LIQUIDITY RETURN

The following notes and definitions apply specifically to the Liquidity Return.

A. Guidance Notes

Coverage

1. This return is to be completed on an unconsolidated basis as at the end of March, June, September and December each year by institutions licensed under the Banks and Deposit Companies Act 1999.

Currency Translation

2. This return should be completed on the basis of all currencies combined. Currencies should be translated into the Bermuda dollar at the closing spot mid price on the reporting date.

Purpose of the Return

3. The policy aim is to ensure that institutions hold sufficient liquid assets to meet their obligations as they fall due. The Authority sets mismatch guidelines to help secure the policy objective.

4. The return is designed to monitor institutions' compliance with their guidelines by measuring the net mismatch between assets and liabilities within a time band and cumulatively across all time bands. The mismatch is then assessed as a percentage of the institution's total deposit liabilities.

Maturity

5. Unless otherwise stated, all references to maturity for the purpose of this return refer to residual maturity calculated from the return's end-quarter reporting date.

6. For supervisory monitoring, the Bermuda Monetary Authority (the Authority) will normally wish to gauge an institution's liquidity position on a "worst-case" basis. Therefore cash outflows should be assumed to occur at their earliest contractual maturity while cash inflows should be assumed to occur at their latest contractual maturity.

7. For deposit liabilities, the earliest repayment date means the first roll-over date or the shortest period of notice required to call or exercise a break clause, where applicable.

   On the other hand loans by the reporting institution are to be entered according to their final maturity.

8. Where an institution holds a security where the issuer has the option to repay over a range of dates, the last repayment date should be taken as the date of repayment, unless notice has been given of redemption at an earlier date. Where the institution has issued such a security the first repayment date should be taken as the date of repayment, unless notice has been given of redemption at a later date.

9. Spot foreign exchange deals may, for the time being, be reported on a trade or settlement date basis also include details from previous days which have yet to settle. However, in the future, the Authority would expect all institutions to move toward the adoption of the trade date basis as the norm for reporting such transactions.

10. Where an institution has entered into a forward deal where it is fully committed (e.g. a loan/deposit with a start date of two days forward and a spot foreign exchange trade) and the cashflows will take place within the "Sight - 1 week" time band, it should be reported on the return as such. However, where the institution intends to enter into an agreement in two days time but has not committed itself, this should not be reported as this return is intended to be snapshot at the end of the quarter.

11. Cashflows arising or assets/liabilities maturing on a non-business day should be reported as taking place on the following business day.

12. Funds callable at one day's notice should be entered as two-day maturity unless notice has been received or given on the reporting date.

13. Where the period to remaining maturity is to be entered in months, it should be calculated on a calendar month basis starting from the reporting date.

Netting of debts and claims

14. All claims and liabilities should be reported gross for liquidity purposes. Reporting institutions are not permitted to net (or offset) claims on counterparties or groups of counterparties against debts owed to those counterparties or groups of counterparties, even where a legal right of set off exists. Where the maturity of the claims and debts falls within the same time band, the claims and debts will automatically offset each other on the return in the calculation of the mismatch.

Provisions

15. Items should be reported net of specific provisions.

Arrears and overdues

16. Where assets or other items giving rise to cashflows are non-performing, poorly performing or there is reasonable doubt about the certainty of receipt of inflows of funds pertaining to them, cashflows arising from them should not be included as receivable in the time band columns.

Marketable assets

17. Although institutions should normally apply "worst case" assumptions about the timing of inflows and outflows of funds, some categories of asset are clearly marketable and could be readily converted into cash where necessary. The highest quality liquid assets are typically those which can be offered for discount at a central bank; and for all marketable assets a deep and liquid market and a short settlement period are essential characteristics. Where these characteristics apply, and the requirements for such assets set out in the definitions are met, the asset will qualify to be placed in the "Sight - 1 week" time band, generally at a discount to its recorded value. Discounts are applied to reflect that an institution may realize less than the market price quoted for an asset; where the institution is seeking to realize assets quickly because of liquidity problems pertaining either to itself, or to general market conditions, or both.

18. The gross value and also the value net of discounts are both to be recorded.

Off balance sheet cashflows

19. For forward sales and purchases, when the institution sells forward an asset on Part 1 of the return, that particular asset can continue to be reported in Part 1 of the form until the date of the forward sale, when the asset leaves the institution's ownership. The inflow of the cash and the outflow of the asset should still be reported in Part 2 of the return at the "residual maturity" of the deal. This treatment is the same as for repos where the asset ceases to appear on Part 1 from the start of the repo (paragraph 21 below).

20. Swaps, FRAs and futures should be reported according to the cashflows they entail. Fixed legs of swaps should be recorded as the amount of the known cashflow; floating legs of swaps, FRAs and futures will be recorded according to the cashflow implied by their market value at the reporting date.

21. The treatment of repos, reverse repos, stock lending and stock borrowing is essentially analogous to that of forward sales and purchases. Stock lending and borrowing is treated as being analogous to repo and reverse repo where ownership of the items borrowed and loaned is transferred under the transaction; the item borrowed is then available for sale immediately by the borrowing institution. The following treatment should therefore be applied:

(a) The borrowed item should be reported in Part 1 of the form; the loaned item should cease to be reported in Part 1 of the form.

(b) Report the discounted value of the loaned item as an inflow; report the discounted value of the borrowed item as an outflow in the "Repo/Reverse Repo" line at the maturity of the transaction where both are marketable assets.

(c) Should either asset be classed as "non-marketable", the relevant adjustments should be made to the non-marketable assets line in Part 2 of the form.

Swaps and FRAs

22. Institutions should report all projected flows associated with a swap (including any bullet payments) during the periods where they report on a cashflow basis. Interest amounts on swaps should only be reported in the cashflow section.

23. With currency swaps, where an exchange of principal is effected at the start or maturity of the swap, the two amounts should be treated as a forward foreign exchange contract and reported in both the cashflow and maturity analysis sections of the form, in either item I2I or item O2I.

24. For interest rate swaps, e.g. a 5-year fixed rate against a 3 month LIBOR swap, institutions should report the known amount of the fixed leg of the cashflow out to the last cashflow time band.

25. For fixed legs, the known amount of the fixed leg should be entered. For floating legs, the amount of the cashflow to be received should be derived from the swap's present value at yields prevailing at the reporting date and entered as an inflow in the relevant time band. Where the floating leg has been agreed in advance for a specific period, institutions should report the cashflow according to this rate.

26. Cashflows arising from FRAs should only be reported in the cashflow section, <u>NOT</u> in the maturity analysis section. The present marked-to-market value of the FRA, or the settlement amount post fixing, should be recorded in the time period based on the actual settlement date of the FRA, i.e. when the institution makes a payment or receives funds.

B. Definitions

PART I

Marketable Assets

a) **Eligible**

This term signifies that the paper in question is accepted as discountable by Zone A central banks in their open market operations.

b) **Zone A / Zone B**

The term "Zone A" covers full members of the OECD and those countries which have included special lending arrangements with the IMF associated with the IMF's General Arrangements to Borrow, provided they have not rescheduled their external sovereign debt, to official or private sector creditors, in the previous 5 years. At present, these countries comprise:

Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany (including any pre-reunification claims on East Germany), Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Portugal, Saudi Arabia, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States.

Bermuda, Gibraltar, the Channel Islands and the Isle of Man should also be regarded as being within Zone A.

The reporting institutions should discuss with the Authority the appropriate treatment of other dependencies of Zone A countries.

Zone B comprises all countries not in Zone A.

c) **Qualifying**

Where used in this return the term means qualifying for inclusion as marketable assets. Non-government debt securities will be treated as qualifying if any of the following conditions apply:

i) they are issued, guaranteed, endorsed or accepted by a credit institution incorporated in a Zone A country.

ii) They are securities issued by, or fully collateralised by claims on, a multi-lateral development bank (MDB). Only the following institutions are classified as MDBs for the purpose of this return:

International Bank for Reconstruction and Development (IBRD) or World Bank
International Finance Corporation (IFC)
Inter-American Development Bank (IADB)
Asian Development Bank (AsDB)
African Development Bank (AfDB)

European Investment Bank (EIB)
Caribbean Development Bank (CDB)
Nordic Investment Bank (NIB)
European Bank for Reconstruction and Development (EBRD)
Council of Europe Resettlement Fund

iii) they are issued by, or guaranteed by, Zone A public sector entities.

Debt instruments issued by entities not covered by the description in the preceding paragraph may still be treated as qualifying if the issue is rated investment grade (or its equivalent for money market obligations) or above and provided that the reporting bank is unaware of any sub-investment grade rating issued by any relevant credit rating agency. The credit rating agencies used for this purpose and the ratings deemed to be investment grade are listed below:

Relevant rating agencies	**Minimum Ratings**	
	Securities	Money Market Obligations
For all issuers		
Moody's Investors Service	Baa3	P3
Standard & Poor's Corporation	BBB-	A3
FITCH IBCA	BBB-	F-3
For all banks, building societies and parent companies and subsidiaries of banks		
Thomson Bankwatch	BBB-	TBW3
For Canadian issuers		
Canadian Bond Rating Service	B++low	A-3
Dominion Bond Rating Service	BBB low	R-2
For Japanese issuers		
Japan Credit Rating Agency, Ltd.	BBB-	J-2
Japan Rating and Investment Information Inc.	BBB-	a-2
Mikuno & Co.	BBB	M-3
For United States issuers		
Duff & Phelps, Inc	BBB-	3

(a) This list may be amended periodically.

Equities may also be regarded as highly liquid and qualifying for inclusion as marketable assets if they are included in any of the following indices:

Australia	All Ords	Japan	Nikkei225

Austria	ATX	Netherlands	EOE25
Belgium	BEL20	Spain	IBEX35
Bermuda	RG/BSX	Sweden	OMX
Canada	TSE35	Switzerland	SMI
France	CAC40	UK	FTSE 100
Germany	DAX	UK	FTSE mid-250
Italy	MIB-30	USA	S&P 500

d) Particularly high quality debt instruments

If an institution has securities, bills or certificates of deposit that it feels meets this criteria, it should contact the Authority detailing the nature of the instruments concerned and obtain the Authority's consent to their being reported in this category.

PART II

Assets (Inflows)

RETAIL

I1A Mortgages

Any repayments of loans to individuals secured by mortgage on residential properties (both freehold and leasehold) which are or will be occupied by the borrower, or which are rented.

I1B Personal loans

Repayments of any personal loans granted by the reporting institution to retail customers.

I1C Overdrafts

Repayments of any overdrafts granted, including any interest, where appropriate.

Wholesale overdrafts should not be included here. Rather, they should be reported according to the counterparty (e.g. interbank).

I1D Credit card inflows

Report the minimum repayment required by the institution of debt arising from credit cards issued by the reporting institution. Subsequent repayments should be reported according to the minimum percentage repayment required.

I1E Repayment of advances

Any other repayments of loans associated with retail banking business that have not already been included in the above.

I1F Other retail inflows

Any other retail associated inflows that have not already been included in the above, such as fees and commissions.

WHOLESALE

I2B Non-marketable securities and debt instruments, and marketable assets maturing within 1 month

Include here any securities which the reporting institution hold or will receive, but which it cannot classify as marketable. An institution should report non-marketable assets according to the redemption value of the asset or alternatively, where the redemption value is unavailable or not appropriate (e.g. in the case of equities), the book value. This reflects the potential inflow of cash when the asset matures.

I2C Intragroup / Connected

Report any inflows from counterparties connected to the reporting institution.

I2D Interbank (excluding any intragroup)

Report inflows arising from placements with other institutions, including any funds held in NOSTRO balances. Also include the entire inflows from those entities that would attract a 20% counterparty weighting. Exclude, from this line, inflows from other bank entities within the group, which should be included in intragroup/connected. Include that element of committed facilities provided to the institution where notification of draw down date has been given.

I2E Corporate (non-interbank and intragroup)

Report inflows from non-bank, non-connected corporate counterparties. Initial margins held at clearinghouses should be entered here according to their residual maturity. Repayments from leases should also be recorded in this line.

I2F Government / Public Sector

Report inflows from central governments, central authorities and central banks. For guidance on what constitutes public sector, see Capital Adequacy Return Guidance Notes 19.

I2G Repos / Reverse Repos

This item should include any transactions relating to repos and reverse repos. Institutions should also enter any transactions relating to stock borrowing and lending. Refer to the "Repo/Reverse repo" section in paragraph 21 of the Liquidity Guidance Notes above for further guidance on what should reported in this item.

I2H Trade related Letters of Credit

Report here any inflows arising from trade related letters of credit.

I2I Swaps and FRAs

For interest rate and currency swaps, enter the receipts of fixed and floating legs in the cashflow section.

For FRAs, enter the marked-to-market receipt in the relevant time period. The amount of receipts should be derived from the contract's present value at yields prevailing at the reporting date.

Refer to the "Swaps and FRA's" paragraphs 22 – 26 in the Liquidity Guidance Notes above for further guidance on what should be reported in this item.

I2J Forward foreign exchange

Enter any cashflows relating to forward purchases of foreign currency. The amount received should be entered in the appropriate maturity band.

I2K Forward sales and purchases

The cash leg of any forward sales should be treated as an inflow in the time band corresponding to the date of the forward sale. For forward purchases, where the asset purchased is a marketable asset, the institution should report the Bermuda dollars equivalent discounted value of the security purchased at the maturity of the contract. Where the asset purchased is non-marketable, the institution should enter the Bermuda dollar equivalent discounted value of the security at the maturity of the asset.

I2L Other off balance sheet

Include here any other off balance sheet items not included elsewhere, according to their maturity. For example, the inflow ($100,000) of a three month OTC interest rate future with one month to maturity and a marked-to-market value of $100,000 should be reported in the "8 days - 1 month" time band.

Institutions should exclude any cash inflows associated with options and enter these in item D1A.

I3A Fees and other income

Report here fees, commissions or other income receivable by the institution relating to their wholesale business, according to their known date of receipt. Where the date of receipt is unknown, do not report these flows.

I3B Other inflows

Report here any other inflows, which have not been included elsewhere, according to the timing of their cashflows. Also report any inflows from settlement accounts, using the trade date plus the settlement period to determine the appropriate time band. Where the inflow is later than this date, the amount should be entered as "overdue".

Total inflows

Report here the sum of items I1G, I2M, I3A and I3B in each column.

Memo Items

D1A & D1B Options

There are two ways in which options can be reported in items D1A and D1B. Instructions should be consistent and use the same method for both inflows and outflows. Institutions should also inform the Authority of the method adopted, and record this in their liquidity policy statement.

Method 1

Report the inflows and outflows of cash arising from the exercise of the options. It is assumed for reporting purposes that all options are exercised. Any movement of the underlying financial instrument to which the option relates should be ignored.

“Options inflows” item D1A should contain:

- Purchased puts for equity or commodity transactions (if the option is exercised, the institution sells the asset and receives cash);

- Written calls for equity or commodity transactions (if the counterparty exercises its right to buy, the institution sells the asset in question and receives cash);

- All inflows relating to the exercise of interest rate options held/purchased by the institution, whether call options or put options (written interest rate options are not to be included here but in item D1B).

“Options outflows” item D1B should contain:

- Written puts for equity and commodity transactions (if the counterparty exercises this option, the institution purchases the asset and pays out cash);

- Purchased calls for equity or commodity transactions (if this type of option is exercised by the reporting institution, it purchases an asset and pays out cash).

- All outflows relating to the exercise of interest rate options written by your bank, whether call options or put options.

Method 2

Rather than reporting potential inflows of cash if all the options are exercised (i.e. method 1), this method of reporting is on the basis of marked-to-market value. Purchased options giving rise to either nothing or inflows are therefore treated as assets. Written options giving rise to either nothing or outflows are seen as liabilities.

“Options inflows” item D1A should contain:

- The marked-to-market value of all purchased options (puts or calls) multiplied by the number of options, irrespective of whether these are in or out of the money (the marked-to-market value should be reported on the reporting date).

“Options outflows” Item D1B should contain:

- The marked-to-market value of all sold/written options (puts or calls) multiplied by the number of options, irrespective of whether these are in or out of the money (the marked-to-market value should be reported on the reporting date).

D1C Undrawn committed facilities granted to the bank

Report any facilities which have been committed to the institution and which, at the reporting date, remain undrawn. Also include any flows arising from standby letters of credit and guarantees. Where a date for draw down has been agreed, the amount should be entered in the appropriate line in the inflows section of Part 2 according ro the source of the facility and entered in the corresponding time band.

D1D Undrawn committed facilities granted by the bank

Report any facilities which the institution has committed to provide (including by way of repos) and which, at the reporting date, remain undrawn. Include only those facilities where a date for draw down has not been agreed. Where a date for draw down has been agreed or where a facility may draw down on demand, the amount should be entered in item O1C or O2B Part II (depending on whether they are retail or wholesale facilities). Do not include repo liabilities here: refer to paragraph 21 of the Liquidity Guidance Notes above for guidance as to how these should be reported.

D1E Commitments under credit card and other revolving credit type facilities

Report any commitments which the institution has entered into under credit cards or other revolving credit type facilities which have not been drawn down at the reporting date (i.e. available credit to cardholders).

D1G Total deposits

Report the total deposits outstanding as at the reporting date, excluding any liabilities under repo/reverse repo agreements. This figure should be used as the denominator for the mismatch and in the Deposit Concentration section (Part V) of this form. Include:

i) All bank notes issued by the reporting institution;

ii) No notice/current accounts;

iii) All time deposits;

iv) All certificates of deposit issued by the reporting institution, whether at fixed or floating interest rates, which are still outstanding;

v) Negotiable deposits taken on terms in all respects identical to those on which a certificate of deposit would have been issued, but for which it is mutually convenient not to have issued a certificate;

vi) All other issues of commercial paper and medium term notes, bonds, FRNs and other instruments, with the exception of subordinated loan capital of over two years' original maturity.

Exclude any certificates of deposit which the reporting institution holds which it itself has issued, as well as any working capital provided by non-resident offices of the reporting institution.

D2A Amount of total cash inflows in arrears

Where payments on debt are contractually in arrears, the amount of the debt in arrears should be reported in this item. Only that part of the debt, along with any related interest, which is in arrears, should be entered here. That part of the loan, which is still due and therefore not yet in arrears should be entered in the inflows section of Part 2 in the maturity ladder in the relevant time band.

PART III

Liabilities (Outflows)

Retail

O1A Time deposits

Include any deposits taken which have a residual maturity of more than overnight or which require prior notice to be given by the customer before withdrawal of funds. Also include deposits which include an agreement within the contract not to withdraw before a certain date. Where an institution has a material number of deposits where the depositor incurs an interest penalty in lieu of notice, it should discuss with the Authority whether it should report these deposits on a behavioural basis. Deposits should be entered in the time band corresponding to the minimum amount of notice of withdrawal required. Saving deposits, deposit accounts and deposit receipts should also be entered here.

O1B No notice / current accounts

Include here any amounts in accounts which are not subject to a minimum notice period i.e. funds which are available on demand. Also include deposits received with a residual maturity of no longer than overnight. Report any balances, whether interest bearing or not, where the entire balance is accessible without penalty either on demand or by close of business on the day following that on which the deposit was made.

O1C Additional advances committed

Report here any undrawn commitments to lend made by the reporting institution where the draw down date is known. The full amount of the commitment for the draw down date should be entered in the appropriate maturity band. Where the institution has made a commitment to lend, where the date of draw down is uncertain or not known, these should be reported in item D1D.

Where notification of draw down (of facilities that can be drawn down on demand) has been received, enter the flows in the "Sight – 1 week" time band.

Also enter on this line any facilities that may be drawn down on demand where no notification of draw down has been received. These facilities should be entered in the "Sight – 1 week" time band.

Do not include undrawn facilities where no draw down date(s) have been notified or agreed (these should be included in item D1D of the memo items pertaining to commitments below).

WHOLESALE

O2A Non-marketable securities and debt instruments and marketable assets maturing within 1 month

Include here at residual maturity outflows pertaining to maturing securities or debt instruments, which the institution cannot classify as marketable.

O2B Additional advances committed

Enter here commitments to lend, or to take up, bills, certificates of deposit, investments, etc., where there has been an agreed date(s) for the draw down of the facility. The full amount of the commitment should be entered. Also include any other contingent liabilities which it is known will actually be called on a specific date (e.g. performance bonds and guarantees due to be invoked), as well as money market placements and forward deposits.

Where notification of draw down (of facilities that can be drawn down on demand) has been received, enter the flows in the "Sight – 1 week" time band.

Also enter on this line any facilities that may be drawn down on demand where no notification of draw down has been received. These facilities should be entered in the "Sight – 1 week" time band.

Do not include undrawn facilities where no draw down date(s) have been notified or agreed (these should be included in item D1D of the memo items pertaining to commitments below).

O2C Intragroup / Connected

Report any outflows of funds to counterparties connected[1] to the reporting institution.

O2D Interbank (excluding any intragroup)

Report outflows arising from placements with or from, or repayments of loans to or from, other banks. Also include the entire outflows to those entities that would attract a 20% counterparty weighting. Exclude from this item loans to, or placements with, or deposits/placements from, other bank entities within the group (these should be reported under “intragroup/connected”, item O2C).

O2E Corporate (non-interbank and intragroup)

Report outflows to non-bank, non-connected, corporate counterparties.

O2F Government / Public Sector

Report funds lent to central governments, central authorities and central banks. Include funds lent to the European Commission, the European Union (EU), the European Coal and Steel Community (ECSC) and Euratom. Where an institution is required to place funds on deposit with central banks and monetary authorities, these should be entered as an outflow in the relevant time band.

For guidance on what constitutes public sector, see Capital Adequacy Return Guidance Notes 19.

O2G Repos / reverse repos

Record in this item any outflows related to repos or reverse repos. Also include any outflows relating to stock borrowing and lending. For “Repos and Reverse Repos” refer to paragraph 20 of the Liquidity Guidance Notes above.

O2H Trade related Letters of Credit

Report here any outflows arising from trade related letters of credit.

O2I Swaps and FRAs

[1] “Connected” is as defined in the Capital Adequacy Return Guidance Note 18.

For interest rate and currency swaps, enter payments of fixed and floating legs in the cashflow section.

For FRAs, enter the marked-to-market payment in the relevant time period. The amount paid should be derived from the contract's present value at yields prevailing at the reporting date.

For "Swaps and FRAs" refer to paragraphs 22 – 26 of the Liquidity Guidance Notes above for further guidance on what should be reported in this item.

O2J Forward foreign exchange

Enter any cashflows relating to forward sales of foreign currency. The amount paid should be entered in the appropriate maturity band.

O2K Forward sales and purchases

For forward sales, the Bermuda dollar equivalent discounted value of the security sold should be recorded as an outflow. The cash leg of any forward purchases should be treated as an outflow in the time band corresponding to the date of the forward purchase.

O2L Other off-balance sheet

Report here any outflows relating to off-balance sheet items that have not been reported elsewhere on the Liquidity Return. Institutions should exclude any cash outflows associated with options and enter these in item D1B.

O2M Dividends, tax, other costs and outflows

Report any outflows relating to payments of dividends and tax, or any other outflows that have not previously been reported elsewhere. Also report any outflows relating to settlement accounts, using the trade date plus the settlement period to determine the appropriate time band.

a) Total outflows

Report here the sum of items O1D and O2N in each column.