QUARTERLY

Banking Digest

Q3-2016

BMA
BERMUDA MONETARY AUTHORITY

NEW BASEL III REQUIREMENTS

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

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

- As of 1st January 2016, all banks were required to hold additional capital in the form of a Capital Conservation Buffer (CCB). This year, the phase-in requirement for this buffer is 0.63.%

PERFORMANCE HIGHLIGHTS

- **The overall capital position of Bermuda banks continued to be sound in Q3.** The Basel III Risk Asset Ratio (RAR) continued to increase over each of the last four quarters, rising to 21.9%. CET 1 ratio also improved during the quarter, rising to 18.2% while the leverage position of the banking sector rose to 8.0%.

- **Balance sheet size as measured by total assets and customer deposits declined further during the quarter.** Total assets fell by 6.2%, with the majority of the asset categories experiencing declines. Interbank deposits (down 32.4%), loans and advances (down 4.5%) and other types of assets (down 13.7%) were mostly impacted. Investments were the only asset with positive growth (up 8.4%).

- **Overall quality of the loan book remained positive.** The sector's performing loans remained high at approximately 93.0% of total loans as the portion of Non-Performing Loans (NPL) to total loans fell for the fourth successive quarter, decreasing to 6.9%.

- **Banks reported lower profits in Q3.** Banks posted lower earnings and higher costs associated with banking operations, resulting in lower profitability during the quarter. Return on Equity (RoE) and Return on Assets (RoA) were also down, decreasing to 4.9% and 0.4%, respectively.

SUMMARY INDICATORS

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

Table I: Selected Indicators

	2016			2015	
(Ratios in %)	Sep	Jun	Mar	Dec	Sep
Capital Position					
Basel III – RAR (8.0%) [a)]	21.9	21.4	20.0	19.1*	18.7*
Basel III – CET I ratio (5.1%) [a)]	18.2	17.8	17.7	15.9	15.6
Basel III – Leverage Ratio (5.0%)	8.0	7.7	7.6	7.4	7.7
Liquidity					
Cash/cash equivalents to total deposits liabilities	18.0	24.5	18.0	18.2	24.2
Loan-to-deposit ratio	47.3	45.9	43.9	42.5	41.2
Funding gap[b)]	-45.9	-47.7	-49.3	-51.1	-51.9
Profitability					
Interest margin to interest income	93.1	92.4	92.2	91.5	92.2
Return on assets	0.4	1.4	1.1	0.4	1.0
Return on equity	4.9	15.2	12.6	4.0	11.2
Loan Book					
Provisions to Non-Performing Loans (NPLs)	25.9	24.1	23.5	23.5*	20.7
NPLs to total loans	6.9	7.2	7.6	8.0	9.4
NPLs to regulatory capital [c)]	31.9	34.0*	35.2*	35.7	39.6
Other					
Change in BD$ money supply (RU)	-0.3	1.3	1.6	0.8	-2.4
Change in assets	-6.2	-1.3	0.6	2.8	-4.9
Change in RWAs[d)]	-4.6	-0.8	-8.0	-2.0	-1.5
Change in customer deposits	-7.4	-1.1	-0.4	3.4	-6.3

**Restated*
a) Basel III requirements as per the Final Rules, subject to the phase-in period with full implementation commencing in 2019.
b) Loans, less deposits; divided by total assets
c) As of Q1-2016, Basel III capital will be used to calculate ratio
d) Basel III Risk-weighted assests (RWA) 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)	2016			2015		Change (In %)	
	Sep	Jun	Mar	Dec	Sep	QoQ	YoY
Assets							
Cash	0.1	0.1	0.1	0.1	0.1	*8.3*	*6.8*
Deposits	3.4	5.1	3.8	3.8	4.9	*-32.4*	*-30.3*
Loans & advances	9.2	9.7	9.3	9.1	8.5	*-4.5*	*8.2*
Investments	9.0	8.3	10.3	10.4	9.2	*8.4*	*-2.1*
Other assets	0.7	0.8	0.7	0.7	0.7	*-13.7*	*-2.9*
Total assets	**22.4**	**23.9**	**24.2**	**24.1**	**23.4**	***-6.2***	***-4.3***
Liabilities							
Savings deposits	6.3	6.5	7.1	6.5	6.0	*-2.1*	*4.9*
Demand deposits	10.3	11.5	11.4	11.7	11.1	*-9.9*	*-7.0*
Time deposits	2.9	3.1	2.8	3.2	3.5	*-9.0*	*-19.1*
Total deposits	**19.5**	**21.1**	**21.3**	**21.4**	**20.7**	***-7.4***	***-5.6***
Other liabilities	0.7	0.6	0.7	0.6	0.6	*18.8*	*19.9*
Total liabilities	**20.2**	**21.6**	**22.0**	**21.9**	**21.2**	***-6.7***	***-4.9***
Equity and subordinated debt	2.2	2.3	2.2	2.1	2.2	*-2.1*	*2.0*
Total liabilities and equity	**22.4**	**23.9**	**24.2**	**24.1**	**23.4**	***-6.2***	***-4.3***

Totals may not add due to rounding.

- The consolidated balance sheet structure experienced a notable decline during the period, as total assets fell by 6.2% (or $1.5 billion) and 4.3% (or $1.0 billion) compared to a year ago. Most of the decline was attributed to the drop in interbank deposits (down 32.4% or $1.6 billion) and lending (down 4.5% or $437.7 million), which offset all of the quarterly growth observed in investments (up 8.4% or $698.0 million). Core assets remained lower year-on-year, with the exception of lending which was 8.2% higher than levels reported a year ago. Loans and investments continued to be the main income earning assets, comprising of more than 80.0% of total assets.

- Total liabilities contracted during the period, falling by 6.7% (or $1.4 billion) and 4.9% (or $811.9 million) year-on-year. The overall decline in total deposits was due to higher outflow of deposit liabilities, led by demand deposits (down 9.9% or $1.1 billion) followed by time (down 9.0% or $281.2 million) and savings deposits (down 2.1% or $136.4 million).

Summary of Balance Sheet Ratios

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

Table III: Summary of Balance Sheet Ratio

(In % unless indicated otherwise)	2016			2015	
	Sep	Jun	Mar	Dec	Sep
Asset allocation					
Investments	40.1	34.7	42.7	43.3	39.2
Loans	41.1	40.4	38.6	37.7	36.4
Deposits	15.3	21.2	15.5	15.8	21.0
Other assets	3.1	3.3	2.9	2.8	3.0
Deposits allocation					
Savings	32.5	30.7	33.2	30.4	29.2
Demand	52.9	54.4	53.5	54.6	53.7
Time	14.6	14.9	13.4	15.0	17.1
Capital position					
Basel III – Risk Asset Ratio**	21.9	21.4	21.0	19.1*	18.7*
Basel III – Leverage Ratio	8.0	7.7	7.6	7.4	7.7

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

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

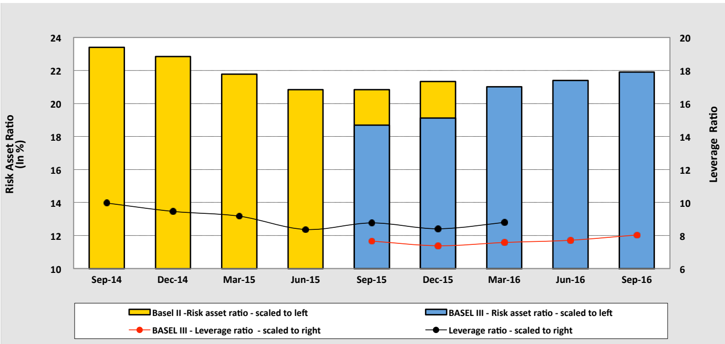
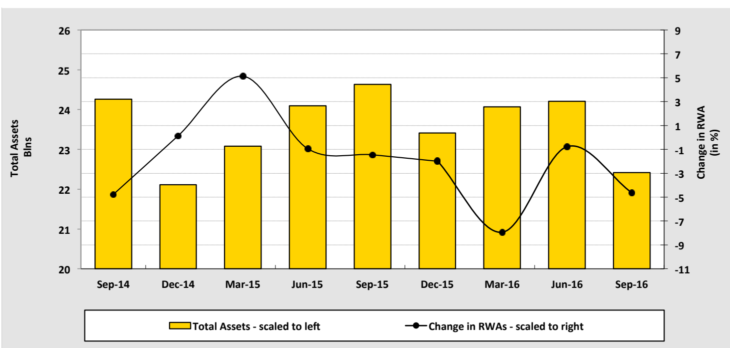


Chart II below reflects the movement in total assets and the change in Risk-Weighted Assets (RWAs) over the last two years.

Chart II: Total Assets and Change in RWAs



- Banking sector's capital position remained strong under the new regulatory capital requirements. Basel III – RAR rose for the fourth consecutive quarter, increasing to 21.9%, while the Common Equity Tier 1 (CET 1) ratio rose to its highest level over the past year, to 18.2% for the quarter. Banks also reduced their overall credit risk exposure during the quarter, as RWAs declined by 4.6%.

- The leverage position of the banking sector has steadily increased over the past year, reaching 8.0% during the quarter and continues to be above internationally recognised standards.

Asset Quality

Loan Book

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

Table IV: Quality of the Loan Book

	2016			2015	
(In %)	Sep	Jun	Mar	Dec	Sep
Loans and advances quarter-over-quarter growth rate	-4.5	3.4	2.9	6.5	-1.7
Residential mortgages to total loans	42.7	41.4	43.8	46.0	49.0
Loan impairments					
NPLs to total loans (net)	6.9	7.2	7.6	8.0	9.4
NPLs to Basel III capital	31.9	34.0*	35.2*	35.7	39.6
Net charge-offs to loans (annualised)	0.6	0.4	0.2	1.0	0.6
Loan provisioning					
Provisions to NPLs	25.9	24.1	23.5	23.5	20.7
Specific provisions to NPLs	16.8	16.0	16.1	16.0	14.0
Provisions to total loans (net)	2.1	2.0	2.1	2.2	2.3

** Restated*

- NPLs declined by $57.4 million (or 8.3%) during the quarter, while performing loans remained high at about 93.0% of total loans. The portion of NPLs to total loans fell for the fourth successive quarter, decreasing to 6.9% in Q3, which is also down from 9.4% year-on-year.
- Banks set aside $197.4 million in loan-loss provisions in the third quarter, an increase of $5.6 million when compared with the same period last year.
- Net charge-offs (NCOs) as a percentage of total loans were marginally higher at 0.6% in Q3 and have remained below the 1.0% level since the beginning of the year.

Sectoral Distribution of Loans

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

Chart III: Sectoral Distribution of Loans and Advances

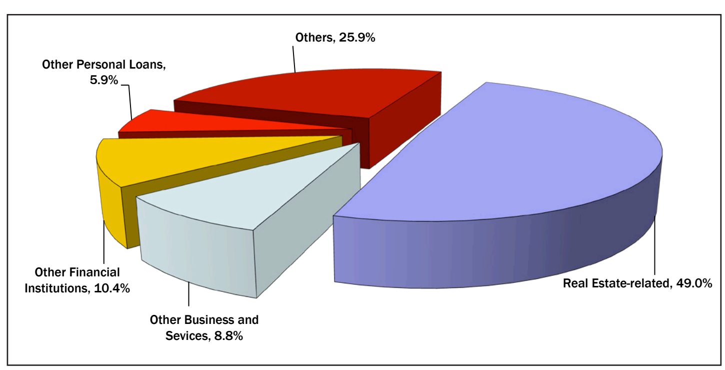
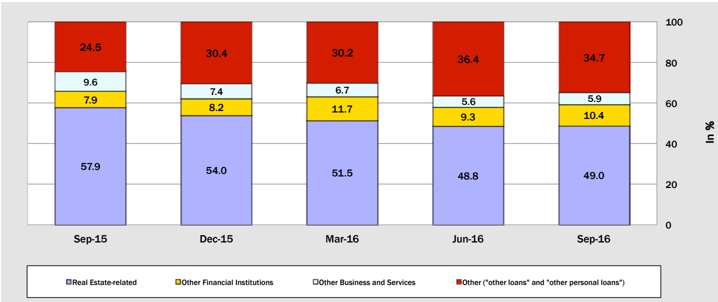


Chart IV: Sectoral Distribution of Loans and Advances

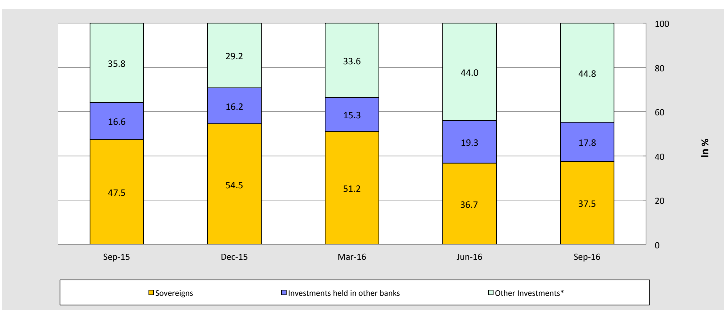


- Loans to major sectors continued to experience very little movement. The real estate market remained flat at 49.0% and is well-below levels reported a year ago (57.9%). Loans to the remaining sectors had marginal increases, with the exception of lending to sectors classified as "Other" which fell from 36.4% to 34.7%. The decline was mainly attributed to a decrease in lending to highly-rated sovereigns.

Investment Book

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

Chart V: Sectoral Structure of the Investment Book*



** Includes: public sector entities (PSEs), securitised (non-equity tranches) investments, securitised (equity tranche) investments, investments in the capital of other banks, and investments in subsidiaries and associated companies.*

- The investment book structure remained fairly stable with the majority of holdings in highly-rated securities. Sovereign investments were higher than the previous quarter, rising to 37.5% of total loans. Investments categorised as "Other", consisting primarily of securitised (non-equity) instruments, rose marginally to 44.8%.

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

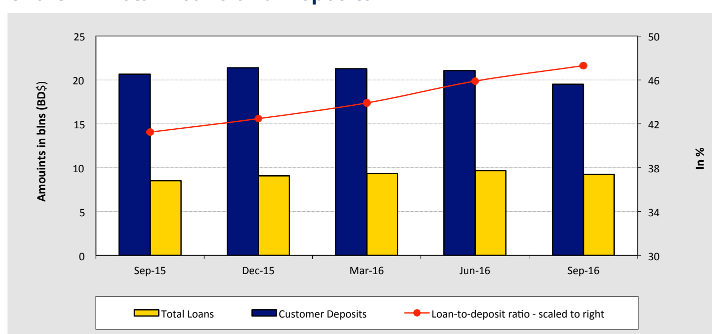
	2016			2015	
(In %)	Sep	Jun	Mar	Dec	Sep
Cash and deposits to total assets	15.7	21.6	15.8	16.2	21.4
Cash and cash equivalents to total deposit liabilities	18.0	24.5	18.0	18.2	24.2
Loan-to-deposit ratio	47.3	45.9	43.9	42.5	41.2
Loans-to-total assets	41.1	40.4	38.6	37.7	36.4
Funding gap*	-45.9	-47.7	-49.3	-51.1	-51.9

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

- As of the end-September 2016, all regulated financial institutions were above the 70.0% LCR minimum requirement.

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

Chart VI: Total Loans and Deposits



- The liquidity funding structure as measured by the loans-to-deposits ratio, increased quarter-on-quarter from 45.9% to 47.3%. The outflow of customer deposits (down 7.4% or $1.6 billion) fell at a much faster rate when compared to total loans (down 4.5% or $437.7 million), further tightening the sector's funding gap.

PROFIT AND LOSS

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

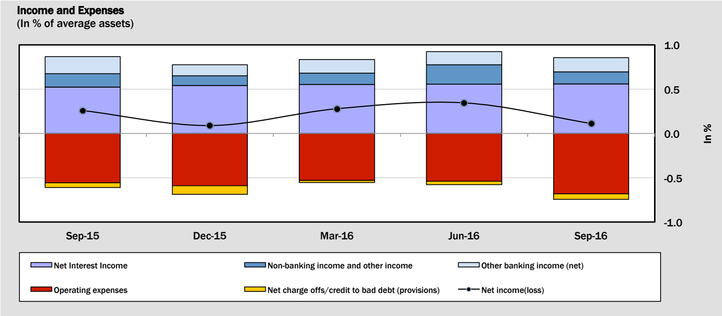
Table VI: Summary of Profitability Ratios

(In %)	2016			2015	
	Sep	Jun	Mar	Dec	Sep
Net interest margin to total income	65.5	60.2	66.3	69.9	60.4
Annualised net interest margin to (average) earning assets*	2.2	2.2	2.2	2.2	2.1
Annualised interest income to (average) earning assets*	2.4	2.4	2.4	2.4	2.3
Banking income to total income	84.3	76.1	84.6	86.0	82.5
Non-interest income to total income	34.5	39.8	15.4	14.0	17.5
Non-interest expenses to total income	86.8	62.5	66.5	88.5	70.2
Personnel expenses to non-interest expenses	44.3	49.4	48.0	45.1	49.7
Return on Assets (RoA)*	0.5	1.4	1.1	0.4	1.0
Return on Equity (RoE)**	4.9	15.2	12.6	4.0	11.2

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

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

Chart VII – Income and Expenses



Margin Analysis

- Sector profitability stayed positive, despite the decline in overall net income levels. Banks posted lower earnings during the quarter with net interest income remaining steady and non-interest income levels down 39.8%. Overall total income was $17.6 million (or 8.3%) lower than the prior quarter and $4.0 million (or 2.0%) lower compared to a year ago. Operating and non-operating expenses were comparatively higher, increasing quarter-on-quarter by 27.4%. Costs related to banking operations were up $30.9 million (or 24.9%), while non-operating expenses increased by $5.5 million (or 63.0%).

- The sector's cost efficiency deteriorated in Q3, as non-interest expenses as a percentage of total income rose from 62.5% to 86.8%. This was a result of a higher increase in operating and non-operating costs as compared to the decrease in gross income of 8.3% during the quarter.

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

Chart VIII: Distribution of Income Sources

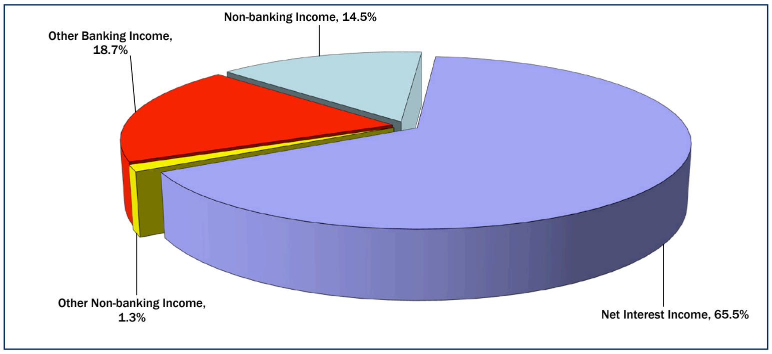
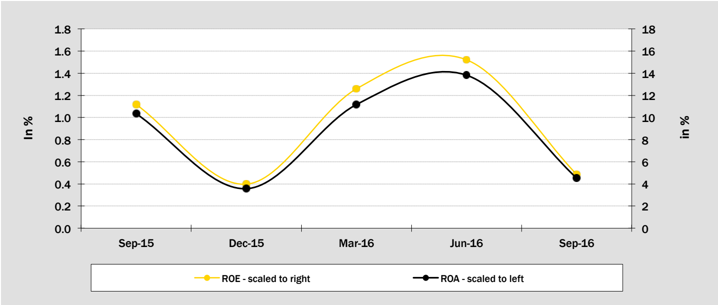


Chart IX shows the trend in RoE and RoA over the last five quarters.

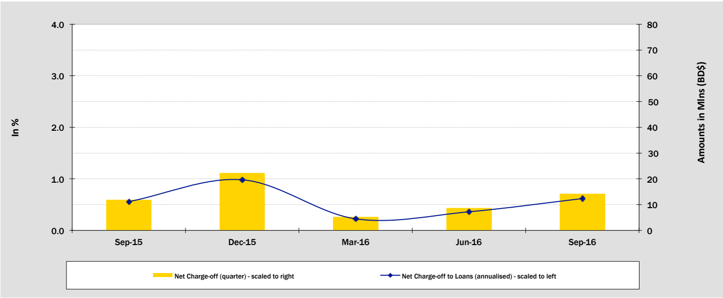
Chart IX: Annualised Return on Assets and Return on Equity



- Sector profits were negatively impacted in Q3, causing returns to fall to its lowest level over the past nine months. The annualised RoA fell to 0.4% in the third quarter down from 1.0% year-on-year. Annualised RoE decreased to 4.9% compared to 11.2% a year earlier.

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

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



Charge-offs for Loan Losses and Loan Impairments

- The sector's net charge-offs increased from $11.9 million in Q3-2015 to $14.2 million in Q3-2016, which is also $5.5 million higher than the prior quarter's net charge-offs. The proportion of (annualised) net charge-offs to total loans was relatively flat year-on-year at 0.6%.

Foreign Currency (FX) Balance Sheet

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

Table VII: Foreign Currency Balance Sheet

(In BD$ blns)	2016			2015		Change (In %)	
	Sep	Jun	Mar	Dec	Sep	*QoQ*	*YoY*
Loans and advances	5.5	5.9	5.5	5.2	4.6	*-6.3*	*20.2*
Total assets	18.2	19.6	19.9	19.7	19.0	*-6.9*	*-4.0*
Deposit liabilities	16.1	17.6	17.9	18.0	17.4	*-8.8*	*-7.4*

- The total FX$-denominated asset base declined by 6.9% during the quarter. This was mainly due to the 32.1% decrease in FX$-denominated interbank deposits and 6.3% decrease in FX$-denominated loans and advances. The US dollar remains the dominant currency, making up 73.5% of total foreign currency denominated assets.

- The FX$-denominated customer deposits decreased by 8.8% during the quarter. The decrease can be attributed to declines in foreign currency savings (down 3.1%), demand deposits (down 11.0%) and time deposits (down 11.0%).

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

Table VIII: Foreign Currency Positions

(In %)	2016			2015	
	Sep	Jun	Mar	Dec	Sep
FX-denominated assets to total assets	81.4	82.0	82.2	81.9	81.2
FX-denominated loans to total loans	59.9	61.1	59.3	57.4	54.0
FX-denominated deposits to total deposits	82.4	83.7	84.0	84.4	84.0
Changes in FX assets	-6.9	-1.5	1.0	3.7	-5.4
Changes in FX loans and advances	-6.3	6.5	6.3	13.3	-1.0
Changes in FX customer deposits*	-8.8	-1.4	-0.9	3.9	-7.4

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.

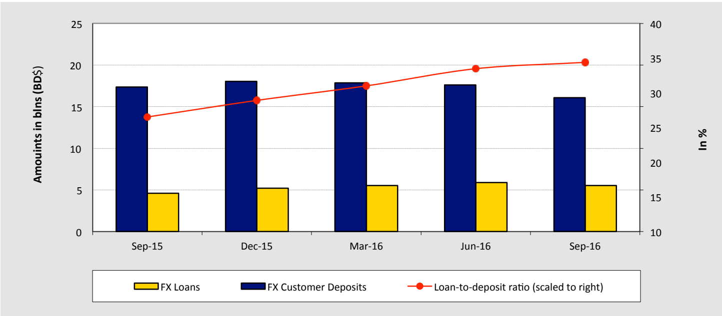
Table IX: Liquidity Indicators (FX Positions)

(In %)	2016			2015	
	Sep	Jun	Mar	Dec	Sep
Cash and deposits to total assets	18.9	25.9	18.9	19.4	26.0
Cash and cash equivalents to total deposit liabilities	21.5	28.8	21.0	21.2	28.5
Loan-to-deposit ratio	34.4	33.5	31.0	28.9	26.5
Loans to total assets	30.3	30.1	27.8	26.4	24.2
Funding gap*	-57.8	-59.8	-61.9	-65.0	-67.1

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

Chart XI shows the movement in FX$-denominated loans and deposits, and the ratio of FX$-denominated loans to customer deposits, for the last five quarters.

Chart XI: FX Loans and Customer Deposit



- The foreign currency liquidity funding structure maintained its upward trend, as the loans-to-deposit ratio slightly improved to 34.4%. Foreign currency deposits fell at a faster rate (down 8.8% or $1.5 billion) when compared to the decline in foreign currency loans (down 6.3% or $369.5 million).

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

	2016			2015		Change (In %)	
(In BD$ blns)	Sep	Jun	Mar	Dec	Sep	*QoQ*	*YoY*
Loans and advances	3.7	3.8	3.8	3.9	3.9	*-1.8*	*-5.8*
Total assets	4.2	4.3	4.3	4.4	4.4	*-3.1*	*-5.3*
Deposit liabilities	3.4	3.4	3.4	3.3	3.3	*-0.1*	*3.5*

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

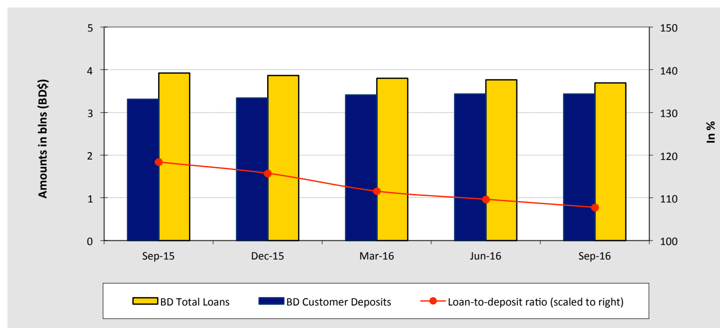
Table XI is a summary of ratios measuring the liquidity of the BD$-denominated balance sheet over the last five quarters.

Table XI: Liquidity Indicators (BD$ Positions)

	2016			2015	
(In %)	Sep	Jun	Mar	Dec	Sep
Cash and deposits to total assets	1.5	1.6	1.6	1.6	1.4
Cash and cash equivalents to total deposit liabilities	1.8	2.0	2.0	2.1	1.8
Loan-to-deposit ratio	107.8	109.7	111.6	115.8	118.4
Loans to total assets	88.6	87.4	88.4	88.7	89.0
Funding gap to total BD$ Assets	6.4	7.7	9.2	12.1	13.8

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 decline in the loans-to-deposits ratio over the last five quarters is reflective of the continuing decrease in BD$ denominated loans and advances, while BD$ denominated customer deposits remain relatively flat. Subsequently, the BD$ liquidity funding gap further declined, falling from 7.7% to 6.4%.

Monetary Aggregates

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

Table XII: Bermuda Money Supply (Unconsolidated)

(In BD$ mln)	2016			2015	
	Sep	Jun	Mar	Dec	Sep
Notes and coins in circulation	128	129	125	133	124
Deposit liabilities	3,450	3,458	3,416	3,359	3,333
Banks and deposit companies	**3,578**	**3,587**	**3,541**	**3,492**	**3,457**
less: cash at banks and deposit companies	38	39	38	45	38
Bermuda Dollar money supply	**3,539**	**3,548**	**3,503**	**3,447**	**3,419**
% Growth on previous period	-0.3	1.3	1.6	0.8	-0.2
% Growth y-o-y	3.5	3.6	2.6	3.1	1.3

The table includes the supply of Bermuda dollars only.

- The money supply declined for the first time in three quarters, falling slightly by 0.3%, but was 3.5% higher year-on-year. The overall decline was mainly driven by the outflow of Bermuda dollar customer deposits, falling by 0.3% (or $8.5 million) during the quarter.

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.

Bank for International Settlements (BIS)

In September, the Basel Committee on Banking Supervision (BCBS) published the results of its latest Basel III monitoring report. For the third consecutive year, all large internationally active banks met their fully phased-in Basel III minimum CET1 requirement of 4.5% and the future CET1 target of 7.0% (including the capital conservation buffer).

https://www.bis.org/bcbs/publ/d378.pdf

In August, the BCBS published its seventh report updating G20 leaders on the progress of 27 member jurisdictions toward implementing Basel III regulatory reforms. The report summarizes areas including:

- Monitoring progress in adopting the Basel III standards
- Assessing the consistency of national or regional banking regulations with the Basel III standards
- Analyzing the prudential outcomes from those regulations

http://www.bis.org/bcbs/publ/d377.pdf

In July, the BCBS issued answers to the frequently asked questions (FAQs) on Basel III's Net Stable Funding Ratio (NSFR).

http://www.bis.org/bcbs/publ/d295.pdf

Community of Payments and Market Infrastructure (CPMI)

In July, the CPMI released its final report on Correspondent Banking. The report builds on an earlier version of the report, for which public consultation took place in late 2015. It helps alleviate some of the costs and concerns affecting correspondent banking activities.

http://www.bis.org/cpmi/publ/d147.pdf

European Banking Authority (EBA)

In July, the EBA published its 2016 EU-wide stress test, along with granular data for each bank. This includes detailed information, at both the starting and end points of the exercise, under the baseline and the adverse scenarios.

http://www.eba.europa.eu/documents/10180/1532819/2016-EU-wide-stress-test-Results.pdf

European Central Bank (ECB)

In August, the ECB published a working paper that examines the reasons for the expansion of shadow banking sectors in the U.S. and Euro area in the decade before the financial crisis.

http://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1943.en.pdf

European Systemic Risk Board (ESRB)

In July, the ESRB published its first EU Shadow Banking Monitor and a paper on the assessment of shadow banking. This monitoring framework was developed to assess systemic risks in the EU shadow banking sector. The ESRB also published a paper that complements the EU Shadow Banking Monitor by providing further methodological detail on the development of risk metrics.

http://www.esrb.europa.eu/pub/pdf/reports/20160727_shadow_banking_report.en.pdf

The Financial Stability Board (FSB)

In October, the FSB published a methodology for assessing the implementation of the Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes) in the banking sector.

http://www.fsb.org/wp-content/uploads/Key-Attributes-Assessment-Methodology-for-the-Banking-Sector.pdf

In August, the FSB published its progress report to the G20 on the FSB action plan to assess and address the decline in corresponding banking. The report describes the progress made in taking forward the four-point action plan published last November.

http://www.fsb.org/wp-content/uploads/Progress-report-to-G20-on-the-FSB-action-plan-to-assess-and-address-the-decline-in-correspondent-banking.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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