BMA
BERMUDA MONETARY AUTHORITY

Quarterly Banking Digest

Q3-2021

COVID–19 UPDATE

- Roughly 18 months following COVID-19 being declared a global pandemic, the banking industry has begun to accumulate sufficient data to assess the impact of the pandemic. Loan loss provisions have been building up during the pandemic due to negative economic activity. Nevertheless, during the quarter, banks updated 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 shelter-in-place guidelines are relaxed, travel restrictions are eased and staff continue to return to office premises, the Bermuda Monetary Authority (Authority or BMA) has scaled back on its enhanced monitoring framework as the economy transitions to the new normal. The Authority moved from a weekly to monthly review of deposit and foreign exchange 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

- Banking sector assets experienced a moderate decline, falling by 1.8% (or $0.5 billion) to $27.2 billion.

- Financial indicators such as capital position and liquidity remain sound and stable.

- Profitability in the banking sector improved with after-tax income up by 25.0% to $64.9 million compared to the prior quarter. This was driven by the release of excess provisions due to an improved macro-economic environment. From a net charge of $6.6 million in the prior quarter, there was a credit of $5.9 million this quarter.

SUMMARY INDICATORS

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

Table I: Selected Financial Soundness Indicators

Ratios	2021			2020	
	Sep	Jun	Mar	Dec	Sep
Capital position	%	%	%	%	%
Basel III – Risk Asset Ratio (RAR)	22.3	22.2	22.0	22.0	22.8
Basel III – CET1 ratio (minimum 7.0%)	20.1	20.1	20.1	19.8	20.4
Basel III – Leverage ratio (BMA minimum 5.0%)	6.4	6.4	6.9	6.8	7.3
Liquidity					
Cash and cash equivalents to total deposit liabilities	22.5	20.6	16.1	17.5	15.7
Loan-To-Deposit (LTD) ratio	34.9	34.4	37.6	37.8	40.0
Funding gap *	-58.4	-59.1	-55.8	-55.6	-52.9
Profitability					
Net interest income to interest income	89.1	88.9	88.5	86.7	86.0
Return on Assets (RoA)	0.2	0.2	0.3	0.2	0.3
RoA (annualised)	1.0	1.0	1.1	1.0	1.2
Return on Equity (RoE)	3.1	2.4	3.1	2.8	3.0
RoE (annualised)	12.8	10.0	12.8	11.6	12.7
Loan book					
Provisions to Non-Performing Loans (NPL)	27.9	28.5	28.3	28.9	30.2
NPLs to total loans	6.0	6.2	6.3	6.2	6.3
NPLs to regulatory capital	26.1	26.3	27.0	27.1	26.6
Other					
Change in Bermuda Dollar (BD$) money supply Quarter-on-Quarter (QoQ)	0.2	0.1	2.3	3.1	3.2
Change in assets (QoQ)	-1.8	8.6	-0.4	6.1	2.1
Change in RWAs (QoQ)	-1.3	0.7	0.2	1.6	-1.2
Change in customer deposits (QoQ)	-1.8	9.6	0.0	7.6	1.9

**The negative funding gap indicates that deposits exceed loans.*
QoQ – percentage change from the prior quarter.

AGGREGATE BALANCE SHEET

Table II summarises of key balance sheet trends in the sector.

Table II: Aggregate Balance Sheet

(BD$ billions)	2021			2020		Change	
	Sep	Jun	Mar	Dec	Sep	QoQ	YoY
Assets						%	%
Cash	0.1	0.1	0.1	0.1	0.1	–	–
Deposits (interbank)	5.4	5.1	3.6	3.9	3.2	5.9	68.8
Loans and advances (net)	8.6	8.6	8.6	8.6	8.5	-	1.2
Investments	12.4	13.2	12.5	12.3	11.6	-6.1	6.9
Other assets	0.7	0.7	0.7	0.7	0.7	–	–
Total assets	**27.2**	**27.7**	**25.5**	**25.6**	**24.1**	-1.8	12.9
Liabilities							
Saving deposits	7.3	7.6	7.8	7.7	7.4	-3.9	-1.4
Demand deposits	13.4	13.5	11.0	11.3	10.2	-0.7	31.4
Time deposits	3.9	3.9	4.0	3.8	3.6	–	8.3
Total deposits	**24.6**	**25.0**	**22.8**	**22.8**	**21.2**	-1.6	16.0
Other liabilities	0.6	0.6	0.6	0.5	0.6	-	-
Total liabilities	**25.2**	**25.6**	**23.4**	**23.3**	**21.8**	-1.6	15.6
Equity and subordinated debt	2.0	2.1	2.1	2.3	2.3	-4.8	-13.0
Total liabilities and equity	**27.2**	**27.7**	**25.5**	**25.6**	**24.1**	-1.8	12.9

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

Total assets fell by 1.8% (or $0.5 billion) to $27.2 billion from the previous quarter. This quarterly decline was driven by a 6.1% (or $0.8 billion) decrease in investments, which was partially offset by a 5.9% (or $0.3 billion) increase in interbank deposits.

When compared to the same quarter last year, total assets grew by 12.9% (or $3.1 billion). This YoY growth was reflected in the increase in interbank deposits (up 68.8% or $2.2 billion), investments (up 6.9% or $0.8 billion) and loans (up 1.2% or $0.1 billion).

Over the quarter, total liabilities decreased by 1.6% (or $0.4 billion) to $25.2 billion. Although customer deposits remain at high levels, there was a small quarterly decline in customer deposits, reflected in saving deposits (down 3.9% or $0.3 billion) and demand deposits (down 0.7% or $0.1 billion).

YoY, total liabilities grew by 15.6% (or $3.4 billion). Customer deposits increased by 16.0% (or $3.4 billion) over the past year, led by increases in demand deposits (up 31.4% or $3.2 billion) and time deposits (up 8.3% or $0.3 billion).

SUMMARY OF BALANCE SHEET RATIOS

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

Table III: Summary of Balance Sheet Ratios

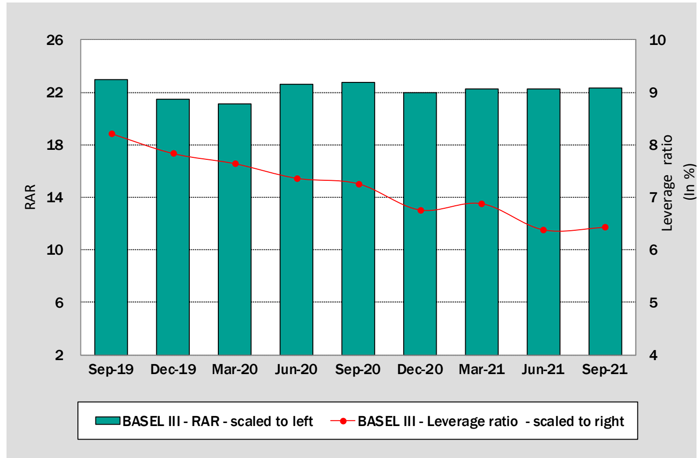
	2021			2020	
	Sep	Jun	Mar	Dec	Sep
Asset allocation	%	%	%	%	%
Cash	0.4	0.4	0.4	0.5	0.4
Investments	45.6	47.7	49.0	48.0	48.1
Loans and advances	31.6	31.0	33.7	33.7	35.3
Deposits (interbank)	19.9	18.4	14.1	15.1	13.3
Other assets	2.6	2.5	2.8	2.6	2.9
Deposits allocation					
Savings	29.7	30.4	34.2	33.6	34.9
Demand	54.5	54.0	48.3	49.5	48.1
Time	15.9	15.6	17.5	16.9	17.0
Capital position					
Basel III – CET1 ratio (minimum 7.0%)	20.1	20.1	20.1	19.8	20.4
Basel III – RAR	22.3	22.2	22.0	22.0	22.8
Basel III – Leverage ratio	6.4	6.4	6.9	6.8	7.3

CAPITAL ADEQUACY

The RAR experienced a slight increase over the quarter, up to 22.3% and was 0.5 percentage points lower than the metric reported a year earlier. All other capital indicators were unchanged over the quarter.

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

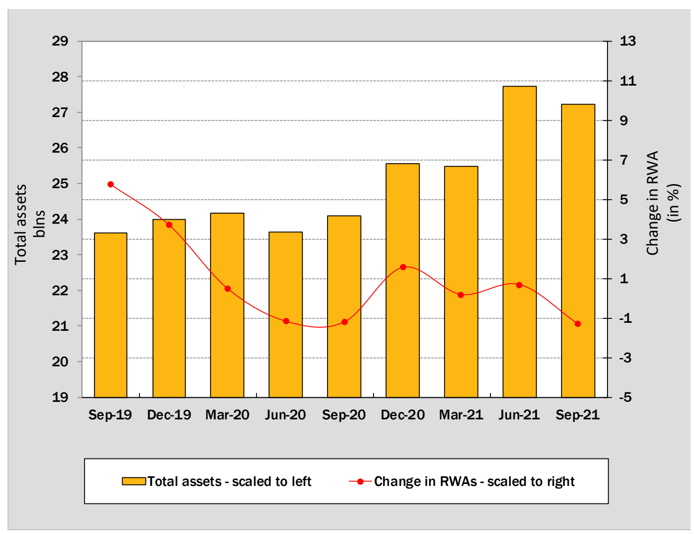
Chart I: RAR and Leverage Ratio



The leverage ratio was unchanged at 6.4% over the quarter and 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.

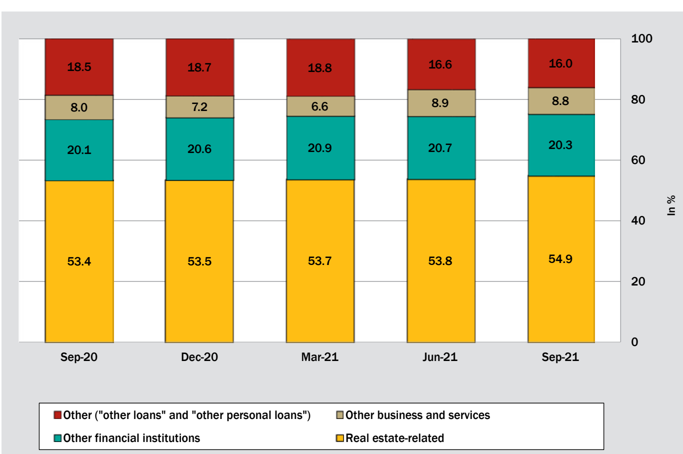
Table IV: Quality of the Loan Book

	2021			2020	
	Sep	Jun	Mar	Dec	Sep
	%	%	%	%	%
Loans and advances QoQ growth rate	0.0	0.0	0.0	1.2	-4.5
Residential mortgages to total loans	56.7	56.2	55.9	55.7	55.3
Loan impairments					
NPLs to total loans (net)	6.0	6.2	6.3	6.2	6.3
NPLs to regulatory capital	26.1	26.3	27.0	27.1	26.6
Net charge-offs to loans (annualised)	0.1	0.3	0.3	0.6	0.1
Loan provisioning					
Provisions to gross NPLs	27.9	28.5	28.3	28.9	30.2
Specific provisions to gross NPLs	25.8	26.5	27.0	27.6	29.1
Provisions to total loans (net)	2.2	2.3	2.4	2.4	2.5

SECTORAL DISTRIBUTION OF LOANS

Chart III reflects the sectoral variation of lending to the different sectors over the last five quarters.

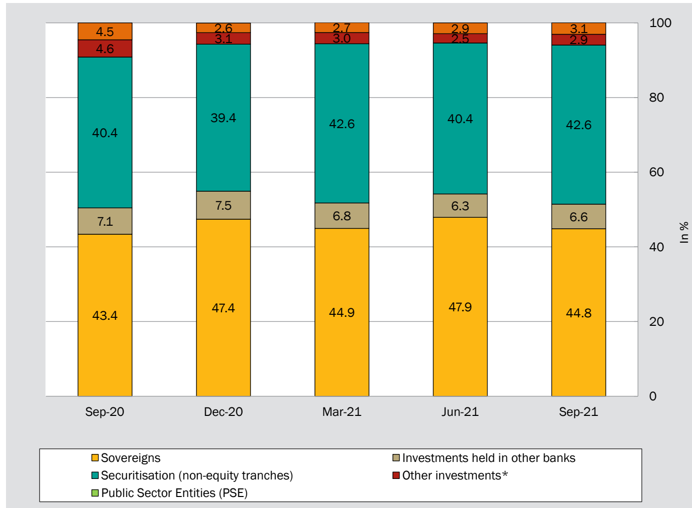
Chart III: Sectoral Distribution of Loans and Advances



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 experienced some movement during the quarter, with sovereigns falling by 3.1 percentage points to 44.8% and securitised investments increasing by 2.2 percentage points to 42.6% of total investments held by the banking sector.

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.

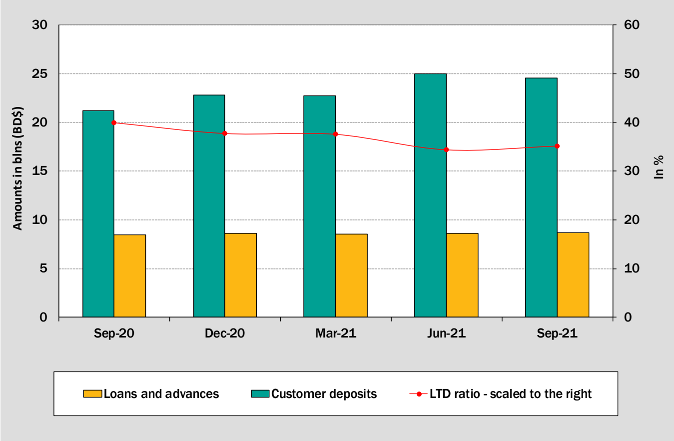
Table V: Liquidity Indicators

	2021			2020	
	Sep	Jun	Mar	Dec	Sep
	%	%	%	%	%
Cash and cash equivalents to total assets	20.3	18.6	14.4	15.6	13.8
Cash and cash equivalents to total deposit liabilities	22.5	20.6	16.1	17.5	15.7
LTD ratio	34.9	34.4	37.6	37.8	40.0
Loans-to-total assets	31.8	31.1	33.6	33.7	35.2
Funding gap*	-58.4	-59.1	-55.8	-55.6	-52.9

**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



For the quarter, the sector's percentage of loans to total customer deposits was 34.9%, up 0.5 percentage points higher than in the prior quarter, and was lower than the 40.0% ratio reported a year earlier. The quarterly increase was attributed to lower customer deposits, down 1.6% (or $0.4 billion) to $24.6 billion, while loans and advances remained even at $8.6 billion.

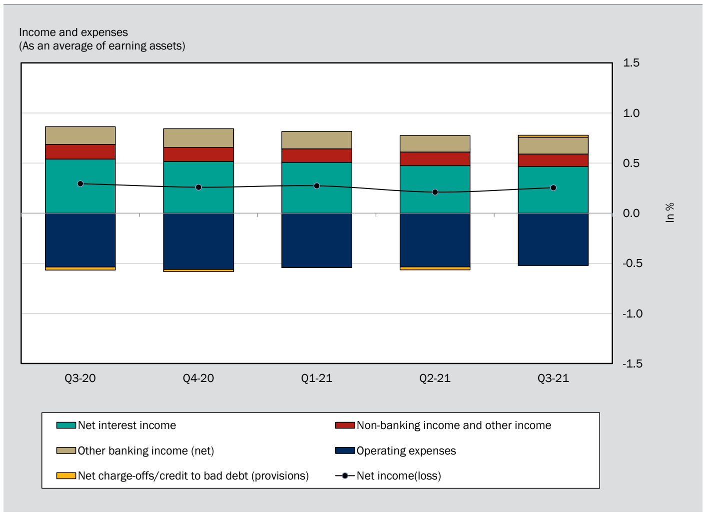
Table VI is a summary of profitability ratios for the sector for the last five quarters.

Table VI: Structure of Income Statement

	2021			2020	
	Sep	Jun	Mar	Dec	Sep
	%	%	%	%	%
Net interest income to total income	61.4	61.2	62.1	61.2	62.7
Annualised net interest income to (average) earning assets	2.0	2.0	2.1	2.1	2.2
Annualised interest income to (average) earning assets	2.3	2.3	2.4	2.5	2.5
Banking income to total income	83.5	82.5	83.4	83.4	83.1
Non-interest income to total income	38.6	38.8	37.9	38.8	37.3
Non-interest expenses to total income (efficiency ratio)	66.4	72.8	66.5	69.3	65.9
Personnel expenses to non-interest expenses	54.7	50.0	51.1	50.5	57.2
RoA	0.2	0.2	0.3	0.2	0.3
RoA (annualised)	1.0	0.8	1.1	1.0	1.2
RoE	3.1	2.4	3.1	2.8	3.0
RoE (annualised)	12.8	10.0	12.8	11.6	12.6

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



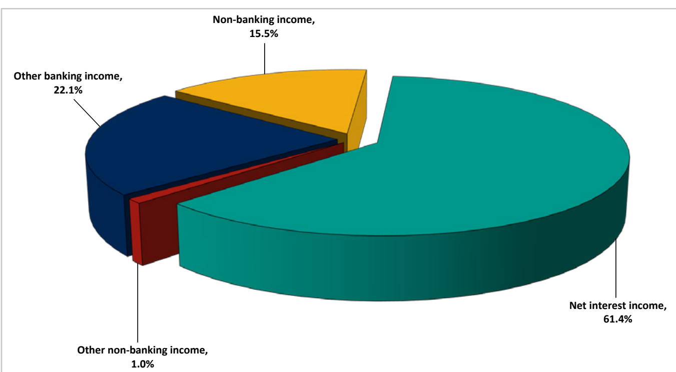
BANKING SECTOR PROFITABILITY

The after-tax net income amounted to $64.9 million, an increase of 25.0% (or $12.9 million) from the prior quarter. Net interest income grew by 1.0% (or $1.2 million) to $119.9 million compared with the previous quarter. Non-interest income remained at $75.3 million. As a result, total income rose slightly to $195.3 million, representing a 0.6% (or $1.2 million) increase from the total income reported in the prior quarter. The total operating expenses were slightly higher, up 0.7% to $135.0 million for the quarter. Total expenses for the quarter were $129.7 million as the increase in operating expenses was offset by a credit of $5.3 million due to a release of provisions. Overall, total expenses decreased by 8.3% or $11.6 million.

The efficiency ratio improved during the quarter, falling by 6.4 percentage points to 66.4% due to the decline in total expenses as total income increased.

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

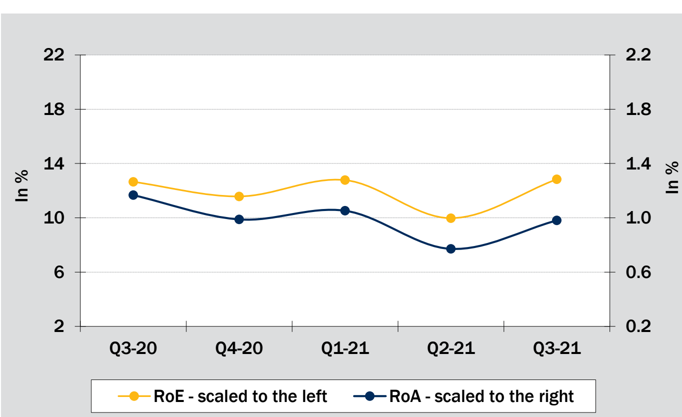


Chart IX: Quarterly RoE and RoA

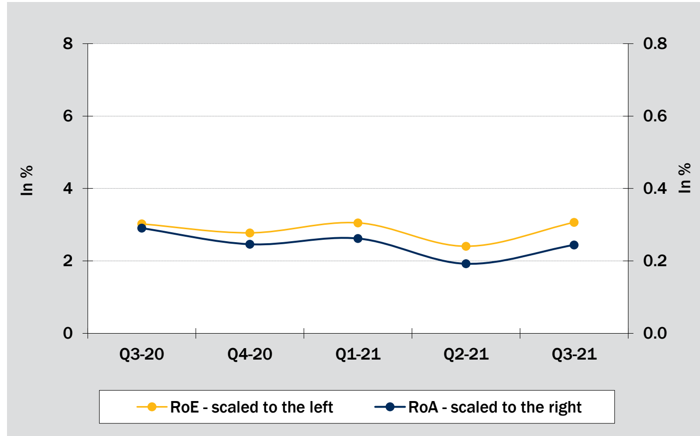
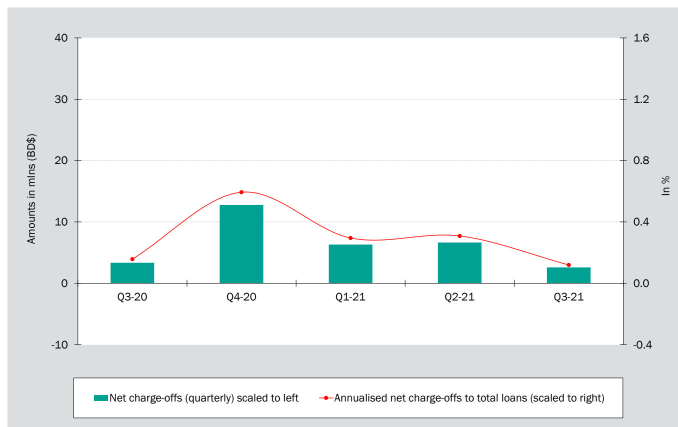


Chart X: Net Charge-off Amount and Proportion of Annualised Charge-offs to Loans



During the quarter, the amount of uncollectible loans (net of recoveries) written-off totalled $2.6 million, down 60.6% from write-offs reported in the prior quarter. The proportion of annualised net charge-offs to total loans remained low at 0.1% over the quarter.

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

Table VII: FX Balance Sheet

(BD$ billions)	2021			2020		Change (In %)	
	Sep	Jun	Mar	Dec	Sep	QoQ	YoY
Cash	0.1	0.1	0.1	0.1	0.1	–	–
Deposits (interbank)	5.4	5.0	3.5	3.8	3.2	8.0	**68.8**
Loans and advances	5.6	5.6	5.5	5.6	5.4	–	3.7
Investments	12.4	13.2	12.5	12.3	11.6	-6.1	6.9
Other assets	0.1	0.4	0.4	0.3	0.3	-75.0	-66.7
Total assets	23.5	24.3	22.0	22.1	20.6	-3.3	14.1
Deposit liabilities	20.6	21.1	18.9	19.0	17.5	-2.4	17.7

FX assets fell by 3.3% (or $0.8 billion) to $23.5 billion during the quarter, while growing by 14.1% (or $2.9 billion) over the past year.

FX customer deposit liabilities declined by 2.4% (or $0.5 billion) to $20.6 billion over the quarter, which were up 17.7% (or $3.1 billion) compared to the same quarter of last year. The quarterly decrease was mainly due to the decline in FX saving deposits, down 5.0% (or $0.3 billion) to $5.7 billion followed by FX demand deposits, down 1.7% (or $0.2 billion) to $11.6 billion. FX time deposits were unchanged at $3.3 billion over the same period.

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	
	Sep	Jun	Mar	Dec	Sep
	%	%	%	%	%
FX-denominated assets to total assets	86.4	87.6	86.5	86.3	85.4
FX-denominated loans to total loans	65.2	65.1	64.7	64.7	63.7
FX-denominated deposits to total deposits	84.0	84.3	82.8	83.3	82.5
Changes in FX assets	-3.3	10.2	-0.2	7.3	2.8
Changes in FX loans and advances	0.0	1.8	-0.8	3.3	-5.1
Changes in FX customer deposits	-2.4	11.6	-0.8	8.6	1.7

Table IX: Net FX Positions

(BD$ billions)	2021			2020	
	Sep	Jun	Mar	Dec	Sep
Total FX assets	23.5	24.3	22.0	22.1	20.6
Less: other assets	0.1	0.4	0.4	0.3	0.3
Less: FX loans to residents	0.9	0.9	0.9	1.3	1.3
Net FX assets	22.5	23.0	20.7	20.5	19.0
FX liabilities*	20.9	21.3	19.1	19.2	17.8
Add: BD$ deposits of non-residents	0.1	0.1	0.1	0.1	0.1
Net FX liabilities	21.0	21.4	19.2	19.3	17.9
Net FX position	1.5	1.6	1.5	1.2	1.1

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

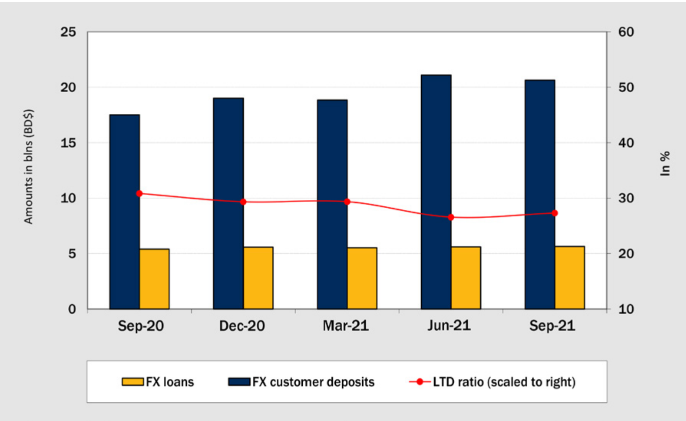
Table X: Liquidity Indicators (FX Positions)

	2021			2020	
	Sep	Jun	Mar	Dec	Sep
	%	%	%	%	%
Cash and cash equivalents to total assets	23.1	20.9	16.3	17.7	15.9
Cash and cash equivalents to total deposit liabilities	26.3	24.1	19.1	20.6	18.6
LTD ratio	27.3	26.6	29.4	29.3	30.8
Loans to total assets	24.0	23.1	25.1	25.3	26.3
Funding gap*	-63.7	-63.8	-60.5	-60.9	-58.9

**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 deposit ratio increased to 27.3%, up from 26.6% over the prior quarter. FX loans and advances remained at $5.6 billion during the quarter compared to the decrease in FX customer deposits, down 2.4% (or $0.5 billion) to $20.6 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 (Unconsolidated)

(BD$ billions)	2021			2020		Change (In %)	
	Sep	Jun	Mar	Dec	Sep	QoQ	YoY
Loans and advances	3.1	3.1	3.1	3.2	3.2	–	-3.1
Total assets	3.9	3.9	3.9	4.0	4.0	–	-2.5
Deposit liabilities	3.9	3.9	3.9	3.8	3.7	–	5.4

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

There was no change in the BD$ balance sheet from the previous quarter.

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

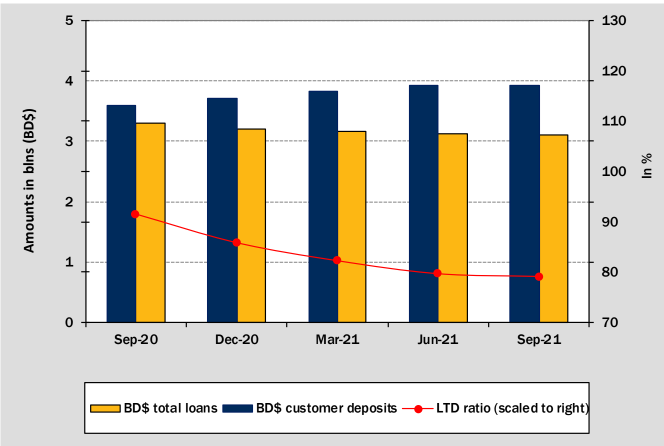
Table XII: Liquidity Indicators (BD$ Positions)

	2021			2020	
	Sep	Jun	Mar	Dec	Sep
	%	%	%	%	%
Cash and cash equivalents to total assets	2.2	1.9	1.9	2.1	1.5
Cash and cash equivalents to total deposit liabilities	2.2	1.9	1.9	2.1	1.6
LTD ratio	79.0	79.3	79.8	82.4	86.0
Loans to total assets	79.3	79.2	79.8	79.3	80.2
Funding gap to total assets*	-21.1	-20.7	-20.2	-17.0	-13.1

**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 has steadily declined over the last four quarters, falling by 0.3 percentage points to 79.0% for the quarter and down 7.0 percentage points from a year earlier. Domestic customer deposit growth has been steady over the past year, while lending remains stagnant over the same period.

**Calculated as the difference between loans and advances and deposit liabilities (Table XI).*

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	
	Sep	Jun	Mar	Dec	Sep
Notes and coins in circulation	194	182	170	177	164
Deposit liabilities	3,929	3,923	3,921	3,830	3,717
Banks and deposit companies	**4,123**	**4,105**	**4,091**	**4,007**	**3,881**
Less: cash at banks and deposit companies	69	59	48	53	45
BD$ money supply	**4,054**	**4,046**	**4,043**	**3,954**	**3,836**
% growth on previous period	0.2	0.1	2.3	3.1	3.2
% growth YoY	5.7	8.8	11.5	11.8	8.2

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

The domestic money supply remains flat at $4.0 billion, matching the prior quarter, and up 5.7% (or $218 million) over the same quarter of last year.

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.

Bank of England (BoE)

In July, the BoE Financial Policy Committee released its July financial stability report. The report covers the outlook for United Kingdom (UK) financial stability, including its assessment of the resilience of the UK financial systems and the main risks to UK financial stability.

https://www.bankofengland.co.uk/-/media/boe/files/financial-stability-report/2021/july-2021.pdf

Bank for International Settlements (BIS)

In July, the BIS published its paper on the limits of stress-test based bank regulation. The paper examines how capital regulation based on potentially inaccurate assessments affects banks' incentives to improve their risk profile, and derive the attendant optimal regulation.

https://www.bis.org/publ/work953.pdf

European Banking Authority (EBA)

In September, the EBA published its Basel III monitoring report based on data as of 31 December, 2020. The report provides an assessment of the impact of the full implementation of final Basel III reforms on European Union banks.

https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2021/1020673/EBA%20Report%20on%20Basel%20III%20Monitoring%20%28data%20as%20of%2031%20December%202020%29.pdf

In September, the EBA published a report on the use of digital platforms in the European Union's banking and payments sectors.

https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2021/1019865/EBA%20Digital%20platforms%20report%20-%20210921.pdf

Financial Stability Board (FSB)

In September, the FSB released its financial stability surveillance framework. This report describes the framework used by the FSB to identify and assess global financial system vulnerabilities.

https://www.fsb.org/wp-content/uploads/P300921.pdf

GLOSSARY

Annualised is expressing (a quantity such as an interest rate, profit and 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 RWA. 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 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 all interest earned 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 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 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 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 CET1 and Tier 2 capital net of applicable total capital deductions.

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 (net) regulatory capital divided by total RWA.

Risk-Weighted Assets (RWA) refer to a concept developed by the Basel Committee on Banking Supervision 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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