BMA
BERMUDA MONETARY AUTHORITY

Quarterly Banking Digest

Q1-2020

BASEL III REQUIREMENTS

- All banks are required to meet the 100% minimum requirement for Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR)
- All banks are required to hold additional capital in the form of a Capital Conservation Buffer (CCB) at 2.5% of Risk Weighted Assets (RWA), increasing the minimum Common Equity Tier 1 (CET1) requirement (plus CCB) to 7.0% of RWAs
- Banks deemed to be systemically important to the island's economy are required to maintain a Domestic Systemically Important Bank (D-SIB) buffer which can range from 0.0% to 3.0%, depending on the bank's balance sheet size and unique risk profile

COVID-19

- The COVID-19 pandemic caused a significant shock to both the local and global economy, and its full impact and potential are still uncertain. Containment measures included restrictions on movement and business closures, impacting the incomes of many borrowers. Expected loan loss provisions are projected to increase while bank earnings may decline

PERFORMANCE HIGHLIGHTS

- Total banking sector assets were $24.2 billion, up 14.2% from the previous year
- Banking profitability declined in Q1, with banks reporting lower earnings and higher operating and non-operating expenses

SUMMARY INDICATORS

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

Table I: Selected Financial Soundness Indicators

Ratios	2020	2019			
	Mar	Dec	Sep	Jun	Mar
Capital position	%	%	%	%	%
Basel III – Risk Asset Ratio (RAR)	21.1	21.5	23.0	24.3	23.8
Basel III – CET1 ratio (7.0%)	19.7	20.3	21.7	22.9	22.3
Basel III – Leverage ratio (BMA minimum 5.0%)	7.1	7.4	7.8	8.7	8.6
Liquidity					
Cash and cash equivalents to total deposit liabilities	16.7	18.3	17.6	17.1	17.2
Loan-To-Deposit (LTD) ratio	41.1	41.1	39.4	44.1	45.7
Funding gap *	-52.2	-52.3	-53.3	-48.8	-47.7
Profitability					
Net interest income to interest income	85.5	82.4	82.8	85.6	86.6
Return on Assets (RoA)	0.2	0.3	0.4	0.4	0.4
RoA (annualised)	0.6	1.3	1.5	1.5	1.7
Return on Equity (RoE)	1.7	3.7	3.8	3.6	4.2
RoE (annualised)	7.1	15.5	16.2	15.1	17.7
Loan book					
Provisions to Non-Performing Loans (NPLs)	34.8	28.7	28.2	29.6	30.0
NPLs to total loans	5.3	5.3	5.8	5.7	5.5
NPLs to regulatory capital	24.5	24.1	23.7	23.0	23.4
Other					
Change in Bermuda Dollar (BD$) money supply Quarter-on-Quarter (QoQ)	2.6	-0.3	0.7	1.1	-1.8
Change in assets (QoQ)	0.7	1.6	12.9	-1.1	2.6
Change in RWAs (QoQ)	0.5	3.7	5.7	-1.6	0.8
Change in customer deposits (QoQ)	0.6	2.4	13.8	-1.6	2.8

**Loans, less deposit liabilities; divided by total assets. The negative funding gap indicates that deposits exceed loans.*
QoQ – percentage change from prior quarter.

Aggregate Balance Sheet

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

Table II: Aggregate Balance Sheet

(BD$ billions)	2020	2019				Change	
	Mar	Dec	Sep	Jun	Mar	QoQ	YoY*
Assets						%	%
Cash	0.1	0.1	0.1	0.1	0.1	–	–
Deposits (interbank)	3.5	3.8	3.6	3.0	3.1	-7.9	12.9
Loans and advances (net)	8.8	8.7	8.2	8.1	8.5	1.2	3.5
Investments	11.	10.7	11.1	9.2	8.9	3.7	24.7
Other assets	0.7	0.7	0.7	0.6	0.6	–	16.7
Total assets	**24.2**	**24.0**	**23.6**	**20.9**	**21.2**	0.8	14.2
Liabilities							
Saving deposits	6.4	5.8	5.7	6.0	6.0	10.3	6.7
Demand deposits	10.7	10.8	10.5	8.3	8.7	-0.9	23.0
Time deposits	4.3	4.6	4.6	4.0	3.9	-6.5	10.3
Total deposits	**21.4**	**21.3**	**20.8**	**18.3**	**18.6**	0.9	15.1
Other liabilities	0.6	0.6	0.7	0.5	0.5	–	20.0
Total liabilities	**22.0**	**21.9**	**21.4**	**18.8**	**19.1**	0.9	15.2
Equity and subordinated debt	2.2	2.1	2.2	2.1	2.1	4.8	4.8
Total liabilities and equity	**24.2**	**24.0**	**23.6**	**20.9**	**21.2**	0.7	14.2

YoY — percentage change from prior year

Total assets were up 14.2% (or $3.0 billion) to $24.2 billion when compared to total assets in the same quarter of last year. The yearly growth in total assets was due to the increase in investments (up 24.7% or $2.2 billion), interbank deposits (up 12.9% or $0.4 billion) and loans (up 3.5% or $0.3 billion).

Year-on-year, total liabilities were up 15.2% (or $2.9 billion) to $22.0 billion in Q1-2020. Total deposits grew by 15.1% (or $2.8 billion) over the past year, led by demand deposits (up 23.0% or $2.0 billion), time deposits (up 10.3% or $0.4 billion), and savings deposits (up 6.7% or $0.4 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

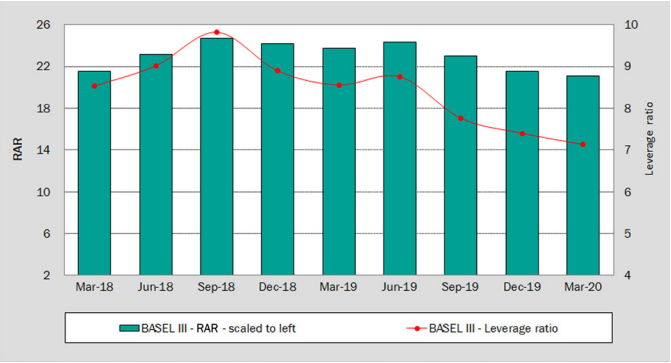
	2020	2019			
	Mar	Dec	Sep	Jun	Mar
Asset allocation	%	%	%	%	%
Cash	0.4	0.4	0.4	0.5	0.4
Investments	45.9	44.6	47.1	43.7	41.9
Loans and advances	36.4	36.3	34.7	38.5	40.0
Deposits (interbank)	14.4	15.8	15.0	14.4	14.7
Other assets	2.9	2.9	2.8	2.9	3.0
Deposits allocation					
Savings	29.7	27.4	27.3	32.7	32.2
Demand	50.0	50.9	50.6	45.5	46.7
Time	20.3	21.7	22.1	21.8	21.1
Capital position					
Basel III – RAR	21.1	21.5	23.0	24.3	23.8
Basel III – leverage ratio	7.1	7.4	7.8	8.7	8.6

Capital Adequacy

The banking sector's capital position, as measured by the RAR, fell marginally by 0.4 percentage points to 21.1% during the quarter and was 2.7 percentage points lower than a year earlier. Regulatory capital held by the banking sector was $1.9 billion, down 1.4% (or $27.4 million) from the previous quarter; while the corresponding RWAs grew slightly by 0.5% (or $45.0 million) to $9.1 billion. CET1 capital was down by 2.6% (or $47.3 million) to $1.8 billion QoQ. The CET1 ratio fell to 19.7%. This represents a 0.6 percentage points decline from prior quarter.

Chart I shows movement in the RAR and leverage ratio over the last two years.

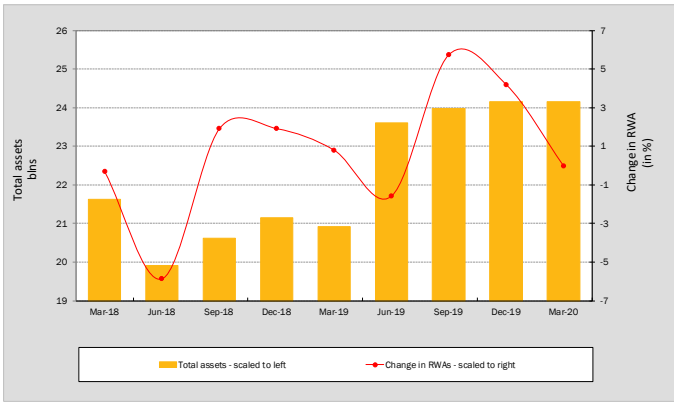
Chart I: RAR and Leverage Ratio



The leverage ratio has steadily declined since the first quarter of 2019, falling by 1.5 percentage points over the past year to 7.1%, but is still above the 5.0% BMA minimum requirement.

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



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

	2020	2019			
	Mar	Dec	Sep	Jun	Mar
	%	%	%	%	%
Loans and advances QoQ growth rate	1.2	6.6	1.8	-4.9	6.9
Residential mortgages to total loans	52.5	53.6	55.7	52.6	50.2
Loan impairments					
NPLs to total loans (net)	5.3	5.3	5.8	5.7	5.5
NPLs to regulatory capital	24.5	24.1	23.7	23.0	23.4
Net charge-offs to loans (annualised)	0.1	0.2	0.4	0.2	0.1
Loan provisioning					
Provisions to gross NPLs	34.8	28.7	28.2	29.6	30.0
Specific provisions to gross NPLs	32.3	27.9	27.2	28.3	28.2
Provisions to total loans (net)	2.6	2.1	2.2	2.3	2.3

Net NPLs increased slightly by 0.2% to $468.0 million during the quarter and is also 0.4% (or $1.9 million) higher than a year ago. Over the prior quarter, net loans grew by 1.2% (or $0.1 billion) to $8.8 billion and were 3.5% (or $0.3 billion) higher than the outstanding loans reported a year earlier. Therefore, the percentage of NPLs to total loans remains unchanged at 5.3%.

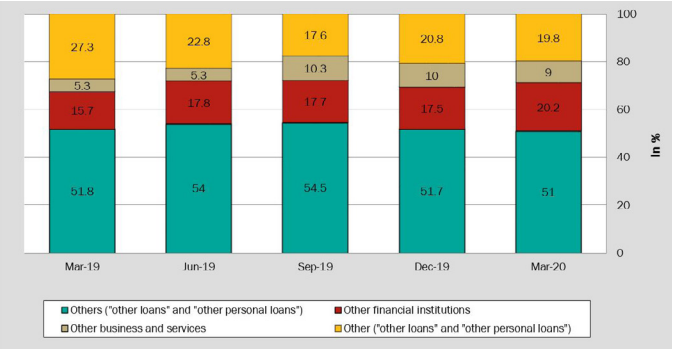
Total provisions amounted to $224.5 million in Q1-2020, up 22.3% (or $41.0 million) from $183.5 million* in the prior quarter, due to an increase in expected credit losses associated with the COVID-19 pandemic. Compared to a year earlier, total provisions were up 16.6% (or $31.9 million).

**Revised from prior quarter*

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

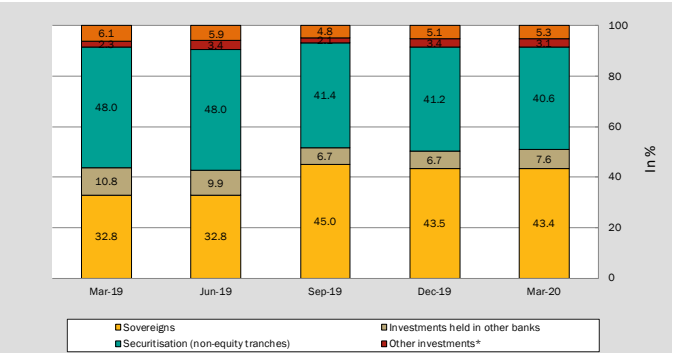


Loans to the real estate sector, representing 51.0% of outstanding loans for the quarter, continue to dominate total outstanding loans. Loans to "Financial Institutions" experienced the most growth over the previous quarter, increasing from 17.5% to 20.2% and was up from 15.7% over the same quarter last year. "Other loans" declined over the previous quarter, falling by 1.0 percentage point to 19.8%, which is also significantly lower than the 27.3% reported in the same quarter of last year. Loans to "Other businesses and services" was down 1.0 percentage point to 9.0% over the prior quarter, but was up compared to the 5.3% reported a year earlier.

Investment Book

Chart IV shows the structure of the aggregate investment book for the last five quarters.

Chart IV: Sectoral Structure of the Investment Book



The investment book has been revised to better reflect the composition of securities held by the sector.

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

Total investments amounted to $11.1 billion in Q1-2020. The investment structure has remained relatively stable compared to the last quarter, yet over the past year there has been reallocation between some sectors. YoY, sovereign investments experienced the most growth, increasing from 32.8% to 43.4%; while over the same period securitised investments fell from 48.0% to 40.6%.

Liquidity Position

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

All banks continue to meet the minimum Liquidity Coverage Ratio (LCR) and the Net-Stable Funding Ratio (NSFR) regulatory requirements which are set at 100%.

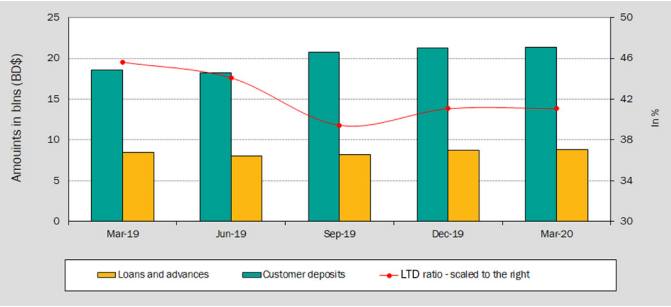
Table V: Liquidity Indicators

	2020	2019			
	Mar	Dec	Sep	Jun	Mar
	%	%	%	%	%
Cash and cash equivalents to total assets	14.8	16.2	15.5	14.9	15.1
Cash and cash equivalents to total deposit liabilities	16.7	18.3	17.6	17.1	17.2
LTD ratio	41.1	41.1	39.4	44.1	45.7
Loans-to-total assets	36.4	36.4	34.7	38.5	40.0
Funding gap*	-52.2	-52.3	-53.3	-48.8	-47.7

*The *negative funding gap indicates a deposit surplus.*

Chart V shows the change in total loans and advances, customer deposits and the consolidated LTD ratio (for both Bermuda Dollars (BD$) and Foreign Currency (FX)) over the last five quarters.

Chart V: Total Loans and Deposits



The percentage of loans to customer deposits was 41.1% (unchanged from prior quarter), but fell from 45.7% reported in the same quarter of last year. Year-on-year, customer deposits grew by 15.1% (or $2.8 billion) to $21.4 billion while outstanding loans grew 3.5% (or $0.3 billion) to $8.8 billion.

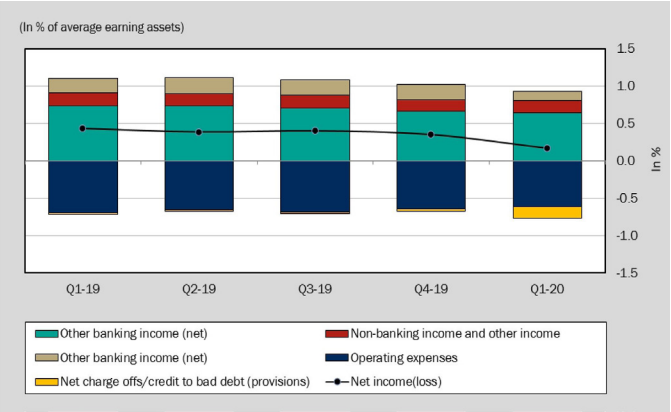
Table VI is a summary of profitability ratios for the sector for the last five quarters.

Table VI: Structure of Income Statement

	2020	2019			
	Mar	Dec	Sep	Jun	Mar
	%	%	%	%	%
Net interest income to total income	69.0	64.6	64.9	65.8	67.0
Annualised net interest income to (average) earning assets	2.7	2.8	2.9	3.0	3.0
Annualised interest income to (average) earning assets	3.2	3.4	3.5	3.5	3.5
Banking income to total income	82.5	84.7	84.1	84.7	84.7
Non-interest income to total income	31.0	35.4	35.1	32.2	33.0
Non-interest expenses to total income (efficiency ratio)	81.9	66.0	63.2	65.6	61.1
Personnel expenses to non-interest expenses	42.8	52.0	52.7	56.6	54.2
RoA	0.2	0.3	0.4	0.4	0.4
RoA (annualised)	0.6	1.3	1.5	1.5	1.7
RoE	1.7	3.7	3.8	3.6	4.2
RoE (annualised)	7.1	15.5	16.2	15.1	17.7

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



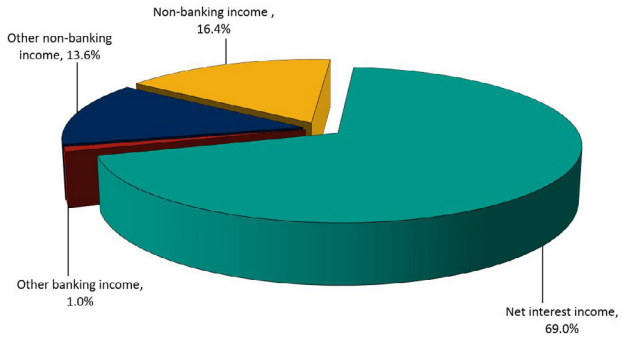
Banking Sector Profitability

The banking sector's after tax net income amounted to $37.0 million for the first quarter of 2020, compared to an after-tax net profit of $86.7 million in the corresponding period of 2019; a decline of 57.3%. Net interest income was down 3.1% (or $4.6 million) to $145.0 million compared to a year ago, with non-interest income falling by 11.4% (or $8.4 million) to $65.3 million compared to the same quarter in 2019. YoY, total income was down 5.8% (or $13.0 million) to $210.3 million, while operating expenses and net charge offs for bad debts amounted to $172.3 million, up 26.3% (or $35.8 million) over the same period.

The efficiency ratio, increased from 66.0% in the previous quarter to 81.9%. The increase in the ratio over the last quarter was largely due to higher operating and non-operating expenses (up 16.9% or $24.9 million) compared to the decline in total income (down 5.8% or $12.9 million) during the same period.

Chart VII shows the distribution of income sources for Q1-2020.

Chart VII: Distribution of income sources



Charts VIII & IX show the trend in RoE and RoA over the last five quarters.

Chart VIII: Annualised RoE and RoA

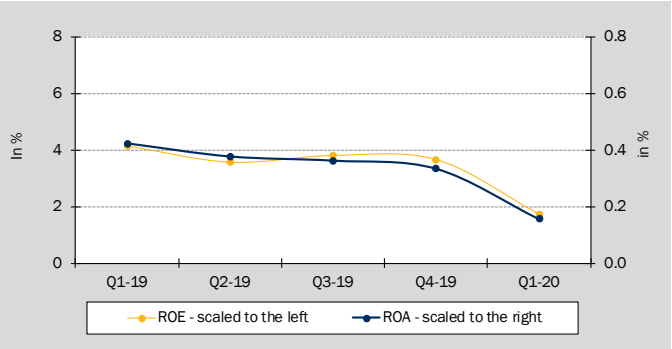


Chart IX: Quarterly RoE and RoA

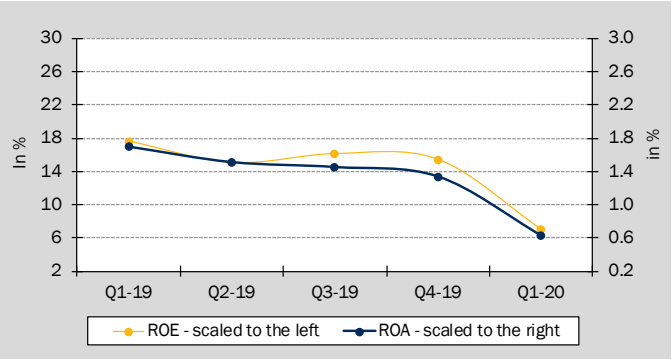
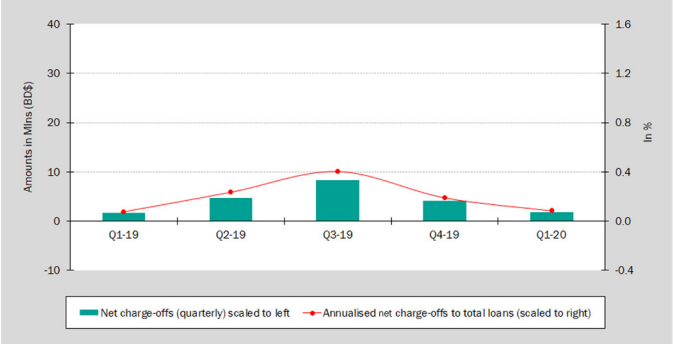


Chart X: Net Charge-off Amount and Proportion of Annualised Charge-offs to Loans



During the quarter, the amount of uncollectible loans (net of recoveries) written-off totalled $1.8 million, down from $4.1 million last quarter. This is a decline of $2.3 million or 56.0% compared to write-offs reported in the prior quarter. The proportion of annualised net charge-offs to total loans continued to remain low, falling to 0.1% in Q1-2020.

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

Table VII: FX Balance Sheet

(BD$ billions)	2020	2019				Change (In %)	
	Mar	Dec	Sep	Jun	Mar	QoQ	YoY
Cash	0.1	0.1	0.1	0.1	0.0	–	100
Deposits (interbank)	3.4	3.8	3.5	3.0	3.1	-10.5	9.7
Loans and advances	5.6	5.5	5.0	4.8	5.2	1.8	7.6
Investments	11.1	10.6	11.1	9.1	8.8	4.7	26.1
Other assets	0.3	0.3	0.3	0.3	0.3		–
Total assets	20.5	20.3	20.0	17.3	17.5	0.9	17.1
Deposit liabilities	17.9	17.9	17.3	14.8	15.2	–	17.8

FX assets experienced an increase during the quarter, up 0.9% (or $0.2 billion) when compared to last quarter, and 17.1% (or $3.0 billion) higher compared to a year ago.

FX customer deposit liabilities were unchanged at $17.9 billion, though were up 17.8% (or $2.7 billion) compared to the same quarter of last year. FX demand deposits increased by 25.1% (or $1.9 billion) to $9.6 billion and was the largest contributor to the YoY growth in customer deposits inflows, followed by FX time deposits (up 14.4% or $0.4 billion) to $3.5 billion and FX savings deposits (up 7.6% or $0.3 billion) to $4.8 billion.

Table VIII shows the FX position of the sector for the last five quarters.

Table VIII: FX Positions

	2020	2019			
	Mar	Dec	Sep	Jun	Mar
	%	%	%	%	%
FX-denominated assets to total assets	84.9	84.8	84.6	82.5	82.5
FX-denominated loans to total loans	64.0	63.3	60.8	59.7	61.4
FX-denominated deposits to total deposits	83.6	83.9	83.5	81.3	81.8
Changes in FX assets	0.8	1.8	15.7	-1.1	3.6
Changes in FX loans and advances	1.7	11.0	3.6	-7.5	12.6
Changes in FX customer deposits	0.1	2.9	16.8	-2.1	4.0

Table IX: Net FX Positions

(BD$ billions)	2020	2019			
	Mar	Dec	Sep	Jun	Mar
Total FX assets	20.5	20.3	19.9	17.2	17.4
Less: other assets	0.3	0.3	0.2	0.2	0.2
Less: FX loans to residents	1.4	1.5	1.4	1.4	1.3
Net FX assets	18.8	18.5	18.3	15.6	15.9
FX liabilities	18.2	18.2	17.8	15.1	15.4
Add: BD$ deposits of non-residents	0.1	0.1	0.1	0.1	0.1
Net FX liabilities	18.3	18.3	17.9	15.2	15.5
Net FX position	0.5	0.2	0.4	0.4	0.4

FX liabilities include FX customer deposits and other FX liabilities

QoQ, the net FX position was up 69.5% (or $180.0 million) to $0.5 billion. During the quarter, the net FX assets increased by 1.6% (or $0.3 billion) which exceeded the unchanged net FX liabilities; improving the net FX position held by the banking sector.

YoY, the net FX position was 25.0% (or $0.1 billion) higher than the same quarter of 2019. The net FX asset position experienced a 18.2% (or $2.9 billion) increase from a year earlier largely due to the 17.8% (or $3.1 billion) increase in total FX assets. On the liabilities side, net FX liabilities increased by 18.1% (or $2.8 billion) over the same quarter last year.

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

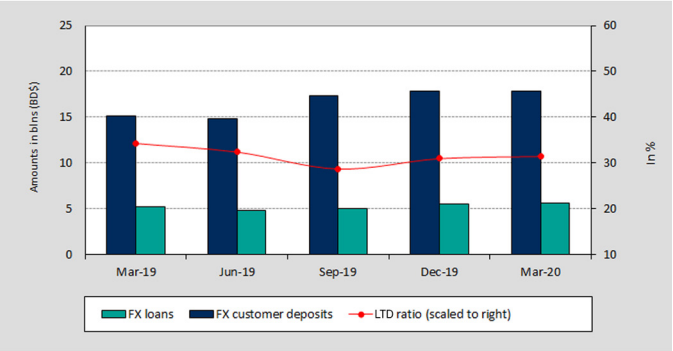
Table X: Liquidity Indicators (FX Positions)

	2020	2019			
	Mar	Dec	Sep	Jun	Mar
	%	%	%	%	%
Cash and cash equivalents to total assets	17.1	18.8	18.0	17.7	18.0
Cash and cash equivalents to total deposit liabilities	19.6	21.4	20.7	20.6	20.7
LTD ratio	31.4	31.0	28.7	32.4	34.3
Loans to total assets	27.4	27.2	24.9	27.8	29.8
Funding gap*	-59.7	-60.6	-61.9	-58.1	-57.1

** A negative funding gap indicates a deposit surplus.*

Chart XI: FX Loans and Customer Deposits

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.



BD$ BALANCE SHEET

Table XI shows the aggregate BD$ balance sheet of the sector over the last five quarters.

Table XI: BD$ Balance Sheet (Unconsolidated)

(BD$ billions)	2020	2019				Change (In %)	
	Mar	Dec	Sep	Jun	Mar	QoQ	YoY
Loans and advances	3.3	3.3	3.4	3.4	3.4	–	2.9
Total assets	4.1	4.1	4.1	4.2	4.1	–	–
Deposit liabilities	3.5	3.4	3.4	3.4	3.4	2.9	2.9

Note: The BD$-denominated balance sheet of the sector aggregates data submitted by legal entities.

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

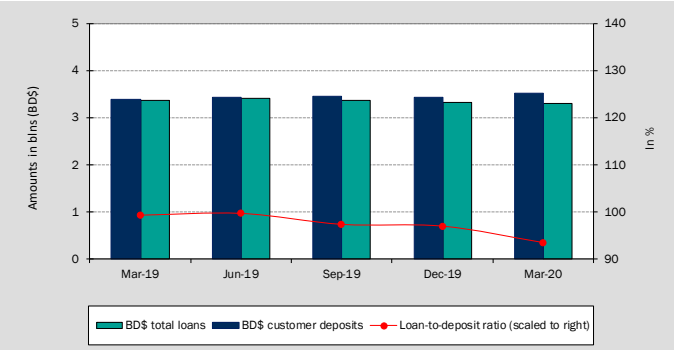
Table XII: Liquidity Indicators (BD$ Positions)

	2020	2019			
	Mar	Dec	Sep	Jun	Mar
	%	%	%	%	%
Cash and cash equivalents to total assets	1.9	1.3	1.3	1.3	1.2
Cash and cash equivalents to total deposit liabilities	2.2	1.6	1.6	1.6	1.5
LTD ratio	93.5	97.0	97.4	99.7	99.3
Loans to total assets	80.9	81.8	82.5	82.0	81.8
Funding gap to total assets*	-5.7	-2.5	-2.2	-0.2	-0.5

**A negative funding gap indicates a deposit surplus.*

Chart XII shows the movement in BD$-denominated loans and deposits, along with the ratio of BD$-denominated loans to deposits over the last five quarters.

Chart XII: BD$ Loans and Customer Deposits



The BD$ LTD ratio fell to 93.5% for the quarter. Domestic lending within the local economy remained low, down 0.9% (or $31.4 million) to $3.3 billion for the quarter; while local customer deposits increased by 2.8% (or $95.6 million) to $3.5 billion over the same period.

Table XIII: BD$ Deposit Profile (Unconsolidated)

(BD$ millions)	2020	2019			
	Mar	Dec	Sep	Jun	Mar
Deposit liabilities	3,523	3,427	3,444	3,420	3,386
Less: loans, advances and mortgages	3,292	3,323	3,354	3,410	3,364
Surplus/(deficit) position	231	104	90	10	22
Percentage of deposit liabilities loaned	93.4	96.9	97.4	99.7	99.4

The BD$ deposit surplus position increased to $231.0 million in Q1-2020, mainly driven by the growth in deposits. During the quarter, domestic lending within the local economy fell by 0.9% (or $31.4 million) while local customer deposits increased by 2.8% (or $95.6 million) to $3.5 billion, resulting in an improved surplus position.

MONETARY AGGREGATES

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

Table XIV: Bermuda Money Supply (Unconsolidated)

(BD$ millions)	2020	2019			
	Mar	Dec	Sep	Jun	Mar
Notes and coins in circulation	157	152	146	145	138
Deposit liabilities	3,523	3,427	3,444	3,420	3,386
Banks and deposit companies	**3,680**	**3,579**	**3,590**	**3,565**	**3,525**
Less: cash at banks and deposit companies	53	43	43	42	39
BD$ money supply	**3,627**	**3,536**	**3,547**	**3,523**	**3,485**
% Growth on previous period	2.6	-0.3	0.7	1.1	-1.8
% Growth YoY	4.0	-0.4	-0.9	-1.4	-1.5

The table includes the supply of BD$ only for this section.

The BD$ money supply within the local economy grew over the last quarter by 2.6% to $3.6 billion, largely attributed to the 2.8% (or $95.6 million) increase in local customer deposits. Notes and coins in circulation continues to increase, up 3.3% (or $5.0 million) over the prior quarter and 13.5% (or $18.6 million) compared to a year ago, helping to boost the disposable funds within the local economy.

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.

Basel Committee on Banking Supervision (BCBS)

In March, the BCBS' oversight body, the Group of Central Bank Governors and Heads of Supervision (GHOS), announced the deferral of Basel III implementation in response to the COVID-19 global pandemic.

https://www.bis.org/press/p200327.htm

The Bank for International Settlements (BIS)

In March, the BIS released a paper on post-crisis regulatory approaches. The reviews the fitness and proprietary assessments to ensure that bank board members are suitably qualified in addition to board composition and structure.

https://www.bis.org/fsi/publ/insights25.pdf

European Central Bank (ECB)

In March, the ECB published a paper on financial integration and structure in the Euro Area. One of the features analysed some of the factors that may affect the EU's financial architecture post-Brexit.

https://www.ecb.europa.eu/pub/fie/article/html/ecb.fieart202003_01~690a86d168.en.html#toc1

European Securities and Markets Authority (ESMA)

In March, ESMA issued guidance on the accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9.

https://www.esma.europa.eu/sites/default/files/library/esma32-63-951_statement_on_ifrs_9_implications_of_covid-19_related_support_measures.pdf

GLOSSARY

Annualised is expressing (a quantity such as an interest rate, profit, expenditure, etc.) as if it applied or were measured over a 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 (CET1) Capital is the primary and predominant form of regulatory capital, and will be used as the primary capital adequacy measure for all Bermuda banks under Basel III.

CET1 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.

Domestic Systemically 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 (FX) 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 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.

Leverage ratio (Basel III) is the ratio of Tier 1 Capital (including Additional Tier 1 (AT1) capital) to total exposure (on-balance sheet exposures, derivative exposures, Securities Financing Transaction exposures, and Off-Balance Sheet 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 High-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 loss charge for doubtful debts and transfers made to a 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 (after-tax) is derived by netting off provision for taxation from gross profit and takes into account extraordinary items.

Net interest income is calculated as interest received or receivable less interest paid or payable.

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.

Provisions to NPLs is the ratio that shows the extent to which non-performing loans are already covered by 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 Common Equity Tier 1 and Tier 2 capital net of applicable total capital deductions.

(Annualised) Return on Assets (RoA) is calculated by dividing the net income over the quarter by the value of interest-earning assets over the same period converted into an annual rate.

Return on Assets (RoA) is calculated by dividing the net income over the quarter by the value of interest-earning assets over the same period.

(Annualised) Return on Equity (RoE) is calculated by dividing the net income over the quarter by the value of shareholder equity over the same period converted into an annual rate.

Return on Equity (RoE) is calculated by dividing the net income over the quarter by the value of shareholder equity over the same period.

Risk Asset Ratio (RAR) 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 CET1 capital plus AT1 capital 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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