BMA
BERMUDA MONETARY AUTHORITY

Quarterly Banking Digest

Q4-2022

RECENT EVENTS IN THE BANKING INDUSTRY

- Severe distress experienced by certain banks on both sides of the Atlantic has caused financial turmoil in the banking sector, and heightened liquidity risks. The Authority has implemented an enhanced monitoring programme, and the banking sector continues to accumulate data to assess the impact of these recent events.

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 (RWAs), 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 increased by 2.0% (or $0.5 billion) to $26.0 billion during Q4-2022. This growth is reflected in the increase in interbank deposits (by $0.9 billion) and partially offset by the decline in investments.
- The banking sector's capital position remains above the minimum capital requirements and buffers. At the end of Q4-2022, the Risk Asset Ratio (RAR) and CET1 ratio were 24.7% and 22.4%, respectively with both ratios 1.2 percentage points higher than the previous quarter. Additionally, the leverage ratio steadily improved throughout 2022, rising 0.4 percentage points to 7.1%.
- Sector earnings remained positive, as the banking sector reported a net after-tax income of $136.0 million for the fourth quarter, representing a 38.9% increase from the previous quarter. Banks continue to benefit from the rising interest rate environment, contributing to higher net interest income.
- The ratio of Non-Performing Loans (NPL) to total loans fell to 5.1% at the end of the fourth quarter from 5.3% the previous quarter, while the ratio of provisions to non-performing loans remained flat at 26.8% over the same period.

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
	Dec	Sep	Jun	Mar	Dec
Capital position	%	%	%	%	%
Basel III – RAR	24.7	23.5	22.5	22.8	22.8
Basel III – CET1 ratio (minimum 7.0%)	22.4	21.2	20.3	20.6	20.5
Basel III – Leverage ratio (BMA minimum 5.0%)	7.1	6.7	6.3	6.2	6.5
Liquidity					
Cash and cash equivalents to total deposit liabilities	18.0	14.5	18.2	26.1	20.9
Loan-To-Deposit (LTD) ratio	38.4	38.7	35.1	32.7	35.9
Funding gap*	-55.7	-55.3	-58.8	-61.0	-57.6
Profitability					
Net interest income to interest income	85.4	91.8	90.7	89.3	90.2
Return on Assets (RoA)	0.5	0.4	0.3	0.2	0.2
RoA (annualised)	2.2	1.6	1.3	0.9	0.8
Return on Equity (RoE)	7.4	5.8	4.9	3.4	2.6
RoE (annualised)	33.1	25.4	21.2	14.3	10.9
Loan book					
Provisions to NPLs	26.8	26.8	26.8	27.4	29.0
NPLs to total loans	5.1	5.3	5.9	6.1	5.6
NPLs to regulatory capital	21.9	23.9	26.0	25.7	24.3
Other					
Change in Bermuda Dollar (BD$) money supply Quarter-over-Quarter (QoQ)	-2.1	-1.8	-0.3	0.9	1.0
Change in assets (QoQ)	2.0	-4.5	-4.6	4.5	-1.7
Change in RWAs (QoQ)	1.0	-2.1	-1.3	-1.9	-1.5
Change in customer deposits (QoQ)	2.2	-5.0	-4.7	5.0	-1.8

**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	
	Dec	Sep	Jun	Mar	Dec	QoQ	YoY
Assets						%	%
Cash	0.1	0.1	0.1	0.1	0.1	–	–
Deposits (interbank)	4.1	3.2	4.3	6.5	4.9	28.1	-16.3
Loans and advances (net)	9.0	8.9	8.5	8.3	8.7	1.1	3.4
Investments	12.0	12.5	13.1	12.4	12.4	-4.0	-3.2
Other assets	0.8	0.8	0.7	0.7	0.7	–	14.3
Total assets	**26.0**	**25.5**	**26.7**	**28.0**	**26.8**	**2.0**	**-3.0**
Liabilities							
Savings deposits	7.0	7.4	8.0	8.1	7.9	-5.4	-11.4
Demand deposits	12.2	11.8	12.4	13.4	12.4	3.4	-1.6
Time deposits	4.3	3.8	3.8	3.9	3.9	13.2	10.3
Total deposits	**23.5**	**23.0**	**24.2**	**25.4**	**24.2**	**2.2**	**-2.9**
Other liabilities	0.7	0.8	0.7	0.7	0.5	-12.5	40.0
Total liabilities	**24.2**	**23.8**	**24.9**	**26.1**	**24.7**	**1.7**	**-2.0**
Equity and subordinated debt	1.8	1.7	1.8	1.9	2.1	5.9	-14.3
Total liabilities and equity	**26.0**	**25.5**	**26.7**	**28.0**	**26.8**	**2.0**	**-3.0**

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

Total assets grew by 2.0% (or $0.5 billion) from the previous quarter due to increases in interbank deposits (up 28.1% or $0.9 billion) and loans and advances (up 1.1% or $0.1 billion). This was partly offset by the decline in investments (down 4.0% or $0.5 billion) over the same period.

YoY, total assets contracted by 3.0% (or $0.8 billion), as reflected in the declines in interbank deposits (down 16.3% or $0.8 billion) and investments (down 3.2% or $0.4 billion), partly offset by growth in loans and advances and other assets over the same period.

Total liabilities increased by 1.7% (or $0.4 billion) from the previous quarter, mainly driven by the net increase in customer deposits, up 2.2% (or $0.5 billion), from the prior quarter.

YoY, total liabilities decreased by 2.0% (or $0.5 billion), primarily due to the net decline in customer deposits. Savings deposits fell by 11.4% (or $0.9 billion), and demand deposits decreased by 1.6% (or $0.2 billion). Conversely, time deposits grew by 10.3% (or $0.4 billion), offsetting some of the YoY declines in total liabilities.

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
	Dec	Sep	Jun	Mar	Dec
Asset allocation	%	%	%	%	%
Cash	0.4	0.4	0.4	0.4	0.4
Investments	46.2	49.0	49.1	44.3	46.3
Loans and advances	34.6	34.9	31.8	29.6	32.5
Deposits (interbank)	15.8	12.5	16.1	23.2	18.3
Other assets	3.1	3.1	2.6	2.5	2.6
Deposits allocation					
Savings	29.8	32.2	33.1	31.9	32.6
Demand	51.9	51.3	51.2	52.8	51.3
Time	18.3	16.5	15.7	15.3	16.1
Capital position					
Basel III – CET1 ratio (minimum 7.0%)	22.4	21.2	20.3	20.6	20.5
Basel III – RAR	24.7	23.5	22.5	22.8	22.8
Basel III – Leverage ratio	7.1	6.7	6.3	6.2	6.5

CAPITAL ADEQUACY

Capital ratios remain above the minimum capital requirements and the sector ratios reached their highest level for the year in the fourth quarter. In the fourth quarter, the RAR and CET1 ratio increased QoQ by 1.2 percentage points to 24.7% and 22.4%, respectively. The increase is due to higher capital levels driven by profitability during the period that are held by the banking sector relative to RWAs. Total regulatory capital increased by 5.9% to $2.1 billion, while RWAs grew by 1.0% to $8.5 billion.

The sector's leverage ratio continued to trend upward throughout 2022, reaching its highest level at 7.1% in the fourth quarter of 2022.

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

Chart I: RAR and Leverage Ratio

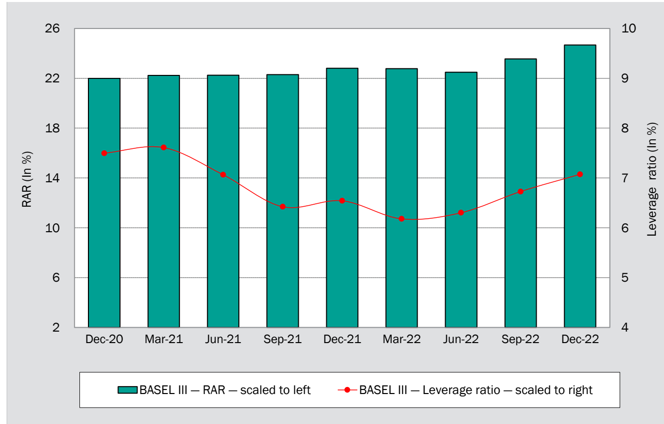
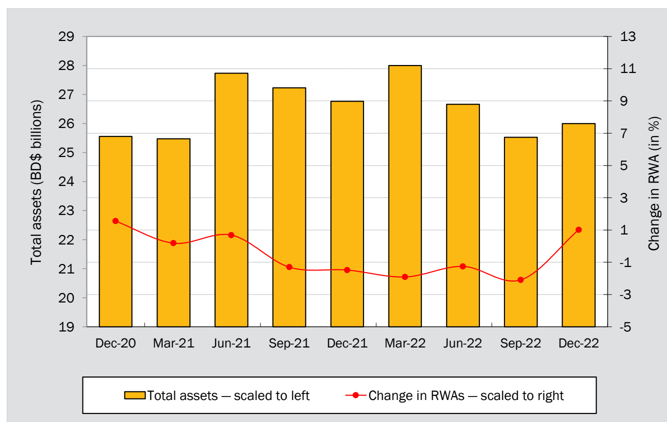


Chart II reflects the movement in total assets and the change in RWAs over the past two years.

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.

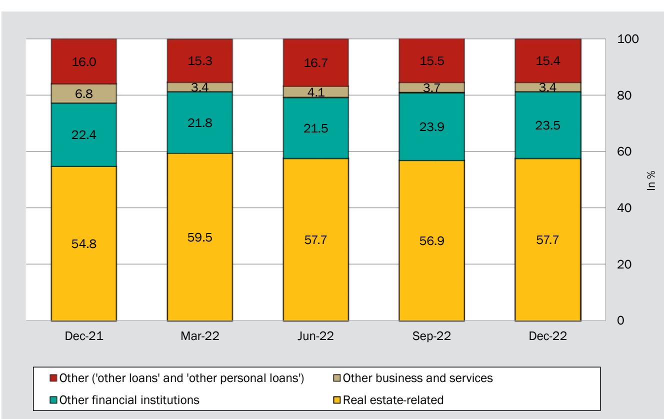
Table IV: Quality of the Loan Book

	2022				2021
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
Loans and advances QoQ growth rate	1.1	4.7	2.4	-4.6	1.2
Residential mortgages to total loans	54.3	53.5	57.1	58.8	57.2
Loan impairments					
NPLs to total loans (net)	5.1	5.3	5.9	6.1	5.6
NPLs to regulatory capital	21.9	23.9	26.0	25.7	24.3
Net charge-offs to loans (annualised)	0.2	0.2	0.3	0.3	0.1
Loan provisioning					
Provisions to gross NPLs	26.8	26.8	26.8	27.4	29.0
Specific provisions to gross NPLs	26.0	25.0	25.5	26.6	26.1
Provisions to total loans (net)	1.8	1.8	2.0	2.2	2.2

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

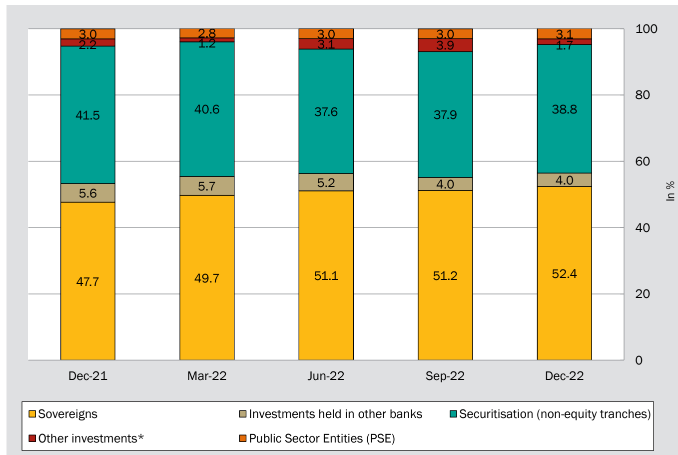


Total loans and advances amounted to $9.0 billion at the end of the fourth quarter. The percentage of loans to the real estate sector increased slightly to 57.7% of total loans outstanding at the end of the quarter. Loans to other financial institutions fell by 0.4 percentage points to 23.5%, and the proportion of loans to the remaining sectors also experienced marginal declines.

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 sector increased its allocation of holdings in sovereign investments by 1.2 percentage points to 52.4%, the highest level in 2022. Investments in securitised (non-equity tranches) grew by 0.9 percentage points to 38.8% for the quarter.

LIQUIDITY POSITION

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

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

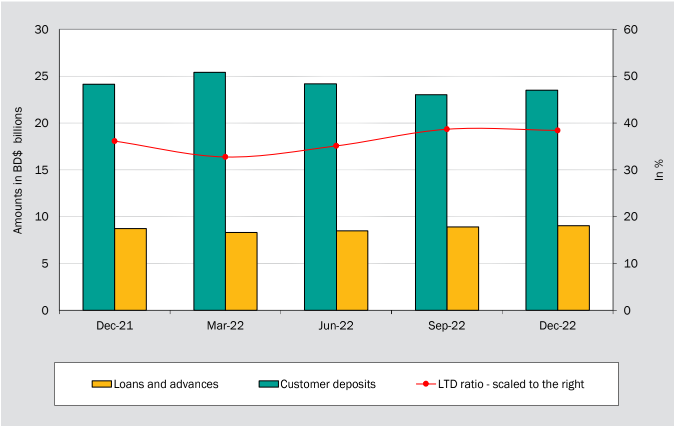
Table V: Liquidity Indicators

	2022				2021
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
Cash and cash equivalents to total assets	16.2	13.1	16.5	23.7	18.8
Cash and cash equivalents to total deposit liabilities	18.0	14.5	18.2	26.1	20.9
LTD ratio	38.4	38.7	35.1	32.7	35.9
Loans-to-total assets	34.6	34.9	31.8	29.6	32.5
Funding gap*	-55.7	-55.3	-58.8	-61.0	-57.6

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

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

Chart V: Total Loans and Deposits



The banking sector's LTD ratio remained stable QoQ but increased by 2.5 percentage points YoY to close at 38.4%.

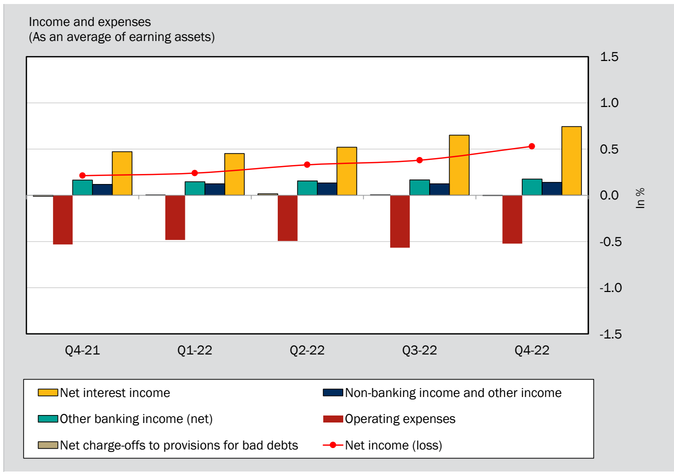
Table VI is a summary of profitability ratios for the sector for the last five quarters.

Table VI: Structure of Income Statement

	2022				2021
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
Net interest income to total income	70.3	69.0	64.4	62.3	62.6
Annualised net interest income to (average) earning assets	3.2	2.8	2.3	2.0	2.1
Annualised interest income to (average) earning assets	3.7	3.0	2.5	2.3	2.3
Banking income to total income	86.8	86.7	83.6	82.7	84.4
Non-interest income to total income	29.7	31.0	35.6	37.7	37.4
Non-interest expenses to total income (efficiency ratio)	49.9	59.7	59.1	66.8	71.8
Personnel expenses to non-interest expenses	52.1	45.6	54.2	51.6	47.2
RoA	0.5	0.4	0.3	0.2	0.2
RoA (annualised)	2.2	1.6	1.3	0.9	0.8
RoE	7.4	5.8	4.9	3.4	2.6
RoE (annualised)	33.1	25.4	21.2	14.3	10.9

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

The sector's net after-tax income for Q4-2022 totalled $136.0 million, an increase of 38.9% (or $38.1 million) from the prior quarter. This was primarily driven by the increase in net interest income, which amounted to $191.8 million, a 13.2% (or $22.3 million) increase compared to the prior quarter.

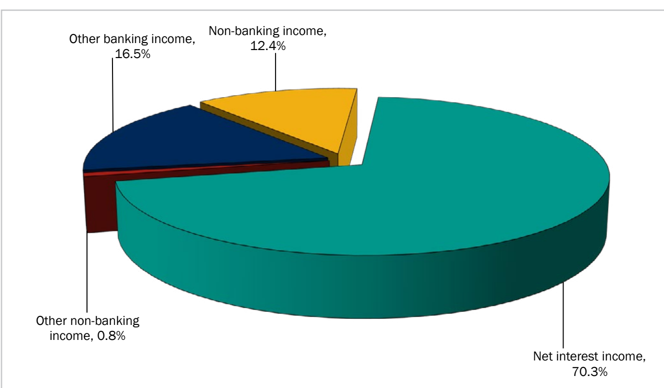
Non-interest income totalled $81.0 million, up 6.5% (or $4.9 million) from last quarter. Total income amounted to $272.8 million, an 11.1% (or $27.3 million) increase from the prior quarter.

Total expenses for the quarter amounted to $136.1 million, a decline of 7.2% (or $10.6 million) compared to the prior quarter.

The sector's efficiency ratio improved to 49.9%, down 9.8 percentage points from the prior quarter.

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: Quarterly RoE and RoA

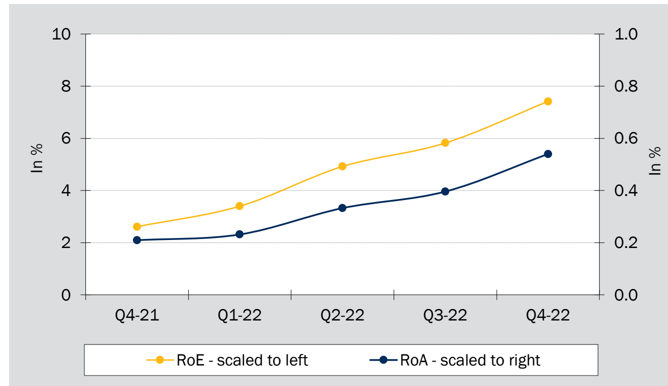


Chart IX: Annualised RoE and RoA

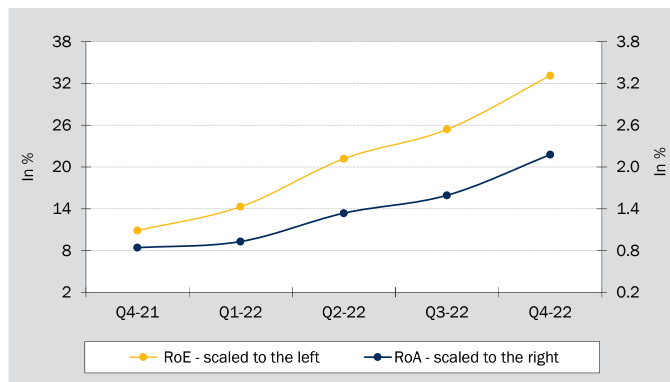


Chart X: Net Charge-off and Proportion of Annualised Charge-offs to Total Loans

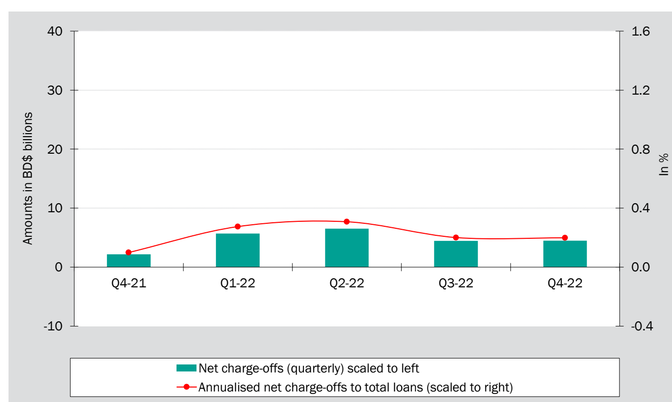


Table VII shows the aggregate FX balance sheet of the sector over the last five quarters.

Table VII: FX Balance Sheet Extract

(BD$ billions)	2022				2021	Change (in %)	
	Dec	Sep	Jun	Mar	Dec	QoQ	YoY
Cash	0.1	0.1	0.1	0.1	0.1	–	–
Deposits (interbank)	4.0	3.2	4.2	6.5	4.9	25.0	-18.4
Loans and advances	6.2	6.0	5.6	5.4	5.7	3.3	8.8
Investments	11.9	12.5	13.0	12.3	12.3	-4.8	-3.3
Other assets	0.5	0.4	0.4	0.4	0.3	25.0	66.7
Total assets	22.7	22.2	23.3	24.7	23.4	2.3	-3.0
Deposit liabilities	19.7	19.1	20.1	21.4	20.2	3.1	-2.5

FX assets amounted to $22.7 billion, a 2.3% (or $0.5 billion) increase from the previous quarter.

FX customer deposit liabilities amounted to $19.7 billion, an increase of 3.1% (or $0.6 billion) from the previous quarter and down 2.5% (or $0.5 billion) compared to a year ago. The QoQ increase was driven by higher FX demand deposits which were up 5.0% (or $0.5 billion) to $10.5 billion, and time deposits which were up 14.3% (or $0.5 billion) to $3.7 billion. FX savings deposits fell by 6.8% (or $0.4 billion) to $5.5 billion.

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

Table VIII: FX Positions

	2022				2021
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
FX-denominated assets to total assets	87.3	87.1	87.3	88.2	87.2
FX-denominated loans to total loans	68.9	67.4	65.9	65.1	65.9
FX-denominated deposits to total deposits	83.8	83.0	83.1	84.3	83.6
Changes in FX assets	2.3	-4.7	-5.7	5.6	-0.4
Changes in FX loans and advances	3.3	7.1	3.7	-5.3	1.8
Changes in FX customer deposits	3.1	-5.0	-6.1	5.9	-1.9

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

Table IX: Net FX Positions

(BD$ billions)	2022				2021
	Dec	Sep	Jun	Mar	Dec
Total FX assets	22.7	22.2	23.3	24.7	23.4
Less: other assets	0.5	0.4	0.4	0.4	0.3
Less: FX loans to residents	0.9	0.9	0.9	0.9	0.9
Adjusted FX assets	21.3	20.9	22.0	23.4	22.2
FX liabilities*	20.0	19.6	20.6	21.8	20.4
Add: BD$ deposits of non-residents	0.1	0.1	0.1	0.1	0.1
Adjusted FX liabilities	20.1	19.7	20.7	21.9	20.5
Net FX position	1.2	1.2	1.3	1.5	1.7

**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.

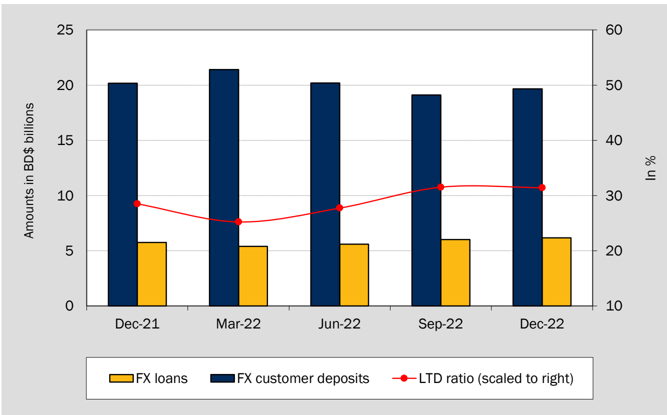
Table X: Liquidity Indicators (FX Positions)

	2022				2021
	Dec	Sep	Jun	Mar	Dec
	%	%	%	%	%
Cash and cash equivalents to total assets	18.5	14.9	18.5	26.7	21.2
Cash and cash equivalents to total deposit liabilities	21.3	17.3	21.4	30.8	24.5
LTD ratio	31.5	31.4	27.9	25.2	28.2
Loans to total assets	27.3	27.0	24.0	21.9	24.3
Funding gap*	-59.5	-59.0	-62.6	-65.0	-61.8

**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



BD$ BALANCE SHEET

Table XI shows an extract of 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 %)	
	Dec	Sep	Jun	Mar	Dec	QoQ	YoY
Loans and advances	3.0	3.0	3.0	3.0	3.1	–	-3.2
Total assets	3.6	3.6	3.7	3.7	3.9	–	-7.7
Deposit liabilities	3.8	3.9	4.0	4.0	4.0	-2.6	-5.0

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.

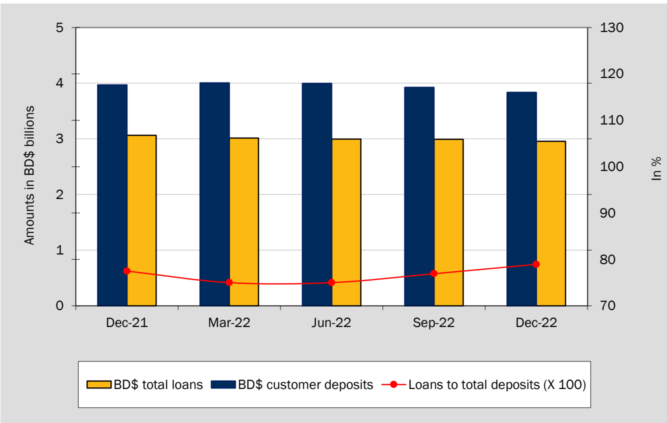
Table XII: Liquidity Indicators (BD$ Positions)

	2022				2021
	Sep	Jun	Mar	Dec	Dec
	%	%	%	%	%
Cash and cash equivalents to total assets	2.4	2.4	2.4	2.1	2.6
Cash and cash equivalents to total deposit liabilities	2.3	2.2	2.2	1.9	2.5
LTD ratio	78.9	76.9	75.0	75.0	77.5
Loans to total assets	83.3	83.3	81.4	81.1	79.5
Funding gap*	-22.2	-25.6	-27.0	-27.0	-23.3

**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 domestic LTD ratio climbed in the fourth quarter by 2.0 percentage points to 78.9%. The increase was primarily due to lower customer deposits, down 2.6% to $3.8 billion, compared to the previous quarter, while loans and advances remained unchanged at $3.0 billion.

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
	Dec	Sep	Jun	Mar	Dec
Notes and coins in circulation	193	188	190	187	201
Deposit liabilities	3,837	3,922	3,996	4,004	3,970
Banks and deposit companies	4,030	4,110	4,186	4,191	4,171
Less: cash at banks and deposit companies	70	66	66	60	76
BD$ money supply	3,960	4,044	4,120	4,131	4,095
% Growth on previous period	-2.1	-1.8	-0.3	0.9	1.0
% Growth YoY	-3.3	-0.2	1.8	2.2	3.6

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

The domestic money supply within the local economy fell by 2.1% to $4.0 billion for the quarter. The decline was due to the fall in local customer deposits, down 2.6% to $3.8 billion. Notes and coins in circulation were up 2.7% to $193 million, driven by the increase in currency flow during the seasonal period.

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 Bermuda Monetary Authority (Authority or BMA).

Basel Committee on Banking Supervision (BCBS)

In December, the BCBS published its final prudential standard on banks' cryptoasset exposures and the committee's work programme and strategic priorities for 2023-24.

https://www.bis.org/bcbs/publ/d545.pdf

The BCBS issued responses to frequently asked questions to clarify how climate-related financial risks may be captured in the existing Basel Framework.

https://www.bis.org/bcbs/publ/d543.pdf

In November, the BCBS released a newsletter about bank exposures to non-bank financial intermediaries. It shows that this sector continues to grow and has the potential to cause financial stability concerns, though its size and the associated risks vary amongst member jurisdictions.

https://www.bis.org/publ/bcbs_nl31.htm

Bank for International Settlements (BIS)

In December, the BIS published a report that provides a holistic evaluation of the impact and efficacy of the Basel III reforms and how they have affected bank resilience and systemic risk, as well as assessing the possible negative side effects on banks' lending and capital costs.

https://www.bis.org/bcbs/publ/d544.pdf

In October, the BIS published a report that examines whether the Basel standards are operating in a way that enables the banking sector to dampen rather than amplify shocks; a subsequent broader report is expected to provide a more holistic evaluation of the reforms.

https://www.bis.org/bcbs/publ/d542.pdf

European Central Bank (ECB)

In November, the ECB published the results of its 2022 thematic review on climate-related and environmental risks.

https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.thematicreviewcerreport112022~2eb322a79c.en.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 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).

BMA House • 43 Victoria Street • Hamilton HM 12 Bermuda
P.O. Box HM 2447 • Hamilton HM JX Bermuda
tel: (441) 295 5278 • fax: (441) 292 7471
email: enquiries@bma.bm • website: www.bma.bm