



Quarterly Banking Digest

Q4-2021

COVID-19 UPDATE

- The banking industry continues to accumulate data to assess the impact of the COVID-19 pandemic. Loan loss provisions have been building up during the pandemic due to negative economic activity. Similar to the last quarter, banks continued to update their estimates of future economic activity and valuations, which resulted in the release of excess provisions due to improved performance in the credit portfolio. With customer forbearance schemes ended and economic activity gradually increasing as public health-related capacity limits and measures to restrict movement are relaxed, travel restrictions are eased and staff continue to return to office premises, the Bermuda Monetary Authority (Authority or BMA) has scaled back its enhanced monitoring framework. The Authority moved from a monthly to quarterly review of deposit balances and foreign exchange purchase transactions.
- Notwithstanding the improvements noted, monitoring the banking industry's liquidity, solvency and operational resilience remains a key priority for the BMA.

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 systemically important to the island's economy are required to maintain a Domestic Systemically Important Bank (D-SIB) buffer that can range from 0.0% to 3.0%, depending on the bank's balance sheet size and unique risk profile.

PERFORMANCE HIGHLIGHTS

- Total assets amounted to \$26.8 billion, down 1.5% (or \$0.4 billion) from the prior quarter.
- Banking sector capital ratios improved slightly in the quarter, with the Risk Asset Ratio (RAR) and CET1 up to 22.8% and 20.5%, respectively.
- Banks reported lower earnings for the quarter, with after-tax net income falling by 15.7% to \$54.7 million.

SUMMARY INDICATORS

Table I summarises selected indicators, calculated on a consolidated basis, including capital, earnings and asset quality.

Table I: Selected Financial Soundness Indicators

Ratios	2021				2020
	Dec	Sep	Jun	Mar	Dec
Capital position	%	%	%	%	%
Basel III – RAR	22.8	22.3	22.2	22.0	22.0
Basel III – CET1 ratio (minimum 7.0%)	20.5	20.1	20.1	20.1	19.8
Basel III – Leverage ratio (BMA minimum 5.0%)	6.5	6.4	6.4	6.9	6.8
Liquidity					
Cash and cash equivalents to total deposit liabilities	20.9	22.5	20.6	16.1	17.5
Loan-To-Deposit (LTD) ratio	35.9	34.9	34.4	37.7*	37.7*
Funding gap**	-57.6	-58.4	-59.1	-55.8	-55.6
Profitability					
Net interest income to interest income	90.2	89.1	88.9	88.5	86.7
Return on Assets (RoA)	0.2	0.2	0.2	0.3	0.2
RoA (annualised)	0.8	1.0	1.0	1.1	1.0
Return on Equity (RoE)	2.6	3.1	2.4	3.1	2.8
RoE (annualised)	10.9	12.8	10.0	12.8	11.6
Loan book					
Provisions to Non-Performing Loans (NPL)	29.6	27.9	28.5	28.3	28.9
NPLs to total loans	5.6	6.0	6.2	6.3	6.2
NPLs to regulatory capital	24.3	26.1	26.3	27.0	27.1
Other					
Change in Bermuda Dollar (BD\$) money supply Quarter-over-Quarter (QoQ)	1.0	0.2	0.1	2.3	3.1
Change in assets (QoQ)	-1.7	-1.8	8.6	-0.4	6.1
Change in RWAs (QoQ)	-1.5	-1.3	0.7	0.2	1.6
Change in customer deposits (QoQ)	-1.8	-1.8	9.6	0.0	7.6

*Revised

**The negative funding gap indicates that deposits exceed loans.

QoQ – percentage change from the prior quarter.

AGGREGATE BALANCE SHEET

Table II summarises key balance sheet trends in the sector.

Table II: Aggregate Balance Sheet

(BD\$ billions)	2021				2020	Change	
	Dec	Sep	Jun	Mar	Dec	QoQ	YoY
Assets						%	%
Cash	0.1	0.1	0.1	0.1	0.1	-	-
Deposits (interbank)	4.9	5.4	5.1	3.6	3.9	-9.3	25.6
Loans and advances (net)	8.7	8.6	8.6	8.6	8.6	1.2	1.2
Investments	12.4	12.4	13.2	12.5	12.3	-	0.8
Other assets	0.7	0.7	0.7	0.7	0.7	-	-
Total assets	26.8	27.2	27.7	25.5	25.6	-1.5	4.7
Liabilities							
Saving deposits	7.9	7.3	7.6	7.8	7.7	8.2	2.6
Demand deposits	12.4	13.4	13.5	11.0	11.3	-7.5	9.7
Time deposits	3.9	3.9	3.9	4.0	3.8	-	2.6
Total deposits	24.2	24.6	25.0	22.8	22.8	-1.6	6.1
Other liabilities	0.5	0.6	0.6	0.6	0.5	-16.7	-
Total liabilities	24.7	25.2	25.6	23.4	23.3	-2.0	6.0
Equity and subordinated debt	2.1	2.0	2.1	2.1	2.3	5.0	-8.7
Total liabilities and equity	26.8	27.2	27.7	25.5	25.6	-1.5	4.7

Year-on-Year (YoY) – percentage change from the prior year.

QoQ – percentage change from the prior quarter.

Total assets fell by 1.5% (or \$0.4 billion) to \$26.8 billion in the fourth quarter. This quarterly decline was driven by the decrease in interbank deposits (down 9.3% or \$0.5 billion), which was partially offset by a 1.2% (or \$0.1 billion) increase in loans and advances.

YoY, total assets grew by 4.7% (or \$1.2 billion) with increases in interbank deposits (up 25.6% or \$1.0 billion), loans and advances (up 1.2% or \$0.1 billion) and investments (up 0.8% or \$0.1 billion).

Total liabilities decreased by 2.0% (or \$0.5 billion) to \$24.7 billion in the fourth quarter. QoQ, customer deposits fell by 1.6% (or \$0.4 billion). This decline is due to the decline in demand deposits (down 7.5% or \$1.0 billion) partly offset by the increase in savings deposits (up 8.2% or \$0.6 billion).

YoY, total liabilities grew by 6.0% (or \$1.4 billion). Customer deposits increased by 6.1% (or \$1.4 billion) over the past year, driven by higher demand deposits (up 9.7% or \$1.1 billion), savings deposits (up 2.6% or \$0.2 billion) and time deposits (up 2.6% or \$0.1 billion).

SUMMARY OF BALANCE SHEET RATIOS

Table III summarises balance sheet ratios measuring asset quality and capital.

Table III: Summary of Balance Sheet Ratios

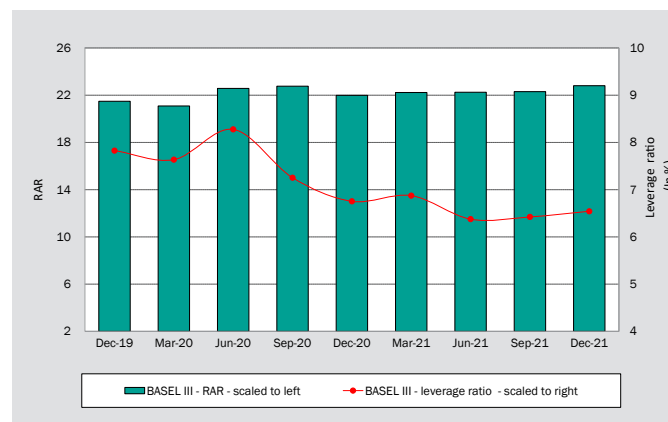
	2021				2020
	Dec	Sep	Jun	Mar	Dec
Asset allocation	%	%	%	%	%
Cash	0.4	0.4	0.4	0.4	0.5
Investments	46.3	45.6	47.7	49.0	48.0
Loans and advances	32.5	31.6	31.0	33.7	33.7
Deposits (interbank)	18.3	19.9	18.4	14.1	15.1
Other assets	2.6	2.6	2.5	2.8	2.6
Deposits allocation					
Savings	32.6	29.7	30.4	34.2	33.6
Demand	51.2	54.5	54.0	48.3	49.5
Time	16.1	15.9	15.6	17.5	16.9
Capital position					
Basel III – CET1 ratio (minimum 7.0%)	20.5	20.1	20.1	20.1	19.8
Basel III – RAR	22.8	22.3	22.2	22.0	22.0
Basel III – Leverage ratio	6.5	6.4	6.4	6.9	6.8

CAPITAL ADEQUACY

The capital ratio improved during the quarter, with RAR rising by 0.5 percentage points to 22.8% and CET1 up 0.4 percentage points to 20.5% over the same period. Total regulatory capital was even at \$2.0 billion for the quarter, while RWAs fell by 1.5% (or \$0.1 billion) to \$8.8 billion.

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

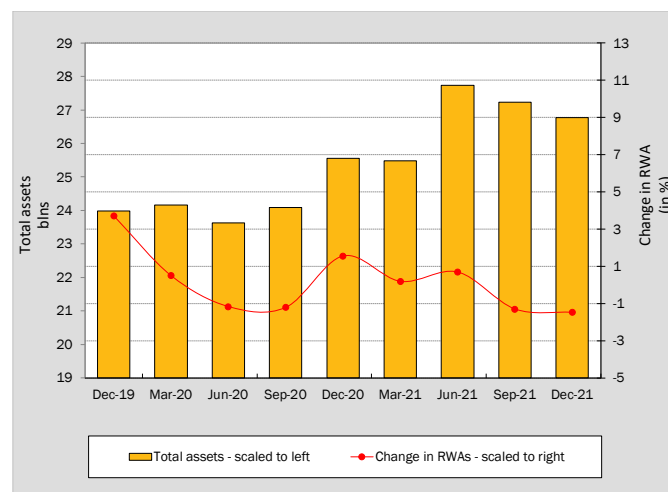
Chart I: RAR and Leverage Ratio



The leverage ratio was marginally higher, up 0.1 percentage points to 6.5% and above the 5.0% BMA minimum requirement.

Chart II reflects the movement in total assets and the change in RWAs over the past 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

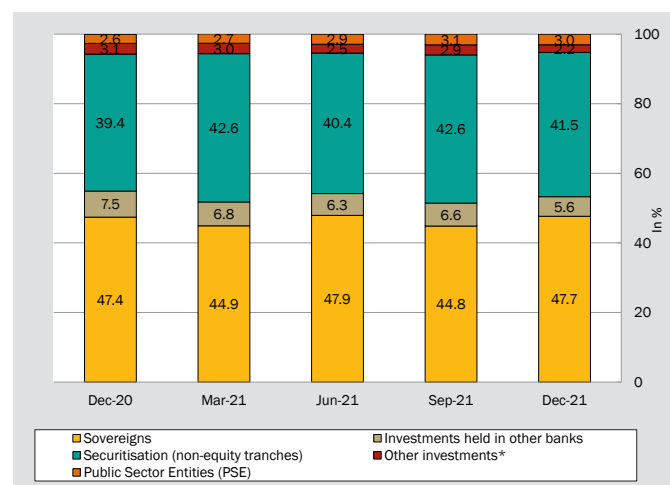
	2021				2020
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
Loans and advances QoQ growth rate	1.2	0.0	0.0	0.0	1.2
Residential mortgages to total loans	57.2	56.7	56.2	55.9	55.7
Loan impairments					
NPLs to total loans (net)	5.6	6.0	6.2	6.3	6.2
NPLs to regulatory capital	24.3	26.1	26.3	27.0	27.1
Net charge-offs to loans (annualised)	0.1	0.1	0.3	0.3	0.6
Loan provisioning					
Provisions to gross NPLs	29.0	27.9	28.5	28.3	28.9
Specific provisions to gross NPLs	26.1	25.8	26.5	27.0	27.6
Provisions to total loans (net)	2.2	2.2	2.3	2.4	2.4

increased by 2.1 percentage points to 22.4%, and loans to other businesses and services fell by 2.0 percentage points to 6.8%.

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



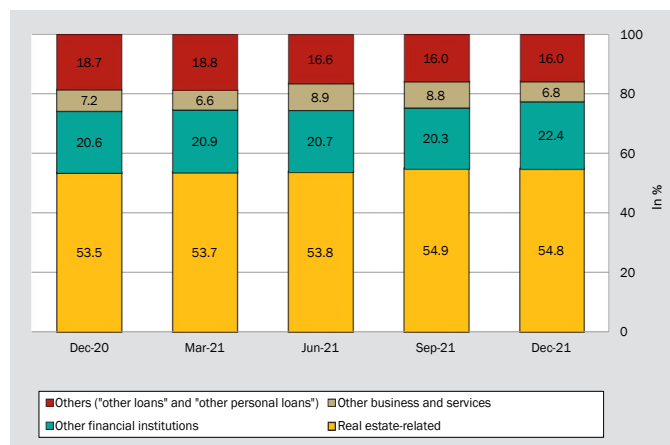
*includes other investments and investments in subsidiaries and associated companies.

The investment structure remains conservative, with the majority of investments in sovereigns up 2.9 percentage points to 47.7% and securitised (non-equity) investments down 1.1 percentage points to 41.5% of total investments held by the banking sector.

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 continued to dominate and accounted for 54.8% of total outstanding loans at the end of the quarter. Over the quarter, loans to financial institutions

LIQUIDITY POSITION

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

All banks met the minimum regulatory requirements for LCR and NSFR.

Table V: Liquidity Indicators

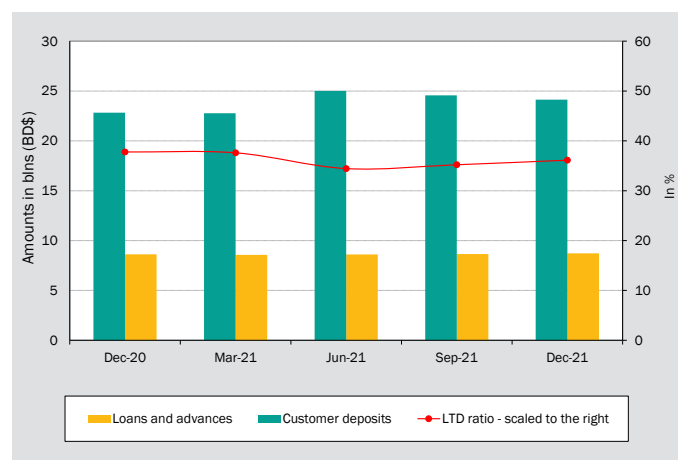
	2021				2020
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
Cash and cash equivalents to total assets	18.8	20.3	18.6	14.4	15.6
Cash and cash equivalents to total deposit liabilities	20.9	22.5	20.6	16.1	17.5
LTD ratio	35.9	34.9	34.4	37.7*	37.7*
Loans-to-total assets	32.5	31.6*	31.0*	33.7*	33.7*
Funding gap**	-57.6	-58.4	-59.1	-55.8	-55.6

*Revised

**The difference between total loans and total deposits divided by total assets. The negative funding gap indicates a deposits surplus.

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

Chart V: Total Loans and Deposits



The sector's percentage of loans to total customer deposits was 35.9%, up 1.0 percentage point from last quarter but down 1.8 percentage points from a year earlier. The decline over the prior quarter was due to higher loans and advances, up 1.2% (or \$0.1 billion) to \$8.7 billion, and lower customer deposits, which fell by 1.6% (or \$0.4 billion) to \$24.2 billion.

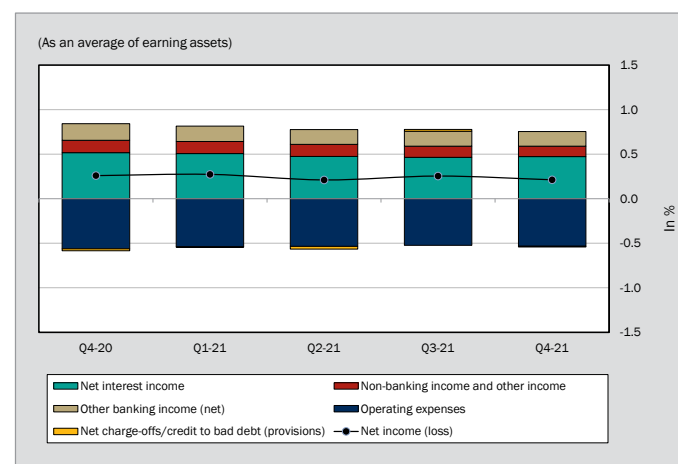
Table VI is a summary of profitability ratios for the sector for the last five quarters.

Table VI: Structure of Income Statement

	2021				2020
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
Net interest income to total income	62.6	61.4	61.2	62.1	61.2
Annualised net interest income to (average) earning assets	2.1	2.0	2.0	2.1	2.1
Annualised interest income to (average) earning assets	2.3	2.3	2.3	2.4	2.5
Banking income to total income	84.4	83.5	82.5	83.4	83.4
Non-interest income to total income	37.4	38.6	38.8	37.9	38.8
Non-interest expenses to total income (efficiency ratio)	71.8	66.4	72.8	66.5	69.3
Personnel expenses to non-interest expenses	47.2	54.7	50.0	51.1	50.5
RoA	0.2	0.2	0.2	0.3	0.2
RoA (annualised)	0.8	1.0	0.8	1.1	1.0
RoE	2.6	3.1	2.4	3.1	2.8
RoE (annualised)	10.9	12.8	10.0	12.8	11.6

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



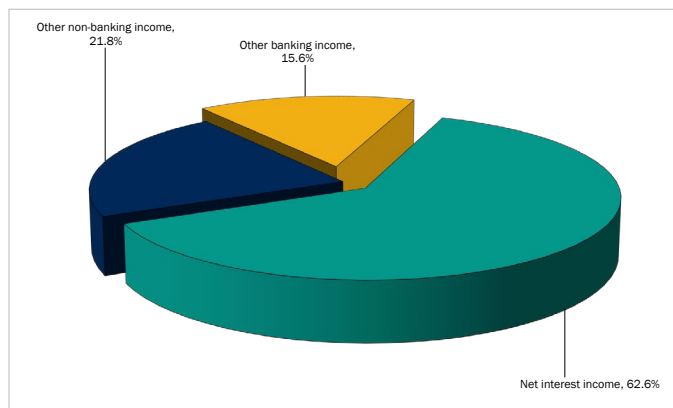
BANKING SECTOR PROFITABILITY

The after-tax net income declined by 15.7% to \$54.7 million from the prior quarter. Net interest income grew by 2.9% (or \$3.5 million) to \$123.4 million compared with the previous quarter. Non-interest income declined by 2.4% to \$73.6 million. Total income increased to \$197.0 million, representing a 0.8% (or \$1.6 million) increase from total income reported in the prior quarter. The total expenses reported for the quarter were \$141.5 million, an increase of 9.1% (or \$11.9 million).

The sector's efficiency deteriorated, with the ratio increasing by 5.4 percentage points to 71.8% as a result of the dollar value increase in total expenses being higher than the increase in total income.

Chart VII shows the distribution of income sources as of the end of the quarter.

Chart VII: Distribution of income sources



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

Chart VIII: Annualised RoE and RoA

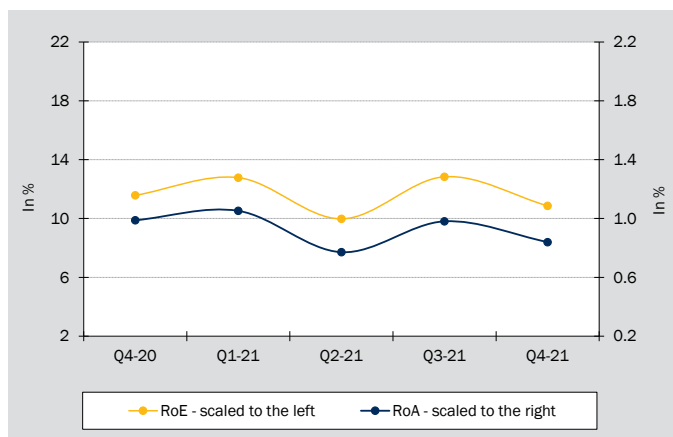


Chart IX: Quarterly RoE and RoA

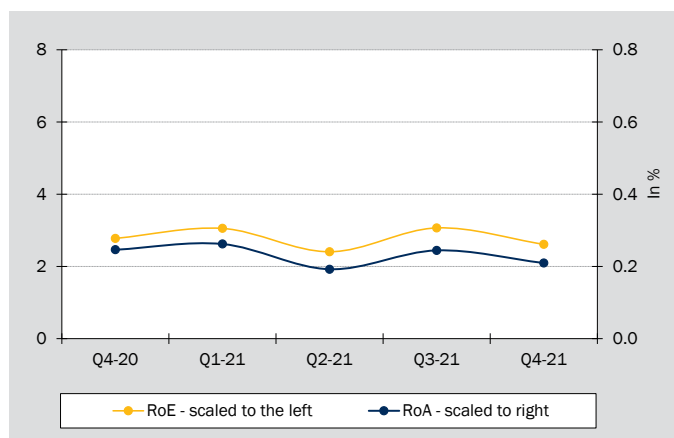
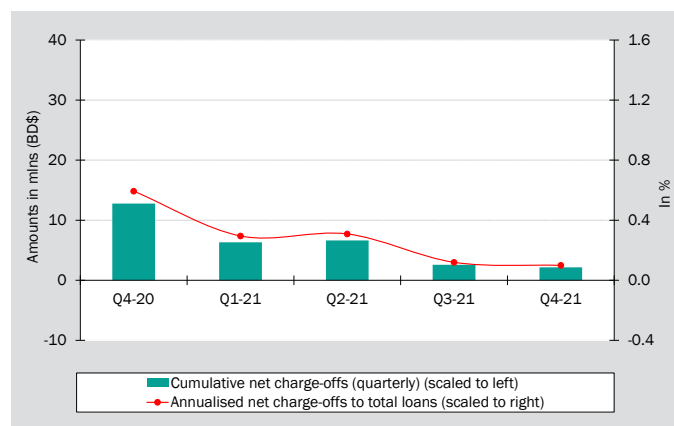


Chart X: Net Charge-off Amount and Proportion of Annualised Charge-offs to Loans



The net charge-offs amounted to \$2.2 million for the quarter, down 16.3% from the prior quarter and 83.1% down from a year ago. Banks' provisions for loan losses were higher a year ago mainly because of uncertainties associated with the pandemic, which contributed to the increase in expected credit losses. The proportion of annualised net charge-offs to total loans was 0.1%, unchanged from the previous quarter.

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

Table VII: FX Balance Sheet Extract

(BD\$ billions)	2021				2020	Change (In %)	
	Dec	Sep	Jun	Mar	Dec	QoQ	YoY
Cash	0.1	0.1	0.1	0.1	0.1	–	–
Deposits (interbank)	4.9	5.4	5.0	3.5	3.8	-9.3	28.9
Loans and advances	5.7	5.6	5.6	5.5	5.6	1.8	1.8
Investments	12.3	12.4	13.2	12.5	12.3	-0.8	–
Other assets	0.3	0.1	0.4	0.4	0.3	200.0	–
Total assets	23.4	23.5	24.3	22.0	22.1	-0.4	5.9
Deposit liabilities	20.2	20.6	21.1	18.9	19.0	-1.9	6.3

FX assets amounted to \$23.4 billion, down 0.4% (or \$0.1 billion) from the prior quarter.

FX customer deposit liabilities declined by 1.9% (or \$0.4 billion) to \$20.2 billion over the quarter and were up 6.3% (or \$1.2 billion) compared to the same quarter of last year. The quarterly decrease was mainly due to the decline in FX demand deposits, down 8.6% (or \$1.0 billion) to \$10.6 billion, partially offset by the increase in FX savings deposits (up 10.5% or \$0.6 billion) to \$6.3 billion. FX time deposits amounted to \$3.3 billion, unchanged from the previous quarter.

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

Table VIII: FX Positions

	2021				2020
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
FX-denominated assets to total assets	87.2	86.4	87.6	86.5	86.3
FX-denominated loans to total loans	65.9	65.2	65.1	64.7	64.7
FX-denominated deposits to total deposits	83.6	84.0	84.3	82.8	83.3
Changes in FX assets	-0.4	-3.3	10.2	-0.2	7.3
Changes in FX loans and advances	1.8	0.0	1.8	-0.8	3.3
Changes in FX customer deposits	-1.9	-2.4	11.6	-0.8	8.6

Table IX: Net FX Positions

(BD\$ billions)	2021				2020
	Dec	Sep	Jun	Mar	Dec
Total FX assets	23.4	23.5	24.3	22.0	22.1
Less: other assets	0.3	0.1	0.4	0.4	0.3
Less: FX loans to residents	0.9	0.9	0.9	0.9	1.3
Net FX assets	22.2	22.5	23.0	20.7	20.5
FX liabilities*	20.4	20.9	21.3	19.1	19.2
Add: BD\$ deposits of non-residents	0.1	0.1	0.1	0.1	0.1
Net FX liabilities	20.5	21.0	21.4	19.2	19.3
Net FX position	1.7	1.5	1.6	1.5	1.2

*FX liabilities include FX customer deposits and other FX liabilities.

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

Table X: Liquidity Indicators (FX Positions)

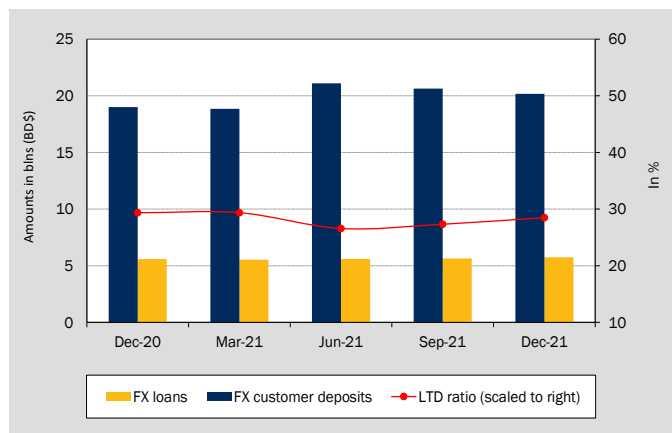
	2021				2020
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
Cash and cash equivalents to total assets	21.2	23.1	20.9	16.3	17.7
Cash and cash equivalents to total deposit liabilities	24.5	26.3	24.1	19.1	20.6
LTD ratio	28.2	27.2*	26.5*	29.1*	29.5*
Loans to total assets	24.3	23.8*	23.0*	25.0*	25.3
Funding gap**	-61.8	-63.7	-63.8	-60.5	-60.9

*Revised

**A negative funding gap indicates a deposit surplus.

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

Chart XI: FX Loans and Customer Deposits



The FX loans to customer deposits ratio increased to 28.2%, up from 27.2% over the prior quarter. During the quarter, FX loans and advances grew by 1.8% (or \$0.1 billion) to \$5.7 billion compared to the decrease in FX customer deposits, down 1.9% (or \$0.4 billion) to \$20.2 billion.

BD\$ BALANCE SHEET

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

Table XI: BD\$ Balance Sheet Extract (Unconsolidated)

(BD\$ billions)	2021				2020	Change (In %)	
	Dec	Sep	Jun	Mar	Dec	QoQ	YoY
Loans and advances	3.1	3.1	3.1	3.1	3.2	-	-3.1
Total assets	3.9	3.9	3.9	3.9	4.0	-	-2.5
Deposit liabilities	4.0	3.9	3.9	3.9	3.8	2.6	5.3

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)

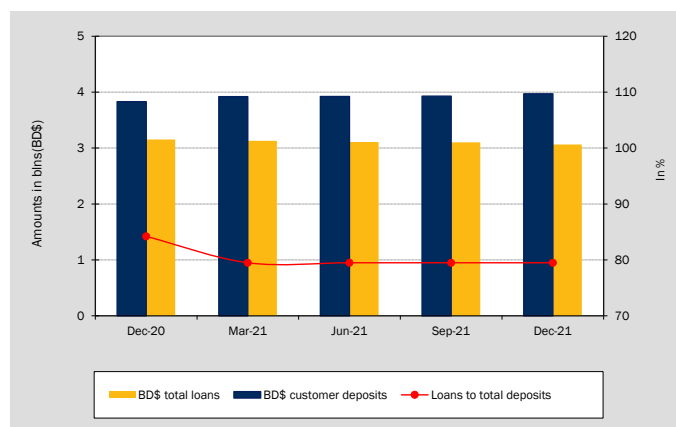
	2021				2020
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
Cash and cash equivalents to total assets	2.6	2.2	1.9	1.9	2.1
Cash and cash equivalents to total deposit liabilities	2.5	2.2	1.9	1.9	2.1
LTD ratio	77.5	79.5*	79.5*	79.5*	84.2*
Loans to total assets	79.5	79.5*	79.5*	79.5*	80.0*
Funding gap to total assets**	-23.3	-21.1	-20.7	-20.2	-17.0

*Revised

**A negative funding gap indicates a deposit surplus.

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

Chart XII: BD\$ Loans and Customer Deposits



The BD\$ LTD ratio was down 2.0 percentage points to 77.5% for the quarter and down 6.7 percentage points from a year ago.

MONETARY AGGREGATES

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

Table XIII: Bermuda Money Supply (Unconsolidated)

(BD\$ millions)	2021				2020
	Dec	Sep	Jun	Mar	Dec
Notes and coins in circulation	201	194	182	170	177
Deposit liabilities	3,970	3,929	3,923	3,921	3,830
Banks and deposit companies	4,171	4,123	4,105	4,091	4,007
Less: cash at banks and deposit companies	76	69	59	48	53
BD\$ money supply	4,095	4,054	4,046	4,043	3,954
% growth on previous period	1.0	0.2	0.1	2.3	3.1
% growth YoY	3.6	5.7	8.8	11.5	11.8

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

SELECTED INTERNATIONAL BANKING DEVELOPMENTS

This section lists important publications issued during the quarter by international organisations and national supervisory authorities. The listing does not reflect endorsement by the BMA.

Basel Committee on Banking Supervision (BCBS)

In November, the BCBS published a document that sets out 18 high-level draft principles intended to promote a principles-based approach to improving risk management and supervisory practices related to climate-related financial risks.

<https://www.bis.org/bcbs/publ/d530.pdf>

Bank for International Settlements (BIS)

In October, the BIS published a paper on the main drivers and consequences of the ascendancy of non-bank financial intermediaries post the Great Financial Crisis and the effects on the demand for and supply of liquidity.

<https://www.bis.org/publ/work972.pdf>

European Central Bank (ECB)

In December, the ECB published its paper looking at the success factors for central bank digital currency and how to avoid the risk of crowding out.

<https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op286~9d472374ea.en.pdf?2dfe373fb889c60a88fa65393caa5255>

Financial Stability Board (FSB)

In October, the FSB published its first consolidated progress report covering the progress made during the first year of the G20's Roadmap for Enhancing Cross-border Payments.

<https://www.fsb.org/wp-content/uploads/P131021-1.pdf>

In November, the FSB published its report, which details the progress over the past year and planned work by the FSB, as well as by standard-setting bodies and other international organisations, to enhance the resilience of non-bank financial intermediation.

<https://www.fsb.org/wp-content/uploads/P011121.pdf>

In December, the FSB published a paper on the execution of bail-in. This paper describes some of the main operational processes and arrangements that regulatory authorities of global systemically important banks have established, or are in the process of establishing, to operationalise bail-in according to their jurisdictions' legal frameworks, securities law and requirements trading venues.

<https://www.fsb.org/wp-content/uploads/P131221-2.pdf>

In December, the FSB published a report presenting the results of the FSB's annual monitoring exercise to assess global trends and risks in non-bank financial intermediation.

<https://www.fsb.org/wp-content/uploads/P161221.pdf>

In December, the FSB published its 2021 Resolution Report, which takes stock of the progress made in implementing the FSB resolution policies and enhancing resolvability across the banking, financial market infrastructure and insurance sectors.

<https://www.fsb.org/wp-content/uploads/P071221.pdf>

GLOSSARY

Annualised is expressing (a quantity, such as an interest rate, profit or expenditure) as if it applied or were measured over a year.

Basel Committee on Banking Supervision (BCBS) is the primary global standard-setter for the prudential regulation of banks and provides a forum for regular cooperation on banking supervisory matters.

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 RWAs. The measurement is used to determine the financial strength of a bank.

Domestic Systemically Important Banks (D-SIB) are banks that are deemed to be systemically important to the local economy.

Earning assets include deposits with other financial institutions, loans, advances and leases, and investments.

Efficiency ratio measures the ability of banks to convert resources into revenue. The metric is expressed as a percentage of expenses to revenue.

Equity refers to 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 expected 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 is interest earned consisting of interest from deposits with financial institutions, government securities, loans and other interest-earning assets.

Leverage ratio 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 BMA's final Basel rule.

Liquidity Coverage Ratio (LCR) is a calculated measure of banks' stock of unencumbered high-quality liquid assets 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 (net of recoveries) and transfers made to a loan loss provision liability account.

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 the profit after all taxes and expenses have been deducted.

Net interest income is calculated as interest earned less interest expense.

Non-interest income includes all other income earned 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 (NPL) consist of those loans classified as substandard, doubtful and loss as per the BMA'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 does not include main business operations.

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 CET1, AT1 and Tier 2 capital net of applicable regulatory adjustments.

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.

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

RoE (Annualised) 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.

Risk Asset Ratio (RAR) is calculated as total regulatory capital divided by total RWAs.

Risk-Weighted Assets (RWA) refers 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 plus AT1 net of regulatory adjustments.

Total income is the sum of net interest income and non-interest income.

Total loans include loans, advances, bills and finance leases.

Total Risk-Weighted Assets (TRWA) is the sum of total credit RWAs, total operational risk-adjusted RWAs and the total market risk-adjusted RWAs.

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).