BMA
BERMUDA MONETARY AUTHORITY

Quarterly Banking Digest

Q2-2022

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. Customer forbearance schemes have ended, and economic activity is gradually increasing as public health-related capacity limits and measures to restrict movement are relaxed; additionally, travel restrictions are easing and staff continue to return to office premises as the economy transitions to the new normal. With this in mind, the Bermuda Monetary Authority (Authority or BMA) has scaled back on its enhanced monitoring framework. The Authority continues with the quarterly review of deposits 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 the 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

- The banking sector's capital position remains stable and above the minimum requirements and buffers. At the end of the second quarter of 2022, the Risk Asset Ratio (RAR) and CET1 declined marginally to 22.5% and 20.3%, respectively, while the leverage ratio rose marginally to 6.3%.

- Total assets amounted to $26.7 billion at the end of the second quarter of 2022, a 4.6% (or $1.3 billion) decrease from the prior quarter.

- Banking sector performance remained positive, with net after-tax income amounting to $86.3 million, representing a 36.6% increase over the prior quarter.

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	2022		2021		
	Jun	Mar	Dec	Sep	Jun
Capital position	%	%	%	%	%
Basel III – RAR	22.5	22.8	22.8	22.3	22.2
Basel III – CET1 ratio (minimum 7.0%)	20.3	20.6	20.5	20.1	20.1
Basel III – Leverage ratio (BMA minimum 5.0%)	6.3	6.2	6.5	6.4	6.4
Liquidity					
Cash and cash equivalents to total deposit liabilities	18.2	26.1	20.9	22.5	20.6
Loan-To-Deposit (LTD) ratio	35.1	32.7	35.9	34.9	34.4
Funding gap*	-58.8	-61.0	-57.6	-58.4	-59.1
Profitability					
Net interest income to interest income	90.7	89.3	90.2	89.1	88.9
Return on Assets (RoA)	0.3	0.2	0.2	0.2	0.2
RoA (annualised)	1.3	0.9	0.8	1.0	0.8
Return on Equity (RoE)	4.9	3.4	2.6	3.1	2.4
RoE (annualised)	21.2	14.3	10.9	12.8	10.0
Loan book					
Provisions to Non-Performing Loans (NPL)	26.8	27.5	29.6	27.9	28.5
NPLs to total loans	5.9	6.1	5.6	6.0	6.2
NPLs to regulatory capital	26.0	25.7	24.3	26.1	26.3
Other					
Change in Bermuda Dollar (BD$) money supply Quarter-over-Quarter (QoQ)	-0.3	0.9	1.0	0.2	0.1
Change in assets (QoQ)	-4.6	4.5	-1.7	-1.8	8.6
Change in RWAs (QoQ)	-1.3	-1.9	-1.5	-1.3	0.7
Change in customer deposits (QoQ)	-4.7	5.0	-1.8	-1.8	9.6

**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 banking sector.

Table II: Aggregate Balance Sheet

(BD$ billions)	2022		2021			Change	
	Jun	Mar	Dec	Sep	Jun	QoQ	YoY
Assets						%	%
Cash	0.1	0.1	0.1	0.1	0.1	–	–
Deposits (interbank)	4.3	6.5	4.9	5.4	5.1	-33.8	-15.7
Loans and advances (net)	8.5	8.3	8.7	8.6	8.6	2.4	-1.2
Investments	13.1	12.4	12.4	12.4	13.2	5.6	-0.8
Other assets	0.7	0.7	0.7	0.7	0.7	–	–
Total assets	**26.7**	**28.0**	**26.8**	**27.2**	**27.7**	**-4.6**	**-3.6**
Liabilities							
Saving deposits	8.0	8.1	7.9	7.3	7.6	-1.2	5.3
Demand deposits	12.4	13.4	12.4	13.4	13.5	-7.5	-8.1
Time deposits	3.8	3.9	3.9	3.9	3.9	-2.6	-2.6
Total deposits	**24.2**	**25.4**	**24.2**	**24.6**	**25.0**	**-4.7**	**-3.2**
Other liabilities	0.7	0.7	0.5	0.6	0.6	–	16.7
Total liabilities	**24.9**	**26.1**	**24.7**	**25.2**	**25.6**	**-4.6**	**-2.7**
Equity and subordinated debt	1.8	1.9	2.1	2.0	2.1	-5.3	-14.3
Total liabilities and equity	**26.7**	**28.0**	**26.8**	**27.2**	**27.7**	**-4.6**	**-3.6**

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

Total assets fell by 4.6% (or $1.3 billion) during the quarter, driven by the declines in interbank deposits (down 33.8% or $2.2 billion). This decline was partially offset by growth in investments (up 5.6% or $0.7 billion), and loans and advances (up 2.4% or $0.2 billion) over the same period.

YoY, total assets fell by 3.6% (or $1.0 billion), driven by the decrease in interbank deposits (down 15.7% or $0.8 billion), loans and advances (down 1.2% or $1.0 billion) and investments (down 0.8% or $0.1 billion).

Total liabilities fell by 4.6% (or $1.2 billion) to $24.9 billion QoQ. Customer deposits declined by 4.7% (or $1.2 billion), driven by demand deposits (down 7.5% or $1.0 billion), time deposits (down 2.6% or $0.1 billion) and savings deposits (down 1.2% or $0.1 billion).

YoY, total liabilities decreased by 2.7% (or $0.7 billion), driven by declines in demand deposits (down 8.1% or $1.1 billion) and time deposits (down 2.6% or $0.1 billion). This was partially offset by the increase in time deposits (up 5.3% or $0.4 billion) YoY.

SUMMARY OF BALANCE SHEET RATIOS

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

Table III: Summary of Balance Sheet Ratios

	2022		2021		
	Jun	Mar	Dec	Sep	Jun
Asset allocation	%	%	%	%	%
Cash	0.4	0.4	0.4	0.4	0.4
Investments	49.1	44.3	46.3	45.6	47.7
Loans and advances	31.8	29.6	32.5	31.6	31.0
Deposits (interbank)	16.1	23.2	18.3	19.9	18.4
Other assets	2.6	2.5	2.6	2.6	2.5
Deposits allocation					
Savings	33.1	31.9	32.6	29.7	30.4
Demand	51.2	52.8	51.3	54.4	54.0
Time	15.7	15.3	16.1	15.9	15.6
Capital position					
Basel III – CET1 ratio (minimum 7.0%)	20.3	20.6	20.5	20.1	20.1
Basel III – RAR	22.5	22.8	22.8	22.3	22.2
Basel III – Leverage ratio	6.3	6.2	6.5	6.4	6.4

CAPITAL ADEQUACY

The banking sector remains adequately capitalised, with both CET1 and RAR declining marginally QoQ to close at 22.5% and 20.3%, respectively.

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

Chart I: RAR and Leverage Ratio

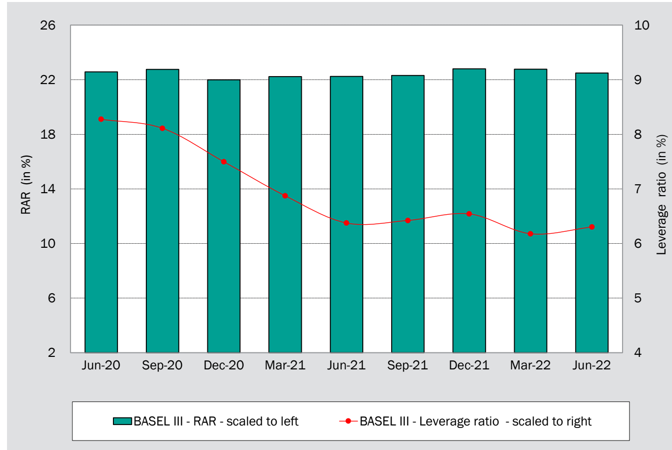
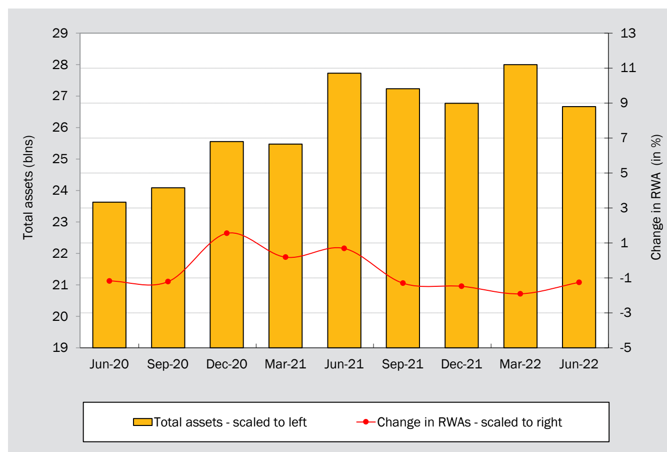


Chart II reflects the movement in total assets and the change in RWAs over the past two years.

Chart II: Total Assets and Change in RWAs



ASSET QUALITY

Loan Book

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

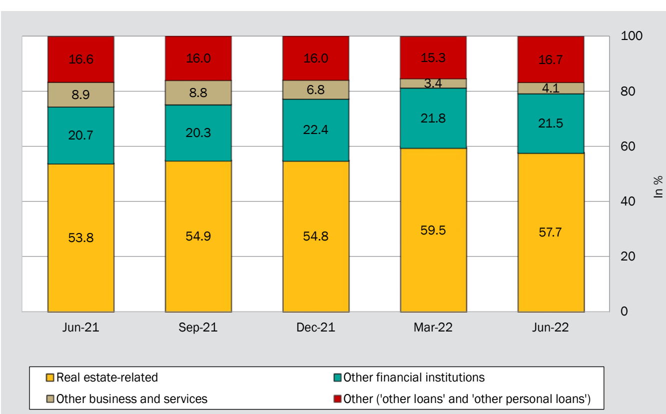
Table IV: Quality of the Loan Book

	2022		2021		
	Jun	Mar	Dec	Sep	Jun
	%	%	%	%	%
Loans and advances QoQ growth rate	2.4	-4.6	1.2	0.0	0.0
Residential mortgages to total loans	57.1	58.8	57.2	56.7	56.2
Loan impairments					
NPLs to total loans (net)	5.9	6.1	5.6	6.0	6.2
NPLs to regulatory capital	26.0	25.7	24.3	26.1	26.3
Net charge-offs to loans (annualised)	0.3	0.3	0.1	0.1	0.3
Loan provisioning					
Provisions to gross NPLs	26.8	27.4	29.0	27.9	28.5
Specific provisions to gross NPLs	25.5	26.6	26.1	25.8	26.5
Provisions to total loans (net)	2.0	2.2	2.2	2.2	2.3

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

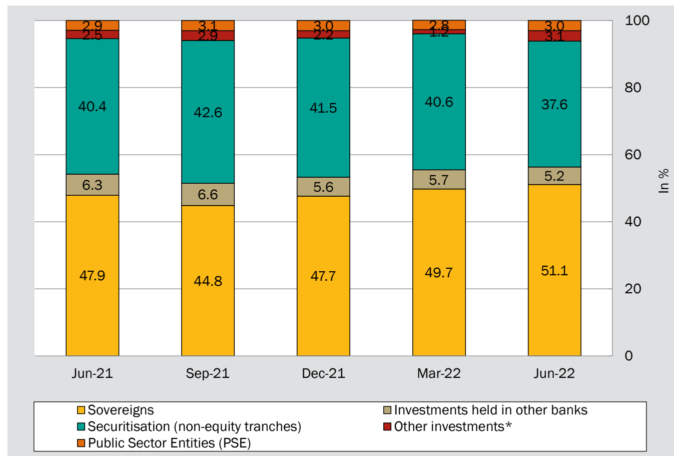


Total loans to the real estate sector declined by 1.8 percentage points to 57.7% of total outstanding loans at the end of the second quarter, while loans to other financial institutions declined by 0.3 percentage points to 21.5% at the end of the second quarter. 'Other' loans grew by 1.4 percentage points to 16.7% and loans to 'Other businesses and services' increased by 0.7 percentage points to 4.1% of total outstanding loans at the end of the second quarter.

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.*

Sovereign securities accounted for more than half of the banking sector's investment portfolio, increasing by 1.4 percentage points QoQ to 51.1% of total investments. Securitised (non-equity) investments fell by 3.0 percentage points to 37.6% over the quarter and other investments grew by 1.9 percentage points to 3.1% over the same period.

LIQUIDITY POSITION

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

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

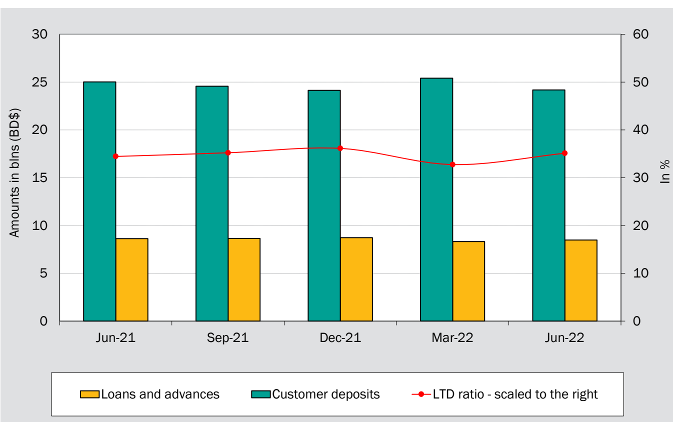
Table V: Liquidity Indicators

	2022		2021		
	Jun	Mar	Dec	Sep	Jun
	%	%	%	%	%
Cash and cash equivalents to total assets	16.5	23.7	18.8	20.3	18.6
Cash and cash equivalents to total deposit liabilities	18.2	26.1	20.9	22.5	20.6
LTD ratio	35.1	32.7	35.9	34.9	34.4
Loans-to-total assets	31.8	29.6	32.5	31.6	31.0
Funding gap*	-58.8	-61.0	-57.6	-58.4	-59.1

**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 banking sector's LTD ratio grew by 2.4 percentage points QoQ and 0.7 percentage points YoY to close at 35.1% at the end of the second quarter. The QoQ increase was driven by the increase in loans and advances to $8.5 billion (up $0.2 billion) and the decrease in customer deposits to $24.2 billon (down $1.2 billion).

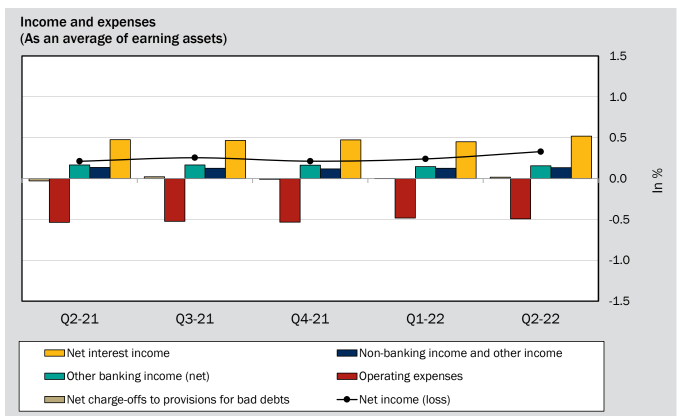
Table VI is a summary of profitability ratios for the sector for the last five quarters.

Table VI: Structure of Income Statement

	2022		2021		
	Jun	Mar	Dec	Sep	Jun
	%	%	%	%	%
Net interest income to total income	64.4	62.3	62.6	61.4	61.2
Annualised net interest income to (average) earning assets	2.3	2.0	2.1	2.0	2.0
Annualised interest income to (average) earning assets	2.5	2.3	2.3	2.3	2.3
Banking income to total income	83.6	82.7	84.4	83.5	82.5
Non-interest income to total income	35.6	37.7	37.4	38.6	38.8
Non-interest expenses to total income (efficiency ratio)	59.1	66.8	71.8	66.4	72.8
Personnel expenses to non-interest expenses	54.2	51.6	47.2	54.7	50.0
RoA	0.3	0.2	0.2	0.2	0.2
RoA (annualised)	1.3	0.9	0.8	1.0	0.8
RoE	4.9	3.4	2.6	3.1	2.4
RoE (annualised)	21.2	14.3	10.9	12.8	10.0

Chart VI shows the trend of income statement items over the last five quarters as a percentage of average earning assets.

Chart VI: Income and Expenses



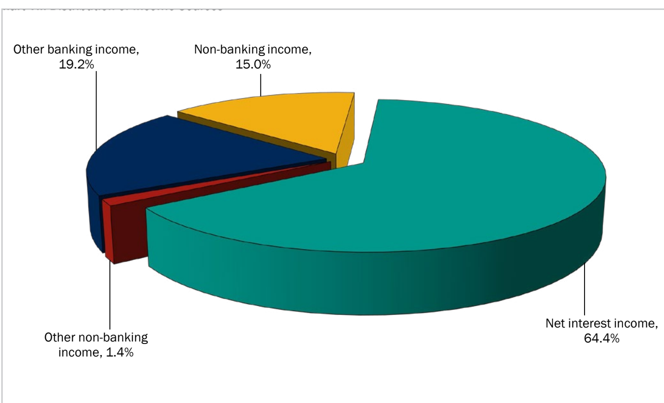
BANKING SECTOR PROFITABILITY

Net after-tax income was $86.3 million for the quarter, an increase of 36.6% (or $23.1 million) from the prior quarter. Net interest income grew by 14.1% (or $17.0 million) to $137.7 million compared with the prior quarter. Non-interest income increased by 4.4% (or $3.2 million) to $76.1 million. Total income amounted to $213.9 million, representing a 10.5% (or $20.3 million) increase over the prior quarter. Total expenses for the quarter were $126.5 million, a decline of 2.2% (or $2.9 million) compared to the prior quarter.

The sector's efficiency continued to improve in the second quarter, falling by 7.7 percentage points to 59.1%. This was due to the decline in total expenses (down 2.2%) relative to the increase in total income (up 10.5%).

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

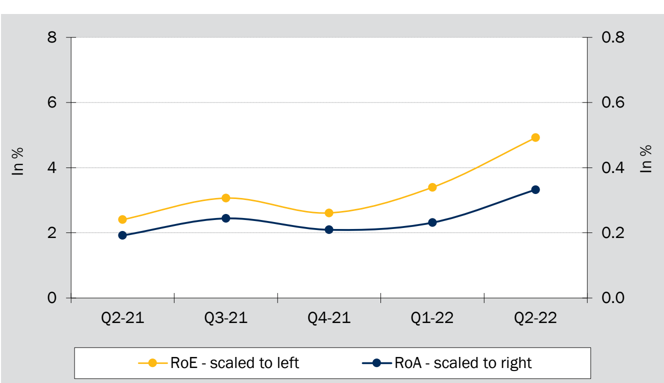


Chart IX: Quarterly RoE and RoA

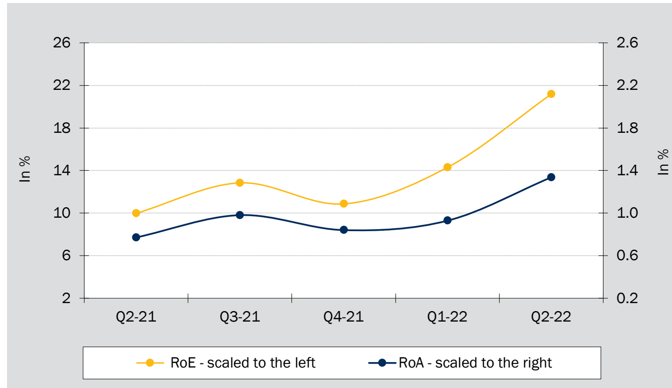
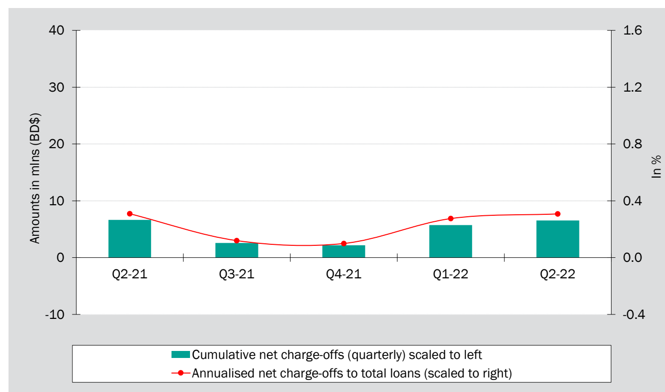


Chart X: Net Charge-off Amount and Proportion of Annualised Charge-offs to Total Loans



The net charge-offs for uncollectible loans were $6.5 million in the second quarter, up 14.0% (or $0.8 million) from the prior quarter and slightly lower than the $6.6 million reported in the second quarter of 2021. The ratio of annualised net charge-offs to total loans was 0.3% at the end of the second quarter of 2022.

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

Table VII: FX Balance Sheet Extract

(BD$ billions)	2022		2021			Change (in %)	
	Jun	Mar	Dec	Sep	Jun	QoQ	YoY
Cash	0.1	0.1	0.1	0.1	0.1	–	–
Deposits (interbank)	4.2	6.5	4.9	5.4	5.0	-35.4	-16.0
Loans and advances	5.6	5.4	5.7	5.6	5.6	3.7	–
Investments	13.0	12.3	12.3	12.4	13.2	5.7	-1.5
Other assets	0.4	0.4	0.3	0.1	0.4	–	–
Total assets	23.3	24.7	23.4	23.5	24.3	-5.7	-4.1
Deposit liabilities	20.1	21.4	20.2	20.6	21.1	-6.1	-4.7

FX assets amounted to $23.3 billion, down 5.7% (or $1.4 billion) from the previous quarter.

FX customer deposit liabilities totalled $20.1 billion, a decline of 6.1% (or $1.3 billion) over the quarter and down 4.7% (or $1.0 billion) compared to a year ago. The QoQ decline was driven by lower FX demand deposits down 8.2% (or $1.0 billion to $10.6 billion), FX savings deposits down 2.5% (or $0.2 billion to $6.3 billion) and FX time deposits down 3.3% (or $0.1 billion to $3.2 billion).

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

Table VIII: FX Positions

	2022		2021		
	Jun	Mar	Dec	Sep	Jun
	%	%	%	%	%
FX-denominated assets to total assets	87.3	88.2	87.2	86.4	87.6
FX-denominated loans to total loans	65.9	65.1	65.9	65.2	65.1
FX-denominated deposits to total deposits	83.1	84.3	83.6	84.0	84.3
Changes in FX assets	-5.7	5.6	-0.4	-3.3	10.2
Changes in FX loans and advances	3.7	-5.3	1.8	0.0	1.8
Changes in FX customer deposits	-6.1	5.9	-1.9	-2.4	11.6

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

Table IX: Net FX Positions

(BD$ billions)	2022		2021		
	Jun	Mar	Dec	Sep	Jun
Total FX assets	23.3	24.7	23.4	23.5	24.3
Less: other assets	0.4	0.4	0.3	0.1	0.4
Less: FX loans to residents	0.9	0.9	0.9	0.9	0.9
Adjusted FX assets	22.0	23.4	22.2	22.5	23.0
FX liabilities*	20.6	21.8	20.4	20.9	21.3
Add: BD$ deposits of non-residents	0.1	0.1	0.1	0.1	0.1
Adjusted FX liabilities	20.7	21.9	20.5	21.0	21.4
Net FX position	1.3	1.5	1.7	1.5	1.6

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

Table X summarises ratios measuring the liquidity of the FX balance sheets for the last five quarters.

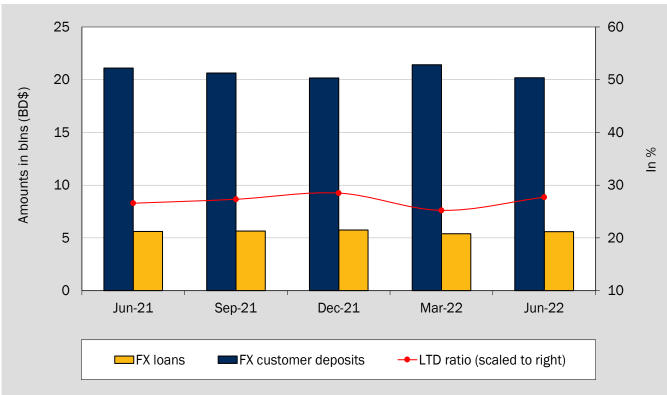
Table X: Liquidity Indicators (FX Positions)

	2022		2021		
	Jun	Mar	Dec	Sep	Jun
	%	%	%	%	%
Cash and cash equivalents to total assets	18.5	26.7	21.2	23.1	20.9
Cash and cash equivalents to total deposit liabilities	21.4	30.8	24.5	26.3	24.1
LTD ratio	27.9	25.2	28.2	27.2	26.5
Loans to total assets	24.0	21.9	24.3	23.8	23.0
Funding gap*	-62.6	-65.0	-61.8	-63.7	-63.8

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

Chart XI shows the trends of 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 deposit ratio grew by 2.7 percentage points to 27.9% for the second quarter. FX loans and advances were up 3.7% (or $0.2 billion) to $5.6 billion compared to the decline in FX customer deposits, down 6.1% (or $1.3 billion) to $20.1 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)	2022		2021			Change (in %)	
	Jun	Mar	Dec	Sep	Jun	QoQ	YoY
Loans and advances	3.0	3.0	3.1	3.1	3.1	–	-3.2
Total assets	3.7	3.7	3.9	3.9	3.9	–	-5.1
Deposit liabilities	4.0	4.0	4.0	3.9	3.9	–	2.6

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

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

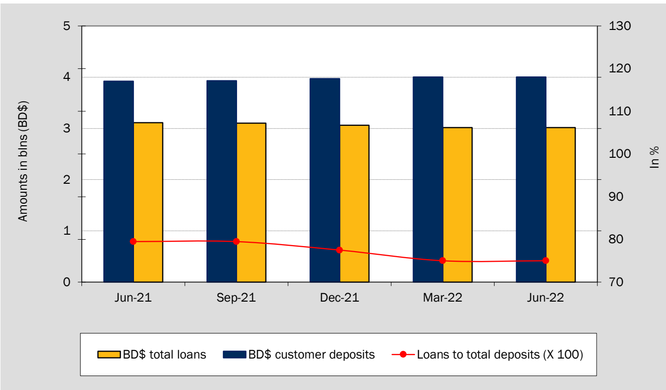
Table XII: Liquidity Indicators (BD$ Positions)

	2022		2021		
	Jun	Mar	Dec	Sep	Jun
	%	%	%	%	%
Cash and cash equivalents to total assets	2.4	2.1	2.6	2.2	1.9
Cash and cash equivalents to total deposit liabilities	2.2	1.9	2.5	2.2	1.9
LTD ratio	75.0	75.0	77.5	79.5	79.5
Loans to total assets	81.4	81.1	79.5	79.5	79.5
Funding gap*	-27.0	-27.0	-23.3	-21.1	-20.7

**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



MONETARY AGGREGATES

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

Table XIII: Bermuda Money Supply (Unconsolidated)

(BD$ millions)	2022		2021		
	Jun	Mar	Dec	Sep	Jun
Notes and coins in circulation	190	187	201	194	182
Deposit liabilities	3,996	4,004	3,970	3,929	3,923
Banks and deposit companies	4,186	4,191	4,171	4,123	4,105
Less: cash at banks and deposit companies	66	60	76	69	59
BD$ money supply	4,120	4,131	4,095	4,054	4,046
% Growth on previous period	-0.3	0.9	1.0	0.2	0.1
% Growth YoY	1.8	2.2	3.6	5.7	8.8

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

SELECTED INTERNATIONAL BANKING DEVELOPMENTS

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

Basel Committee on Banking Supervision (BCBS)

In June, the BCBS issued principles for effectively managing and supervising climate-related financial risks. The principles seek to improve banks' risk management and supervisors' practices related to climate-related financial risks.

https://www.bis.org/bcbs/publ/d532.pdf

Bank of England (BoE)

In June, the BoE published its findings from its first assessment of the resolvability of the eight major United Kingdom banks, as part of the resolvability assessment framework.

https://www.bankofengland.co.uk/-/media/boe/files/financial-stability/resolution/resolvability-assessment-of-major-uk-banks.pdf

European Central Bank (ECB)

In June, the ECB released its paper on the effect of climate change-related regulatory risks on credit reallocation.

https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2670~921f2cc6b8.en.pdf?9aefe5f22a357580430ea207c8a66db2

In May, the ECB released its paper that explored the different approaches for assessing the effects of a digital euro on euro area banks.

https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op293~652cf2b1aa.en.pdf?985167870ac2551e31097f06382d01d9

Financial Stability Board (FSB)

In April, the FSB published its report to assist supervisory and regulatory authorities in developing their approaches to monitor, manage and mitigate cross-sectoral and system-wide risks arising from climate change and to promote consistent approaches across sectors and jurisdictions.

https://www.fsb.org/wp-content/uploads/P290422.pdf

International Monetary Fund (IMF)

In May, the IMF released a paper on the possible impacts of cross-border central bank digital currencies on capital flows and financial stability in a simple open economy.

https://www.imf.org/en/Publications/WP/Issues/2022/05/06/Cross-Border-Central-Bank-Digital-Currencies-Bank-Runs-and-Capital-Flows-Volatility-517625

In May, the IMF released a paper highlighting the distinct challenges and suggesting practical solutions to effective regulation, supervision and crisis management for public banks.

https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2022/04/28/Regulating-Supervising-and-Handling-Distress-in-Public-Banks-511609

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 a 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 NPLs 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).*

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