QUARTERLY

Banking Digest

Q2-2017

BMA
BERMUDA MONETARY AUTHORITY

NEW BASEL III REQUIREMENTS

- Beginning 1st January 2017, the phased-in Basel III Liquidity Coverage Ratio (LCR) requirement was 80.0%, an increase from 70.0%. A fully phased-in LCR minimum of 100.0% will be in place by 1st January 2019. The transitional arrangements for implementing the LCR allow banks to adjust gradually to the minimum requirements over time.

- All banks were required to hold additional capital in the form of a Capital Conservation Buffer (CCB). The phased-in CCB for 2017 was 1.25% for all banks, raising the minimum CET1 plus CCB to 5.75% of RWAs.

- Banks deemed to be systemically important to the island's economy have been allocated Domestic Systemically Important Banks (D-SIB) buffers which can range from 0.0% to 3.0%.

- Commencing 1st January 2018, banks will be required to meet the Net-Stable Funding Ratio (NSFR) per the Authority's implementation of adopted Basel standards.

BANKING SECTOR INSIGHT

- The US Federal Reserve approved its second rate hike of 2017, raising their benchmark interest rate by 25 basis points to a range of 1% to 1.25%. As a result, some local banks increased their base lending rates by the same amount.

- Moody's outlook report on Bermuda's banking sector was "stable" as improving asset quality, stronger capital buffers and sound liquidity were contributing factors in the overall assessment.

PERFORMANCE HIGHLIGHTS

- **The sector's total assets fell by 2.4% to $21.9 billion, which are also down 8.3% compared to a year ago.** During the quarter, the overall decline in total assets was mainly driven by a significant decrease in interbank deposits, which fell by 29.2%; outstripping growth observed in all other interest-earning assets.

- **The sector has remained adequately capitalised, well-above the minimum regulatory requirements under Basel III.** Banks have continued to build their capital and liquidity buffers since the introduction of the new regulatory requirements. Basel III Risk Asset Ratio increased to 21.4% while the sector's leverage ratio was 7.7%.

- **Quarterly earnings were slightly lower than the previous period.** Overall net profit levels declined by 4.0% in Q2-2017, but remained positive. Profitability indicators were unchanged, with returns equalling first quarter amounts.

SUMMARY INDICATORS

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

Table I: Selected Indicators

(Ratios in %)	2017		2016		
	Jun	Mar	Dec	Sep	Jun
Capital Position					
Basel III – RAR	21.4	20.9	20.4	21.9	21.4
Basel III – CET I ratio (5.75%)	19.8	19.3	18.6	18.2	17.8
Basel III – Leverage Ratio (5.0%)	7.7	7.4	7.2	8.0	7.7
Liquidity					
Cash/cash equivalents to total deposits liabilities	15.6	21.0	18.1	18.0	24.5
Loan-to-deposit ratio	46.2	43.3	43.4	47.3	45.9
Funding gap [a)]	-47.2	-50.4	-50.4	-45.9	-47.7
Profitability					
Interest margin to interest income	93.9	93.6	93.3	93.1	92.4
Return on assets (annualised)	0.3	0.3	0.3*	0.2*	0.2*
Return on equity (annualised)	2.7	2.8	2.7*	2.2*	2.6*
Loan Book					
Provisions to Non-Performing Loans (NPLs)	22.7	20.5	21.4	25.9	24.1
NPLs to total loans	7.1	7.3	7.2	6.9	7.2
NPLs to regulatory capital [b)]	33.8	34.2	34.7	31.9	34.0*
Other					
Change in BD$ money supply	1.1	1.5	0.0	-0.3	1.3
Change in assets	-2.4	-1.1	1.3	-6.2	-1.3
Change in RWAs [c)]	-1.1	-1.5	-2.2	-4.6	-0.8
Change in customer deposits	-3.6	-1.3	3.7	-7.4	-1.1

**Restated*

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

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)	2017		2016			Change (In %)	
	Jun	Mar	Dec	Sep	Jun	QoQ	YoY
Assets							
Cash	0.1	0.1	0.1	0.1	0.1	*12.9*	*11.8*
Deposits	2.9	4.1	3.6	3.4	5.1	*-29.2*	*-42.5*
Loans & advances	8.9	8.6	8.8	9.2	9.7	*3.0*	*-8.0*
Investments	9.4	9.0	9.6	9.0	8.3	*4.6*	*13.2*
Other assets	0.6	0.7	0.7	0.7	0.8	*-4.0*	*-21.0*
Total assets	**21.9**	**22.5**	**22.7**	**22.4**	**23.9**	***-2.4***	***-8.3***
Liabilities							
Savings deposits	6.6	6.9	6.6	6.3	6.5	*-3.7*	*2.7*
Demand deposits	9.7	10.2	10.6	10.3	11.5	*-5.4*	*-15.3*
Time deposits	2.9	2.8	3.0	2.9	3.1	*3.2*	*-7.6*
Total deposits	**19.2**	**19.9**	**20.2**	**19.5**	**21.1**	***-3.6***	***-8.6***
Other liabilities	0.6	0.5	0.6	0.7	0.6	*24.2*	*9.7*
Total liabilities	**19.9**	**20.5**	**20.8**	**20.2**	**21.6**	***-2.9***	***-8.1***
Equity and subordinated debt	2.0	2.0	1.9	2.2	2.3	*2.3*	*-10.0*
Total liabilities and equity	**21.9**	**22.5**	**22.7**	**22.4**	**23.9**	***-2.4***	***-8.3***

Totals may not add due to rounding.

- The aggregate asset base fell by 2.4% to $21.9 billion in the second quarter and by 8.3% compared to a year earlier. The overall decline was mainly attributed to the decrease in interbank deposits (down 29.2% or $1.2 billion), which nullified all of the growth observed in the other core assets. Interbank deposits have fallen more than any other asset class over the past year, declining by 42.5% year-on-year.

- Total deposits fell by 3.6% to $19.2 billion and are 8.6% lower than levels reported a year ago. Sources of funding primarily from customer deposits were down during the quarter, led by demand deposits (down 5.4% or $548.4 million) to $9.7 billion and saving deposits (down 3.7% or $255.7 million) to $6.6 billion.

Summary of Balance Sheet Ratios

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

Table III: Summary of Balance Sheet Ratio

(In % unless indicated otherwise)	2017		2016		
	Jun	Mar	Dec	Sep	Jun
Asset allocation					
Investments	42.8	39.9	42.3	40.1	34.7
Loans	40.6	38.4	38.6	41.1	40.4
Deposits	13.3	18.3	15.7	15.3	21.2
Other assets	2.9	2.9	3.0	3.1	3.3
Deposits allocation					
Savings	34.5	34.6	32.7	32.5	30.7
Demand	50.4	51.4	52.5	52.9	54.4
Time	15.0	14.1	14.8	14.6	14.9
Capital position					
Basel III – Risk Asset Ratio*	21.4	20.9	20.3	21.9	21.4
Basel III – Leverage Ratio	7.7	7.4	7.2	8.0	7.7

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

Capital Adequacy

Chart I 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

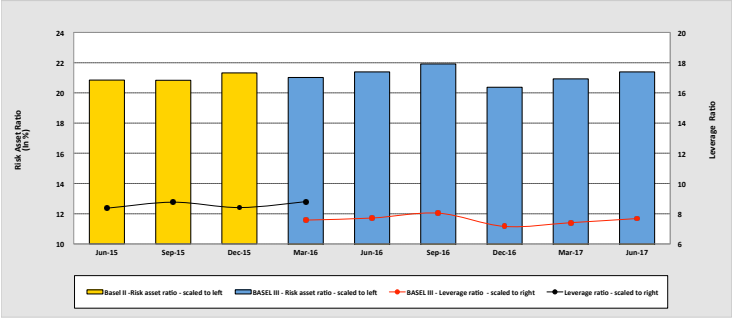
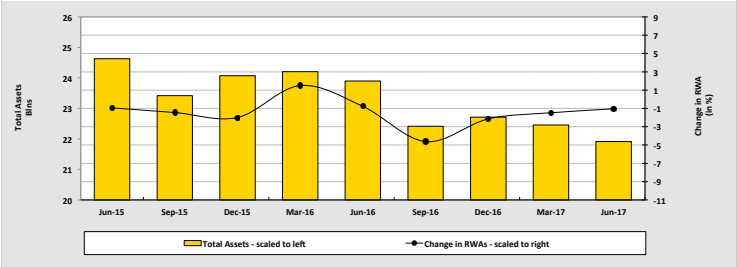


Chart II below reflects the movement in total assets and the change in Risk-Weighted Assets (RWAs) over the last two years.

Chart II: Total Assets and Change in RWAs



- Basel III regulatory capital as a percentage of risk-weighted assets (RWAs) grew to 21.4% in Q2-2017, while the sector's Common Equity Tier 1 (CET 1) ratio continued to increase to 19.8%. The improvement was driven by the increase in capital resources (up 1.3% or $22.6 million) coupled with banks reducing their overall risk exposure, with risk-weighted assets falling by 1.0% (or $93.0 million).

- The supplementary leverage ratio has increased, reaching 7.7% for the quarter matching levels compared to the same period last year.

Asset Quality

Loan Book

Table IV is a summary of ratios measuring the composition and quality of the loan book for the last five quarters.

Table IV: Quality of the Loan Book

(In %)	2017		2016		
	Jun	Mar	Dec	Sep	Jun
Loans and advances quarter-over-quarter growth rate	3.0	-1.6	-4.9	-4.5	3.4
Residential mortgages to total loans	45.6	46.8	45.8	42.7	41.4
Loan impairments					
NPLs to total loans (net)	7.1	7.3	7.2	6.9	7.2
NPLs to Basel III capital	33.8	34.2	34.7	31.9	34.0*
Net charge-offs to loans (annualised)	0.2	0.2	0.2*	0.1*	0.1*
Loan provisioning					
Provisions to NPLs	20.1	20.5	21.4	25.9	24.1
Specific provisions to NPLs	11.3	11.3	12.0	16.8	16.0
Provisions to total loans (net)	1.6	1.7	1.7	2.1	2.0

** Restated*

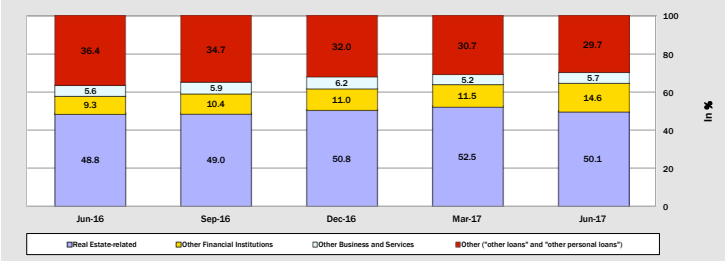
- NPLs fell to 7.1% of total loans for the quarter. The percentage of NPLs to capital also decreased, falling to 33.8% for the quarter.

- Loan provisioning indicators show very little movement over the previous quarter, with provisions to NPLs improving marginally to 20.1%.

Sectoral Distribution of Loans

Chart III reflects 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

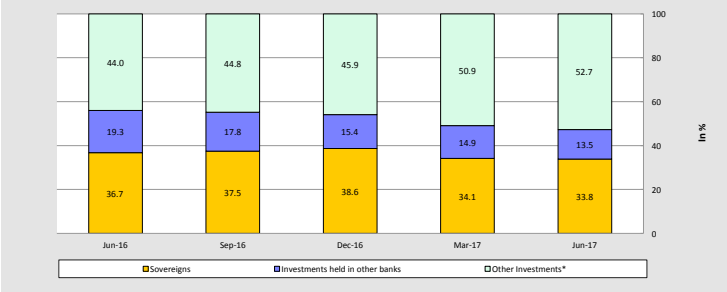


- Sector loan distribution continued to be primarily dominated by the real-estate sector. Other sectors have picked up some pace, especially lending to "Other financial institutions" which has grown steadily over the past year, reaching 14.6% of total loans for the second quarter.

Investment Book

Chart IV below 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.

- Investment holdings increased from $9.0 billion to $9.4 billion in Q2-2017. Reallocation within the investment book continued in the second quarter, with the sector investing more in other forms of investments (consisting 86.0% of non-equity, highly-rated securitised investments); generating solid returns on 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

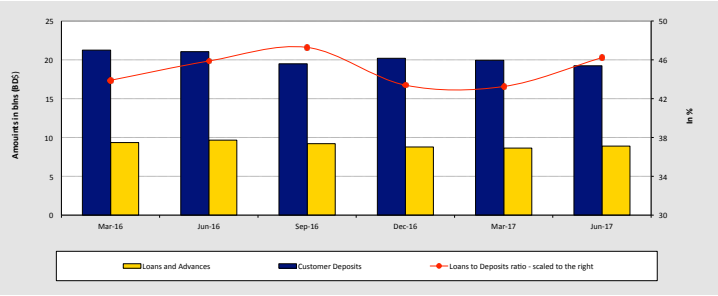
(In %)	2017		2016		
	Jun	Mar	Dec	Sep	Jun
Cash and deposits to total assets	13.7	18.7	16.1	15.7	21.6
Cash and cash equivalents to total deposit liabilities	15.6	21.0	18.1	18.0	24.5
Loan-to-deposit ratio	46.2	43.3	43.4	47.3	45.9
Loans-to-total assets	40.6	38.4	38.6	41.1	40.4
Funding gap*	-47.2	-50.4	-50.4	-45.9	-47.7

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

- As of the end-June 2017, all regulated financial institutions met the 80.0% LCR minimum requirement and have complied with the regulatory liquidity standards.

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

Chart V: Total Loans and Deposits



- Liquidity, as measured by the loan-to-deposit ratio, jumped to 46.2% at end-June from 43.3% from the prior quarter, with positive growth occurring in total loans (up 3.0% or $260.9 million) relative to the decline in customer deposits (down 3.6% or $714.5 million).

PROFIT AND LOSS

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

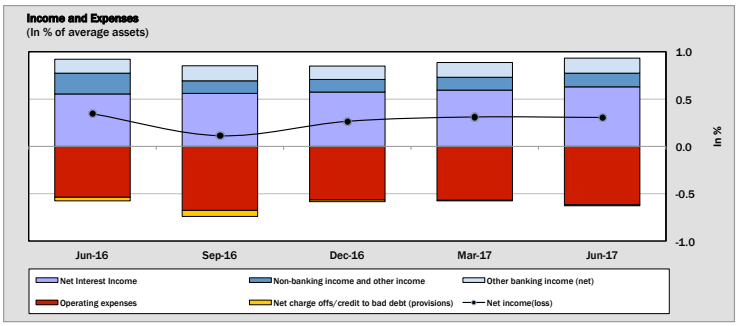
Table VI: Summary of Profitability Ratios

(In %)	2017		2016		
	Jun	Mar	Dec	Sep	Jun
Net interest margin to total income	67.5	67.1	67.6	65.5	60.2
Annualised net interest margin to (average) earning assets*	2.5	2.4	2.3	2.2	2.2
Annualised interest income to (average) earning assets*	2.7	2.5	2.5	2.4	2.4
Banking income to total income	84.6	84.6	84.3	84.3	76.1
Non-interest income to total income	32.5	32.9	32.4	34.5	39.8
Non-interest expenses to total income	67.4	65.0	68.9	86.8	62.5
Personnel expenses to non-interest expenses	52.9	53.5	51.5	44.3	49.4
Annualised Return on Assets (RoA)*	0.3	0.3	0.3	0.2	0.2
Annualised Return on Equity (RoE)**	2.7	2.8	2.7	2.2	2.6

** 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



Margin Analysis

- Sector reported lower profits in the second quarter, with banks posting net profits of $66.1 million, down 4.0% over the prior quarter and 17.2% lower compared to the same period last year. Net interest income (representing 67.5% of total income) increased by 3.8% to $138.8 million helping to improve overall total income (up 3.1% to $202.6 million). However, operating and non-operating expenses increased, rising by 7.0% to $136.5 million for the quarter reducing some of the bank earnings for the period.

- The cost efficiency deteriorated during the period, increasing from 65.0% to 67.4% (see Table VI).

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

Chart VII: Distribution of Income Sources

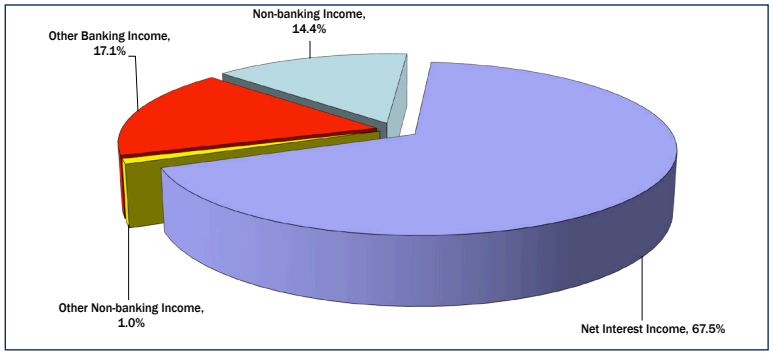
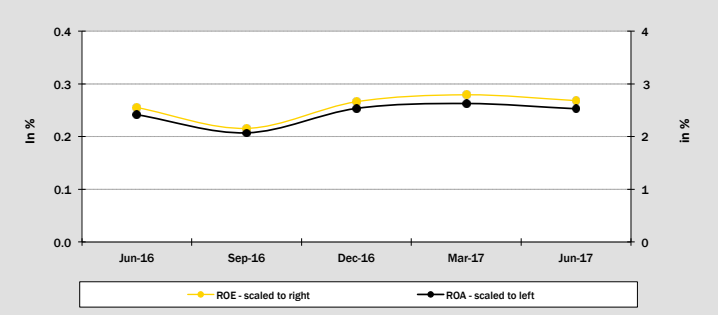


Chart VIII shows the trend in RoE and RoA over the last five quarters.

Chart VIII: Annualised RoA and RoE*

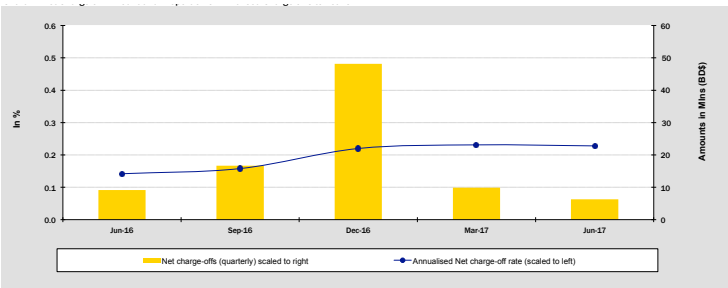


**Restated (prior to Q4-2016)*
Percentages may not agree to scale due to rounding

- Although the sector posted slightly lower profits in the second quarter, there was very little change in the profitability indicators, as annualised RoA and RoE, remained at 0.3% and 2.7%, respectively.

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*



Restated (prior to Q4-2016)

- The quarterly net charge-offs reported by the sector declined over the prior quarter, falling by 36.6% to $6.3 million, which is also 31.3% lower than amounts from a year earlier. The annualised net charge-offs to total loans was unchanged staying just above 0.2% for the quarter.

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)	2017		2016			Change (In %)	
	Jun	Mar	Dec	Sep	Jun	QoQ	YoY
Loans and advances	5.3	5.0	5.1	5.5	5.9	6.5	-9.5
Total assets	17.9	18.3	18.6	18.2	19.6	-2.5	-8.7
Deposit liabilities	15.7	16.5	16.8	16.1	17.6	-4.6	-10.8

- Foreign currency assets decreased for the second consecutive quarter, falling by 2.5% to $17.9 billion and 8.7% compared to a year ago. The most notable decline was in FX currency interbank deposits (down 29.2% or $1.2 billion).

- Foreign currency customer deposits fell by 4.6% to $15.7 billion, led mainly by the outflow from FX demand deposits (down 6.3% or $575.4 million) and FX saving deposits (down 5.0% or $257.7 million). The reliance on foreign currency funding remained strong, as foreign currency assets accounted for 81.6% of the total combined balance sheet of Bermuda banks at end-June.

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

Table VIII: Foreign Currency Positions

(In %)	2017		2016		
	Jun	Mar	Dec	Sep	Jun
FX-denominated assets to total assets	81.6	81.7	81.8	81.4	82.0
FX-denominated loans to total loans	60.0	58.1	58.3	59.9	61.1
FX-denominated deposits to total deposits	81.7	82.5	83.0	82.4	83.7
Changes in FX assets	-2.5	-1.3	1.9	-6.9	-1.5
Changes in FX loans and advances	6.5	-2.1	-7.4	-6.3	6.5
Changes in FX customer deposits*	-4.5	-1.9	4.4	-8.8	-1.4

**** Percentage change based on absolute numbers.***

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

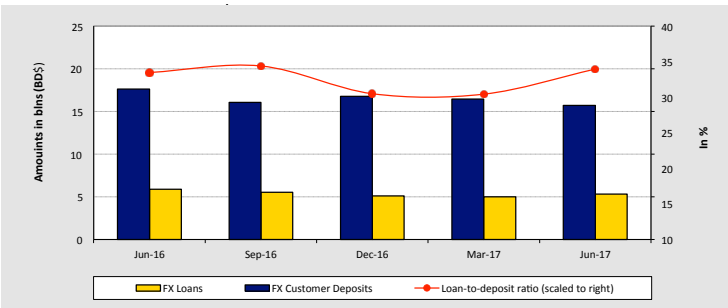
Table IX: Liquidity Indicators (FX Positions)

(In %)	2017		2016		
	Jun	Mar	Dec	Sep	Jun
Cash and deposits to total assets	16.4	22.5	19.4	18.9	25.9
Cash and cash equivalents to total deposit liabilities	18.7	25.1	21.5	21.5	28.8
Loan-to-deposit ratio	34.0	30.4	30.5	34.4	33.5
Loans to total assets	29.8	27.3	27.5	30.3	30.1
Funding gap*	-58.0	-62.4	-62.8	-57.8	-59.8

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

Table X: Bermuda Dollar Balance Sheet

(In BD$ blns)	2017		2016			Change (In %)	
	Jun	Mar	Dec	Sep	Jun	QoQ	YoY
Loans and advances	3.6	3.6	3.7	3.7	3.8	*-1.8*	*-5.5*
Total assets	4.0	4.1	4.1	4.2	4.3	*-2.0*	*-6.5*
Deposit liabilities	3.5	3.5	3.4	3.4	3.4	*1.0*	*2.6*

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.

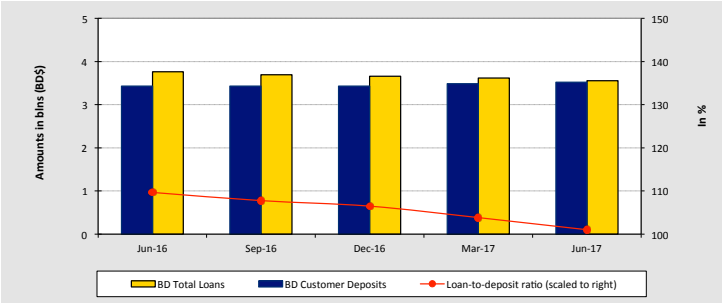
Table XI is a summary of ratios measuring the liquidity of the BD$-denominated balance sheet over the last five quarters.

Table XI: Liquidity Indicators (BD$ Positions)

(In %)	2017		2016		
	Jun	Mar	Dec	Sep	Jun
Cash and deposits to total assets	1.8	1.5	1.5	1.5	1.6
Cash and cash equivalents to total deposit liabilities	2.0	1.8	1.8	1.8	2.0
Loan-to-deposit ratio	101.0	103.8	106.5	107.8	109.7
Loans to total assets	88.3	88.1	88.5	88.6	87.4
Funding gap to total BD$ Assets	0.9	3.3	5.4	6.4	7.7

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



- Liquidity indicators, as measured by loans-to-deposits continued to trend downward, falling to 101.0%. BD$ loans fell by 1.8% during the quarter, compared to the 1.0% increase in BD$ customer deposits. BD$ loan exposure remained high, rising to 88.3% of BD$ total assets.

Monetary Aggregates

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

Table XII: Bermuda Money Supply (Unconsolidated)

(In BD$ mln)	2017		2016		
	Jun	Mar	Dec	Sep	Jun
Notes and coins in circulation	138	131	137	128	129
Deposit liabilities	3,532	3,499	3,448	3,450	3,458
Banks and deposit companies	**3,670**	**3,630**	**3,585**	**3,578**	**3,587**
less: cash at banks and deposit companies	40	38	46	38	39
Bermuda Dollar money supply	**3,630**	**3,592**	**3,540**	**3,539**	**3,548**
% Growth on previous period	1.1	1.5	0.0	-0.3	1.3
% Growth y-o-y	2.3	2.5	2.7*	3.5	2.3*

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

- The Bermuda Dollar money supply increased by 1.1% to $3.6 billion during the quarter; as the combination of higher inflows of customer deposits (up 1.0%) and the increase in notes and coins in circulation (up 5.6%) contributed to the quarterly growth.

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 June, BCBS updated (for a second time) a set of Frequently Asked Questions (FAQs) on LCR.

https://www.bis.org/bcbs/publ/d406.pdf

BCBS published its guidelines on sound management of risks related to money laundering and finance of terrorism in relation to correspondent banking. The report clarifies how banks should assess risks and setting out and establishing the relevant policies for a firm.

https://www.bis.org/bcbs/publ/d405.pdf

In April, BCBS published final guidance on the prudential treatment of problem assets. The guidance is intended to harmonise the definitions of non-performing loans and forbearance, and to complement the existing regulatory and accounting frameworks.

http://www.bis.org/bcbs/publ/d403.pdf

European Banking Authority (EBA)

In June, EBA issued its second stock take of national supervisory practices and legal frameworks related to NPLs.

https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.stock_taking2017.en.pdf

Financial Conduct Authority (FCA)

In April, FCA published discussion paper on Distributed Ledger Technology (DLT) that covers the future development of DLT in regulated markets, in particular as it relates to risk and opportunities from this evolving technology.

https://www.fca.org.uk/publication/discussion/dp17-03.pdf

Financial Policy Committee (FPC)

In June, FPC published its latest Financial Stability Report (FSR), which outlines changes including an increase to the UK Countercyclical Capital Buffer rate from 0.0% to 0.5% and overseeing contingency planning to mitigate risks to financial stability as the United Kingdom withdraws from the European Union.

http://www.bankofengland.co.uk/publications/Documents/fsr/2017/fsrjun17.pdf

Financial Stability Board (FSB)

In June, FSB published a report covering the financial stability implications from FinTech. The report provides an analysis on 10 issues that merit authorities' attention, such as, mitigating cyber risks, cross-border legal issues and regulatory arrangement and studying alternative configurations of digital currencies.

http://www.fsb.org/wp-content/uploads/R270617.pdf

In May, FSB published the Global Shadow Banking Monitoring report 2016, which covers global trends and risks in the shadow banking system, reflecting data up to the end of 2015.

http://www.fsb.org/wp-content/uploads/globalshadow-banking-monitoring-report-2016.pdf

FSB and the Committee on the Global Financial System (CGFS) published a report on the market structure, business models and financial stability implications of FinTech credit. The report helps to further understand the function of FinTech credit markets, including the size, scope and growth of these activities.

http://www.fsb.org/wp-content/uploads/CGFS-FSB-Report-on-FinTech-Credit.pdf

Prudential Regulation Authority (PRA)

In June, PRA released a consultation paper on the new revisions on recovery planning, which include the usability of plans by senior management, and recommended that firms undertake fire drills to test plans and the associated governance arrangements.

http://www.bankofengland.co.uk/pra/Documents/publications/cp/2017/cp917.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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