net Interest income to interest income	86.6	87.9	91.0	92.1	93.1
Return on assets (Quarterly)	0.4	0.4	0.4	0.4	0.4
Return on assets (Annualised)	1.7	1.7	1.4	1.8	1.6
Return on equity (Quarterly)	4.2	4.3	3.7	4.6	4.1
Return on equity (Annualised)	17.0	17.0	14.7	18.5	16.6
Loan Book					
Provisions to non-performing loans (NPLs)	30.1	29.5	29.5	29.5	30.6
NPLs to total loans	5.5	6.0	5.9	5.9	6.2
NPLs to regulatory capital	23.4	23.9	23.9	24.9	28.2
Other					
Change in BD$ money supply (QoQ)	-1.8	-0.8	0.2	1.0	0.0
Change in assets (QoQ)	2.6	3.6	-7.9	1.3	-1.9
Change in RWAs (QoQ)	0.8	1.9	-5.9	-0.3	-1.3
Change in customer deposits (QoQ)	2.8	4.5	-9.4	1.4	-1.9

*Loans, less deposit liabilities, divided by total assets.

QoQ – percentage change over prior quarter.

Aggregate Balance Sheet

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

Table II: Aggregate Balance Sheet

(BD$ bln)	2019	2018				Change (In %)	
	Mar	Dec	Sep	Jun	Mar	QoQ	YoY
Assets							
Cash	0.1	0.1	0.1	0.1	0.1	-3.3	-3.3
Deposits (Interbank)	3.1	3.6	2.1	3.3	2.8	-13.6	12.5
Loans & advances (net)	8.5	7.9	8.1	8.4	8.6	6.9	-1.0
Investments	8.9	8.4	9.0	9.2	9.3	5.2	-4.9
Other assets	0.6	0.6	0.6	0.7	0.6	6.7	0.5
Total assets	**21.2**	**20.6**	**19.9**	**21.6**	**21.3**	2.6	-0.9
Liabilities							
Saving deposits	6.0	5.9	5.7	6.5	6.5	1.6	-8.3
Demand deposits	8.7	8.8	8.4	9.7	9.1	-1.2	-4.5
Time deposits	3.9	3.4	3.1	2.9	3.2	15.2	22.3
Total deposits	**18.5**	**18.0**	**17.3**	**19.1**	**18.8**	2.8	-1.3
Other liabilities	0.5	0.5	0.6	0.5	0.6	-1.6	-9.4
Total liabilities	**19.1**	**18.6**	**17.9**	**19.6**	**19.4**	2.7	-1.5
Equity and subordinated debt	2.1	2.1	2.0	2.0	2.0	1.6	4.8
Total liabilities and equity	**21.2**	**20.6**	**19.9**	**21.6**	**21.3**	2.6	-0.9

Totals may not add up due to rounding.

The amount of total assets held by the banking sector were marginally lower than levels reported a year earlier, falling to $21.2 billion for Q1-2019. For the quarter, total assets grew by 2.6% (or $534.2 million), led primarily by loans and advances, up 6.9% (or $547.3 million) to $8.5 billion and investments, up 5.2% (or $440.9 million) to $8.9 billion. Conversely, interbank deposits fell by 13.6% (or $491.0 million) to $3.1 billion over the same period. Investments remained the largest component of total assets presenting 41.9%, followed by loans and advances representing 40.0% of total assets at quarter-end.

Total liabilities amounted to $19.1 billion, down 1.5% (or $293.5 million) from a year ago. For the quarter, total liabilities increased by 2.7% (or $502.1 million) from $18.6 billion to $19.1 billion. The quarterly increase was mainly due to higher inflows in time deposits (up 15.2% or $515.8 million) to $3.9 billion, followed by the increase in savings deposits (up 1.6% or $95.7 million) to $6.0 billion. Conversely, demand deposits were down over the same quarter, declining by 1.2% (or $101.2 million) to $8.7 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 Ratios

(In %)	2019	2018			
	Mar	Dec	Sep	Jun	Mar
Asset allocation					
Investments	41.9	40.8	45.3	42.6	43.6
Loans	40.0	38.4	40.8	38.8	40.1
Deposits (Interbank)	14.7	17.5	10.4	15.2	13.0
Other assets	3.0	2.9	3.1	3.0	3.0
Deposits allocation					
Savings	32.2	32.6	33.2	34.1	34.7
Demand	46.7	48.5	48.9	50.9	48.3
Time	21.1	18.8	17.9	15.1	17.0
Capital position					
Basel III – RAR	23.8	24.1	24.7	23.1	21.5
Basel III – Leverage Ratio	8.6	8.9	9.2	8.4	8.2

Totals may not add up due to rounding.

Capital Adequacy

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

Chart I: RAR and Leverage Ratio

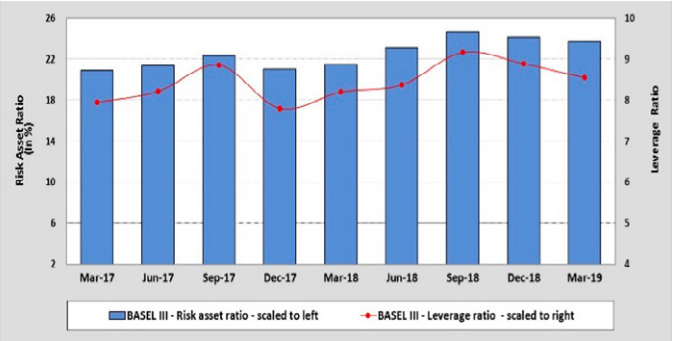
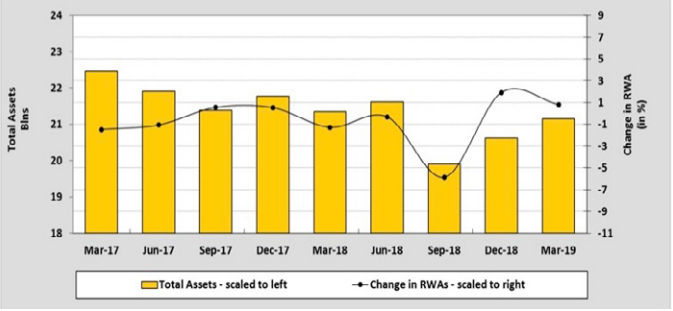


Chart II reflects the movement in total assets and the change in RWAs over the last two years.

Chart II: Total Assets and Change in RWAs



The banking sector's capital position remained stable for the first quarter of 2019, as the RAR fell marginally by 0.3 percentage points to 23.8% during the quarter, but was 2.3 percentage points higher than a year ago. For the quarter, the regulatory capital levels were slightly down, falling by 0.8% (or $16.1 million) to $1.9 billion; while RWAs increased by the same rate to $8.4 billion. The CET 1 ratio was marginally down, falling by 0.3 percentage points to 22.3%. The capital held by the sector consists mostly of Tier 1 capital, representing 94.0% of total regulatory capital.

The leverage position was marginally lower, as the supplemental leverage ratio fell by 0.3 percentage points to 8.6% 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 years.

Table IV: Quality of the Loan Book

In (%)	2019	2018			
	Mar	Dec	Sep	Jun	Mar
Loans and advances quarter-over-quarter growth rate	6.9	-2.5	-3.3	-1.8	0.5
Residential mortgages to total loans	50.2	53.3	51.5	49.2	48.6
Loan impairments					
NPLs to total loans (net)	5.5	6.0	5.9	5.9	6.2
NPLs to regulatory capital	23.4	23.9	23.9	24.9	28.2
Net charge-offs to loans (annualised)	0.2	0.3	0.0	0.0	0.1
Loan provisioning					
Provisions to Gross NPLs	30.1	29.5	29.5	29.5	30.6
Specific provisions to Gross NPLs	28.2	27.5	26.8	26.1	27.1
Provisions to total loans (net)	2.3	2.4	2.3	2.3	2.5

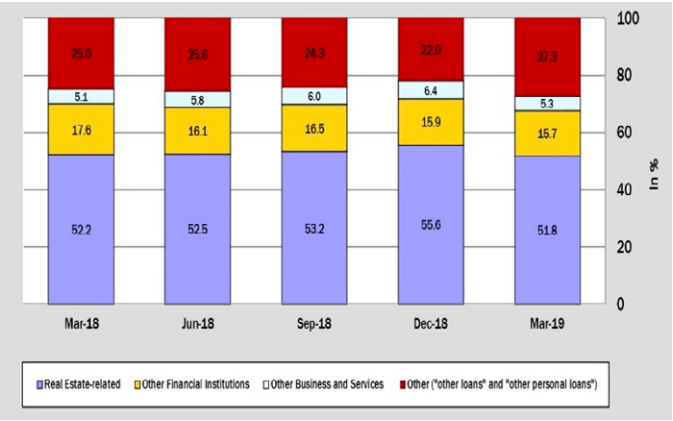
The quality of the loan book continued to show improvement in Q1-2019. The stock of net Non-Performing Loans (NPLs) was down 11.6% (or $61.0 million) to $466.1 million compared to a year ago. The decline in the stock of NPLs coupled with the increase in loan growth resulted in a lower NPL ratio of 5.5% in Q1, down from 6.2% reported a year earlier. NPLs to regulatory capital were down from 28.2% to 23.4% over the same period.

Provisioning levels reported by banks were $193.3 million in Q1, down 11.3% (or $24.6 million) from a year earlier. The loan provisioning ratio, as measured by the percentage of provisions to total loans, fell slightly from 30.6% to 30.1% over the past year.

Sectoral Distribution of Loans

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

Chart III: Sectoral Distribution of Loans and Advances



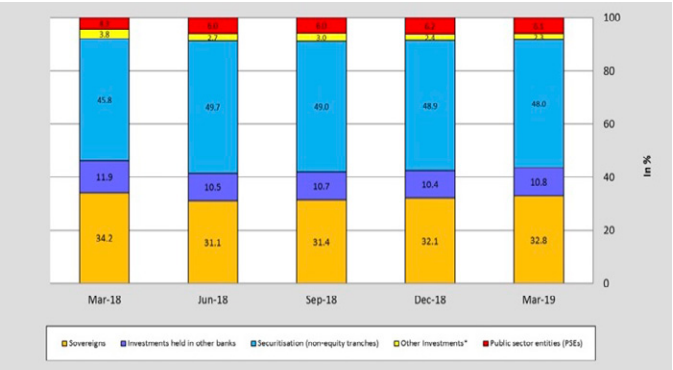
*Q3-2018 restated

In Q1-2019, lending rose by 6.9% to $8.5 billion. Loan distribution to the major segments is represented by 51.8% in the real estate sector; though loans to "Other" sectors has shown an increase over the prior quarter, rising from 22.0% to 27.3% of total outstanding loans.

Investment Book

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

Chart IV: Sectoral Structure of the Investment Book



Investment book revised to reflect better composition of securities held be sector.

*Includes: other investments and investments in subsidiaries and associated companies.

The investments held by the sector stood at $8.9 billion in Q1. The banking sector continues to maintain investment portfolios consisting mainly of highly-rated, securitised (non-equity) investments, representing 48.0% of total investments, including sovereign investments representing 32.8%.

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

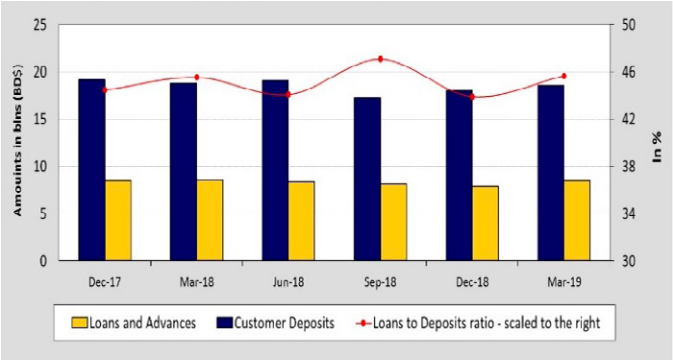
In (%)	2019	2018			
	Mar	Dec	Sep	Jun	Mar
Cash and deposits to total assets	15.1	17.9	10.8	15.6	13.4
Cash and cash equivalents to total deposit liabilities	17.2	20.5	12.5	17.7	15.2
Loan-to-deposit ratio	45.7	43.9	47.1	44.1	45.5
Loans-to-total assets	40.0	38.4	40.8	38.8	40.1
Funding gap*	-47.7	-49.1	-45.9	-49.3	-47.9

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

All banking institutions complied with the fully phased-in minimum LCR requirement and the Net-Stable Funding Ratio (NSFR) per regulatory requirements.

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

Chart V: Total Loans and Deposits



The sector's liquidity as measured by the percentage of loans to total deposits increased over the last quarter, rising from 43.9% to 45.7%. For the quarter, the increase in loans and advances was 6.9% (or $547.3 million) to $8.5 billion outpacing the inflow of customer deposits, up 2.8% (or $510.4 million) to $18.5 billion.

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

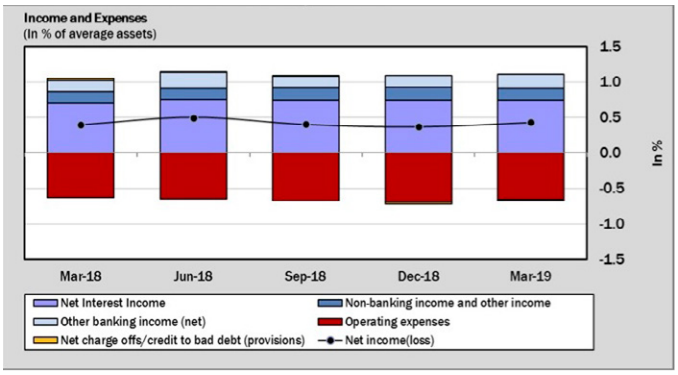
Table VI: Structure of Income statement

In (%)	2019	2018			
	Mar	Dec	Sep	Jun	Mar
Net interest income to total income	67.0	67.9	69.4	66.1	69.6
Quarterly net interest margin to (average) earning assets*	3.0	3.0	3.0	3.0	2.8
Quarterly interest income to (average) earning assets*	3.4	3.4	3.3	3.3	3.0
Banking income to total income	84.7	83.4	85.0	86.0	85.4
Non-interest income to total income	33.0	32.1	30.6	33.9	30.4
Non-interest expenses to total income (Efficiency Ratio)	61.1	65.9	62.1	56.1	60.3
Personnel expenses to non-interest expenses	54.2	51.6	55.2	56.9	54.8
Quarterly Return on Assets (RoA)*	0.4	0.4	0.4	0.4	0.4
Annualised Return on Assets	1.7	1.7	1.4	1.8	1.6
Quarterly Return on Equity (RoE)**	4.2	4.3	3.7	4.6	4.1
Annualised Return on Equity	17.0	17.0	14.7	18.5	16.6

* 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



Banking Sector Profitability

The banking sector reported higher profits in Q1-2019 relative to Q1-2018. The sector reported after-tax net profits of $86.8 million during the first quarter of 2019, representing a 3.3% increase (up $2.8 million) compared to the same quarter last year. Year-on-year, net interest income increased by 1.5% (up $2.3 million) to $150.0 million; other income sources from non-interest income increased by 10.7% (up $7.1 million) to $73.7 million. Total income for the quarter increased by 5.5% (up $11.6 million) to $223.3 million. Conversely, the sector's operating and non-operating expenses increased by 7.0% (up $8.9 million) to $136.5 million in the first quarter of 2019 when compared to same quarter of last year.

The cost efficiency ratio was down from 65.9% to 61.1% from the previous quarter (see Table VI), yet was higher than the 60.3% cost efficiency ratio reported a year earlier.

Chart VII reflects the distribution of income sources as of end-March 2019.

Chart VII: Distribution of income sources

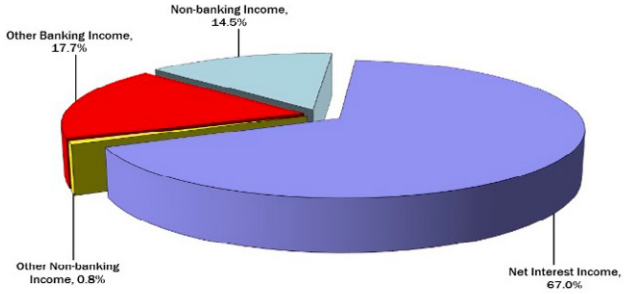
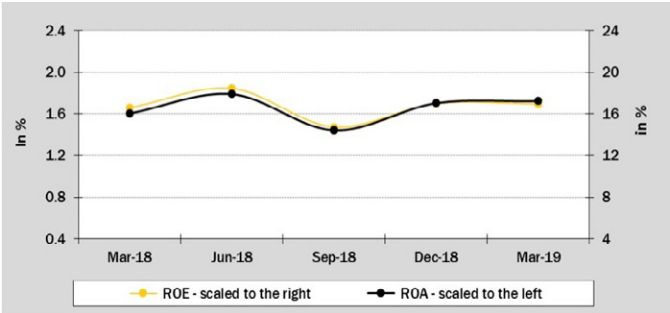


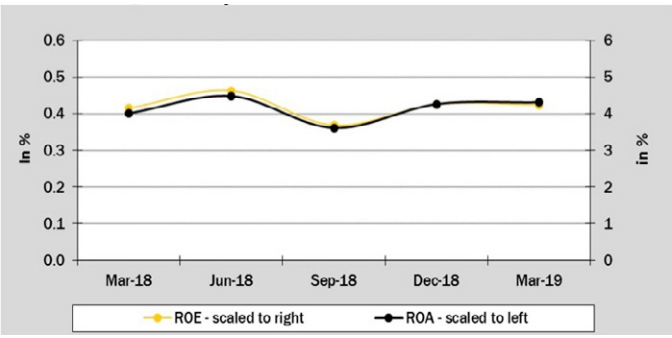
Chart VIII and IX shows the trend in RoE and RoA over the last five quarters.

Chart VIII: Annualised RoE and RoA



Totals may not agree due to rounding

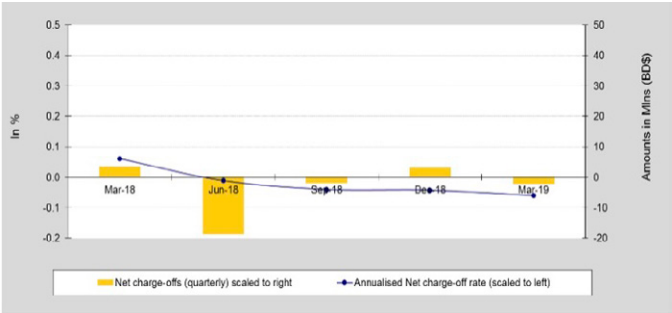
Chart IX: Quarterly RoE and RoA



Totals may not agree due to rounding

The banking sector's performance generated stable returns, as profitability indicators show quarterly RoE and RoA standing at 4.2% and 1.7%, respectively.

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



Amounts may not agree due to rounding.

Net charge-offs declined in Q1, as banks recorded lower write-offs for the period. Quarterly net charge-offs amounted to negative $2.3 million during the quarter.

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

Table VII: Foreign Currency Balance Sheet

(BD$ bln)	2019	2018				Change (In %)	
	Mar	Dec	Sep	Jun	Mar	QoQ	YoY
Loans and advances	5.2	4.6	4.8	5.0	5.1	12.6	1.3
Deposits (Interbank)	3.1	3.6	2.1	3.3	2.8	-13.3	12.0
Investments	8.8	8.4	9.0	9.2	9.3	5.3	-4.9
Total assets	17.5	16.9	16.1	17.8	17.5	3.6	-0.1
Deposit liabilities	15.2	14.6	13.8	15.6	15.4	4.0	-1.2

Totals may not add up due to rounding

Foreign currency assets amounted to $17.5 billion in Q1-2019, almost matching levels reported a year earlier. For the quarter, foreign currency assets were up 3.6% (or $607.7 million), led by the increase in FX loans and advances (up 12.6% or $582.6 million) to $5.2 billion and FX investments (up 5.3% or $441.0 million) to $8.8 billion. FX interbank deposits declined over the same period, down 13.3% (or 476.1 million) to $3.1 billion.

Foreign currency customer deposit liabilities were down 1.2% to $15.2 billion compared to the same quarter last year. For the quarter, foreign currency customer deposit liabilities increased by 4.0% (up $579.1 million) to $15.2 billion, with most of the inflow coming from FX time deposits (up 19.0% or $489.3 million) to $3.1 billion and FX saving deposits (up 2.1% or $92.4 million) to $4.4 billion. FX demand deposits remained unchanged at $7.7 billion over the same period.

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

Table VIII: Foreign Currency Positions

(BD$ bln)	2019	2018			
	Mar	Dec	Sep	Jun	Mar
FX-denominated assets to total assets	82.5	81.7	80.9	82.1	81.9
FX-denominated loans to total loans	61.4	58.3	58.8	59.6	60.0
FX-denominated deposits to total deposits	81.8	80.9	79.9	81.9	81.8
Changes in FX assets	3.6	4.6	-9.3	1.6	-2.1
Changes in FX loans and advances	12.6	-3.3	-4.7	-2.4	1.6
Changes in FX customer deposits	4.0	5.8	-11.5	1.5	-2.3

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

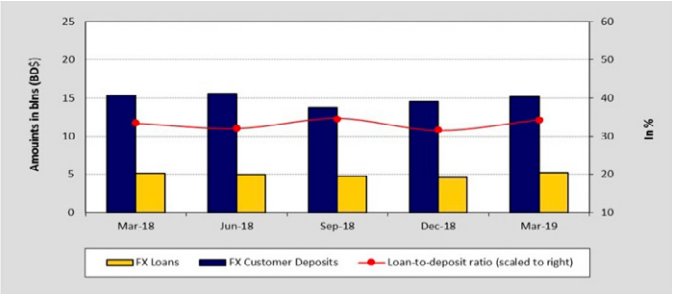
Table IX: Foreign Currency Liquidity Indicators

(BD$ bln)	2019	2018			
	Mar	Dec	Sep	Jun	Mar
Cash and deposits to total FX assets	18.0	21.5	13.1	18.7	16.0
Cash and cash equivalents to total FX deposit liabilities	20.7	24.8	15.3	21.2	18.2
Loans-to-deposits ratio	34.3	31.6	34.6	32.1	33.4
Loans to total FX assets	29.8	27.4	29.6	28.2	29.3
Funding gap*	-57.1	-59.2	-56.0	-59.6	-58.5

*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 Deposits



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

(BD$ bln)	2019	2018				Change (In %)	
	Mar	Dec	Sep	Jun	Mar	QoQ	YoY
Loans and advances	3.3	3.3	3.3	3.4	3.4	-1.1	-4.5
Total assets	3.7	3.8	3.8	3.9	3.9	-2.0	-4.4
Deposit liabilities	3.4	3.4	3.5	3.5	3.4	-2.0	-1.5

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.

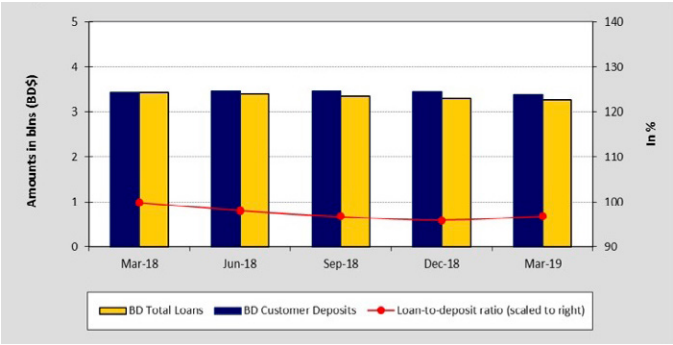
Table XI is a summary of ratios measuring the liquidity of the BD$-denominated balance sheet over the last five quarters.

Table XI: Bermuda Dollar Liquidity Indicators

(In %)	2019	2018			
	Mar	Dec	Sep	Jun	Mar
Cash and deposits to total assets	1.4	1.9	1.3	1.5	1.3
Cash and cash equivalents to total deposit liabilities	1.5	2.0	1.4	1.7	1.5
Loan-to-deposit ratio	96.9	96.0	96.8	98.1	99.9
Loans to total assets	88.4	87.6	88.2	87.8	88.5
Funding gap to total BD$ assets	-2.8	-3.7	-3.0	-1.7	-0.1

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



The Bermuda Dollar liquidity position, as measured by the loan-to-deposit ratio, was marginally higher, increasing from 96.0% to 96.9% for the quarter. Loans to the local economy continue to be muted, as the stock of loans and advances fell by 1.1% (or $35.3 million) to $3.3 billion. Corresponding local customer deposits fell at a faster rate, down 2.0% to $3.4 billion for the quarter.

MONETARY AGGREGATES

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

Table XII: Bermuda Money Supply (Unconsolidated)

(BD$ bln)	2019	2018			
	Mar	Dec	Sep	Jun	Mar
Notes and coins in circulation	138	142	139	140	136
Deposit liabilities	3,386	3,451	3,480	3,472	3,438
Banks and deposit companies	3,525	3,593	3,618	3,612	3,575
Less: cash at banks and deposit companies	39	43	40	39	37
Bermuda Dollar money supply	3,486	3,551	3,578	3,573	3,358
% Growth on previous period	-1.8	-0.8	0.2	1.0	0.0
% Growth y-o-y	-1.5	0.4	-1.0	-1.6	-1.5

The table includes the supply of Bermuda Dollars only.

The Bermuda Dollar money supply within the local economy fell by 1.8% to $3.5 billion during the quarter and 1.5% over the past year. The quarterly decline in money supply was primarily driven by the outflow of local customer deposits, which fell by 2.0% (or $64.7 million) to $3.4 billion. Notes and coins in circulation were also down, falling by 2.4% (or $3.0 million) to $138.0 million over the same quarter.

Selected International Banking 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.

Bank for International Settlements (BIS)

In February, the BIS published a paper on a survey on central bank digital currency (CBDC). The survey asked central banks about their current work on CBDCs, what motivates that work, and how likely their issuance of a central bank digital currency is.

https://www.bis.org/publ/bppdf/bispap101.pdf

The BIS published revised Pillar 3 disclosure requirements (updated framework). This standard sets out additional disclosure requirements to the Pillar 3 framework arising from the finalisation of the Basel III post-crisis regulatory reforms in December 2017.

https://www.bis.org/bcbs/publ/d455.pdf

The BIS released a report on cyber-resilience based on a range of practices. The report identifies, describes and compares the range of observed bank, regulatory, and supervisory cyber-resilience practices across jurisdictions.

https://www.bis.org/bcbs/publ/d454.pdf

Bank of England (BoE)

In March, the BoE released its 2019 guidance for stress testing UK banks. This document provides participating banks with guidance for conducting their own analysis for the 2019 stress test.

https://www.bankofengland.co.uk/-/media/boe/files/stress-testing/2019/stress-testing-the-uk-banking-system-2019-guidance.pdf

In February, the BoE published a paper on the impact of higher capital requirements on banks' decisions to grant collateralised rather than uncollateralised loans.

https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2019/to-ask-or-not-to-ask-collateral-vs-screening-in-lending-relationships.pdf?la=en&hash=-722FEE923430F017EE43129FC0CAE53920E1A4FE

European Banking Authority (EBA)

In January, the EBA published final guidelines on disclosure of non-performing and forborne exposures. The guidelines specify the common content and uniform dislosure formats for the information on Non-Performing Exposures (NPEs), forborne exposures and foreclosed assets that credit institutions should disclose.

https://eba.europa.eu/documents/10180/2531768/Final+GLs+on+disclosure+of+non-performing+and+forborne+exposures.pdf

In February, the EBA published the Risk Dashboard (data as of Q3 2018), summarising the main risks and vulnerabilities in the EU banking sector.

https://eba.europa.eu/documents/10180/2547788/EBA+Dashboard+-+Q3+2018.pdf/95e0ea7f-bd3c-443a-8b0c-084c0f4cc2bc

European Systemic Risk Board (ESRB)

In March, the ESRB published a report on the cyclical behaviour of the Expected Credit Loss (ECL) model in IFRS 9. The report continues the work initiated in 2017 and further discusses concerns about procyclicality from the ECL model in IFRS 9.

https://www.esrb.europa.eu/pub/pdf/reports/esrb.report190318_reportonthecyclicalbehaviouroftheECLmodel~2347c3b8da.en.pdf

In February, the ESRB published a paper on macroprudential approaches to non-performing loans. The paper identifies the main triggers, vulnerabilities and amplifiers that can drive system-wide increases in NPLs. The report also focuses on the role that macroprudential policy can play in preventing system-wide increases in NPLs and/or in increasing banks' resilience in the face of such increases.

https://www.esrb.europa.eu/pub/pdf/reports/esrb.report190128_macropudentialapproachestonon-performingloans.en.pdf

Prudential Regulatory Authority (PRA)

In February, the PRA released a 'Dear CFO' letter on disclosures about International Financial Reporting Standard (IFRS) 9 expected credit losses.

https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2019/disclosures-about-ifrs9-expected-credit-losses\

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.

Net Interest Income 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 over the last four quarters by the value of average interest-earning assets over the same period and multiplying by four.

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

(Annualised) 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 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.

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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