BMA
BERMUDA MONETARY AUTHORITY

Quarterly Banking Digest

Q1-2023

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 contracted by 6.2% (or $1.6 billion) to $24.4 billion for the quarter. This decline is reflected entirely in the decrease in interbank deposits (down 31.7%) and investments (down 2.5%) for the quarter.
- The banking sector's capital position remains well above the minimum regulatory requirements and buffers. At the end of Q1-2023, the Risk Asset Ratio (RAR) and CET1 ratio were 26.3% and 24.0%, respectively with both ratios 1.6 percentage points higher than the previous quarter. The leverage ratio improved to 7.8% over the quarter.
- Sector earnings remained positive as the banking sector reported a net after tax income of $154.2 million, an increase of 13.4% (or $18.2 million) 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 (NPLs) to total loans increased to 5.7% in the first quarter of 2023 from 5.1% the previous quarter, while the ratio of provisions to NPLs fell marginally to 25.8% from the 26.8% the previous 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	2023	2022			
	Mar	Dec	Sep	Jun	Mar
Capital position	%	%	%	%	%
Basel III – RAR	26.3	24.7	23.5	22.5	22.8
Basel III – CET1 ratio (minimum 7.0%)	24.0	22.4	21.2	20.3	20.6
Basel III – Leverage ratio (BMA minimum 5.0%)	7.8	7.1	6.7	6.3	6.2
Liquidity					
Cash and cash equivalents to total deposit liabilities	13.3	18.0	14.5	18.2	26.1
Loan-To-Deposit (LTD) ratio	41.3	38.4	38.7	35.1	32.7
Funding gap*	-52.7	-55.7	-55.3	-58.8	-61.0
Profitability					
Net interest income to interest income	82.3	85.4	91.8	90.7	89.3
Return on Assets (RoA)	0.7	0.5	0.4	0.3	0.2
RoA (annualised)	2.6	2.2	1.6	1.3	0.9
Return on Equity (RoE)	7.9	7.4	5.8	4.9	3.4
RoE (annualised)	35.6	33.1	25.4	21.2	14.3
Loan book					
Provisions to NPLs	25.8	26.8	26.8	26.8	27.4
NPLs to total loans	5.7	5.1	5.3	5.9	6.1
NPLs to regulatory capital	22.0	21.9	23.9	26.0	25.7
Other					
Change in Bermuda Dollar (BD$) money supply Quarter-over-Quarter (QoQ)	1.4	-2.1	-1.8	-0.3	0.9
Change in assets (QoQ)	-6.2	2.0	-4.5	-4.6	4.5
Change in RWAs (QoQ)	-3.7	1.0	-2.1	-1.3	-1.9
Change in customer deposits (QoQ)	-7.2	2.2	-5.0	-4.7	5.0

**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)	2023	2022				Change	
	Mar	Dec	Sep	Jun	Mar	QoQ	YoY
Assets						%	%
Cash	0.1	0.1	0.1	0.1	0.1	–	–
Deposits (interbank)	2.8	4.1	3.2	4.3	6.5	-31.7	-56.9
Loans and advances (net)	9.0	9.0	8.9	8.5	8.3	–	8.4
Investments	11.7	12.0	12.5	13.1	12.4	-2.5	-5.6
Other assets	0.8	0.8	0.8	0.7	0.7	–	14.3
Total assets	24.4	26.0	25.5	26.7	28.0	-6.2	-12.9
Liabilities							
Savings deposits	7.1	7.0	7.4	8.0	8.1	1.4	-12.3
Demand deposits	10.3	12.2	11.8	12.4	13.4	-15.6	-23.1
Time deposits	4.4	4.3	3.8	3.8	3.9	2.3	12.8
Total deposits	21.8	23.5	23.0	24.2	25.4	-7.2	-14.2
Other liabilities	0.6	0.7	0.8	0.7	0.7	-14.3	-14.3
Total liabilities	22.4	24.2	23.8	24.9	26.1	-7.4	-14.2
Equity and subordinated debt	2.0	1.8	1.7	1.8	1.9	11.1	5.3
Total liabilities and equity	24.4	26.0	25.5	26.7	28.0	-6.2	-12.9

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

Total assets for the banking sector fell by 6.2% ($1.6 billion) to $24.4 billion during the quarter. The decline is evident in the decrease in interbank deposits (down 31.7% or $1.3 billion) and investments (down 2.5% or $0.3 billion), which are mainly driven by deposit liability outflows.

YoY, total assets contracted by 12.9% (or $3.6 billion), as reflected in the declines in interbank deposits (down 56.9% or $3.7 billion) and investments (down 5.6% or $0.7 billion), partly offset by growth in loans and advances and other assets over the same period.

Deposit liabilities fell by 7.2% (or $1.7 billion) for the quarter to $21.8 billion. The decline was primarily driven by the decrease in demand deposits (down 15.6% or $1.9 billion) for the quarter. This decline was partially offset by the marginal increases in savings and time deposit balances.

YoY, total liabilities decreased by 14.2% (or $3.7 billion), mainly driven by the net decline in customer deposits. Demand deposits fell by 23.1% (or $3.1 billion), and saving deposits fell by 12.3% (or $1.0 billion). Conversely, time deposits grew by 12.8% (or $0.5 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

	2023	2022			
	Mar	Dec	Sep	Jun	Mar
Asset allocation	%	%	%	%	%
Cash	0.4	0.4	0.4	0.4	0.4
Investments	48.0	46.2	49.0	49.1	44.3
Loans and advances	36.9	34.6	34.9	31.8	29.6
Deposits (interbank)	11.5	15.8	12.5	16.1	23.2
Other assets	3.3	3.1	3.1	2.6	2.5
Deposits allocation					
Savings	32.6	29.8	32.2	33.1	31.9
Demand	47.2	51.9	51.3	51.2	52.8
Time	20.2	18.3	16.5	15.7	15.3
Capital position					
Basel III – CET1 ratio (minimum 7.0%)	24.0	22.4	21.2	20.3	20.6
Basel III – RAR	26.3	24.7	23.5	22.5	22.8
Basel III – Leverage ratio	7.8	7.1	6.7	6.3	6.2

CAPITAL ADEQUACY

Capital ratios remain above the minimum capital requirements. The banking sector's total regulatory capital was up 2.7% to $2.1 billion, while RWAs fell by 3.7% to $8.1 billion. RAR increased to 26.3% and CET1 increased to 24.0%.

The sector's leverage ratio continued to rise, up 0.7 percentage points to 7.8% from the previous quarter.

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

Chart I: RAR and Leverage Ratio

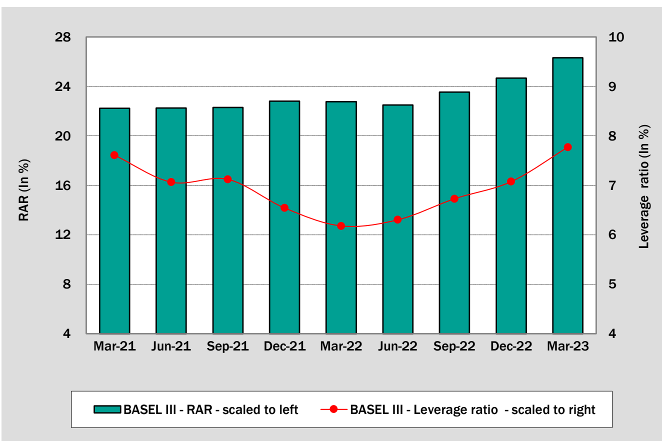
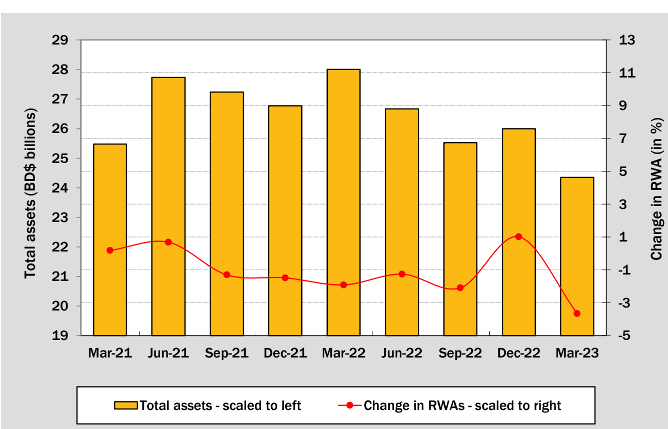


Chart II reflects the movement in total assets and the change in RWAs over the past two years.

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.

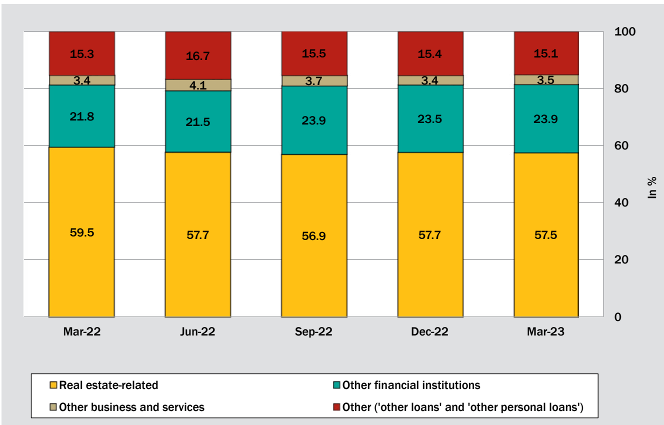
Table IV: Quality of the Loan Book

	2023	2022			
	Mar	Dec	Sep	Jun	Mar
	%	%	%	%	%
Loans and advances QoQ growth rate	0.0	1.1	4.7	2.4	-4.6
Residential mortgages to total loans	54.0	54.3	53.5	57.1	58.8
Loan impairments					
NPLs to total loans (net)	5.7	5.1	5.3	5.9	6.1
NPLs to regulatory capital	22.0	21.9	23.9	26.0	25.7
Net charge-offs to loans (annualised)	0.2	0.2	0.2	0.3	0.3
Loan provisioning					
Provisions to gross NPLs	25.8	26.8	26.8	26.8	27.4
Specific provisions to gross NPLs	24.6	26.0	25.0	25.5	26.6
Provisions to total loans (net)	1.9	1.8	1.8	2.0	2.2

SECTORAL DISTRIBUTION OF LOANS

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

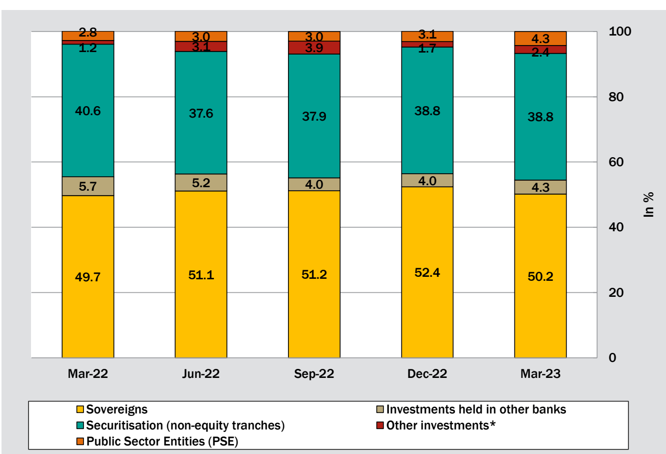
Chart III: Sectoral Distribution of Loans and Advances



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 decreased its allocation of holdings in sovereign investments by 2.2 percentage points to 50.2% in the first quarter of 2023. Investments in securitised (non-equity tranches) remained unchanged at 38.8%, while the allocation to the other categories of investments experienced marginal growth over the same period.

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.

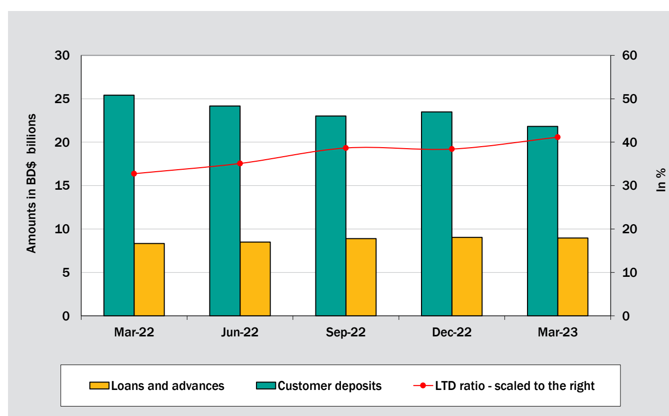
Table V: Liquidity Indicators

	2023	2022			
	Mar	Dec	Sep	Jun	Mar
	%	%	%	%	%
Cash and cash equivalents to total assets	11.9	16.2	13.1	16.5	23.7
Cash and cash equivalents to total deposit liabilities	13.3	18.0	14.5	18.2	26.1
LTD ratio	41.3	38.4	38.7	35.1	32.7
Loans-to-total assets	36.9	34.6	34.9	31.8	29.6
Funding gap*	-52.7	-55.7	-55.3	-58.8	-61.0

**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 rose by 2.9 percentage points to 41.3% QoQ and was 8.6 percentage points higher compared to the same period last year. The quarterly increase was attributed to lower customer deposits (down 7.2% or $1.7 billion) to $21.8 billion, while loans were even at $9.0 billion.

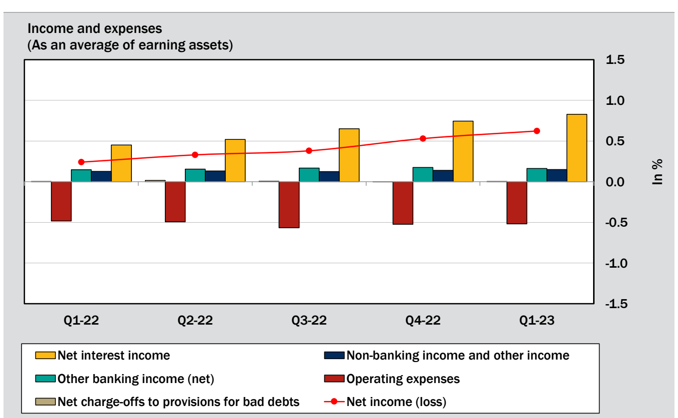
Table VI is a summary of profitability ratios for the sector for the last five quarters.

Table VI: Structure of Income Statement

	2023	2022			
	Mar	Dec	Sep	Jun	Mar
	%	%	%	%	%
Net interest income to total income	72.6	70.3	69.0	64.4	62.3
Annualised net interest income to (average) earning assets	3.4	3.2	2.8	2.3	2.0
Annualised interest income to (average) earning assets	4.1	3.7	3.0	2.5	2.3
Banking income to total income	86.9	86.8	86.7	83.6	82.7
Non-interest income to total income	27.4	29.7	31.0	35.6	37.7
Non-interest expenses to total income (efficiency ratio)	45.4	49.9	59.7	59.1	66.8
Personnel expenses to non-interest expenses	52.3	52.1	45.6	54.2	51.6
RoA	0.7	0.5	0.4	0.3	0.2
RoA (annualised)	2.6	2.2	1.6	1.3	0.9
RoE	7.9	7.4	5.8	4.9	3.4
RoE (annualised)	35.6	33.1	25.4	21.2	14.3

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 amounted to $154.2 million, an increase of 13.4% (or $18.2 million) from the prior quarter. This was primarily driven by the increase in net interest income, which amounted to $205.9 million at the end of the first quarter, a 7.3% (or $14.1 million) increase compared to the prior quarter. Banks continue to benefit from the rising interest rate environment, contributing to higher net interest income.

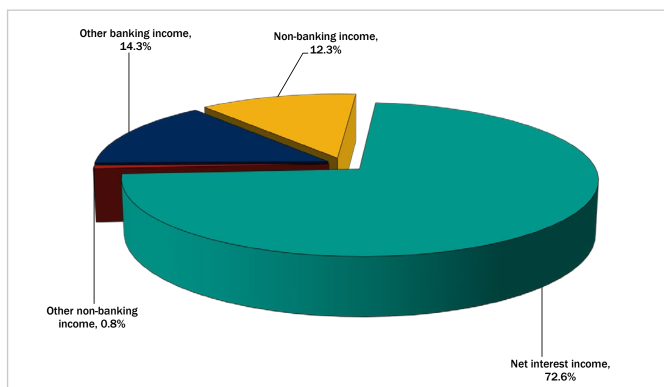
Non-interest income totalled $77.8 million, down 3.9% (or $3.1 million) from last quarter. Total income for the quarter was $283.7 million, representing a 4.0% (or $10.9 million) increase from the prior quarter.

Total expenses for the quarter amounted to $128.9 million, a decline of 5.3% (or $7.2 million) compared to the prior quarter.

The sector's efficiency ratio stood at 45.4%, an improvement of 4.5 percentage points over the previous 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

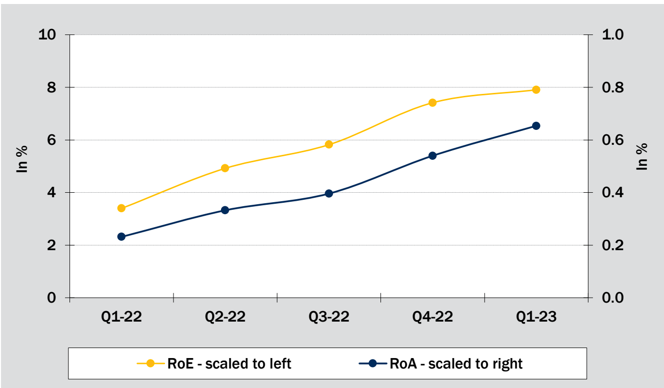


Chart IX: Annualised RoE and RoA

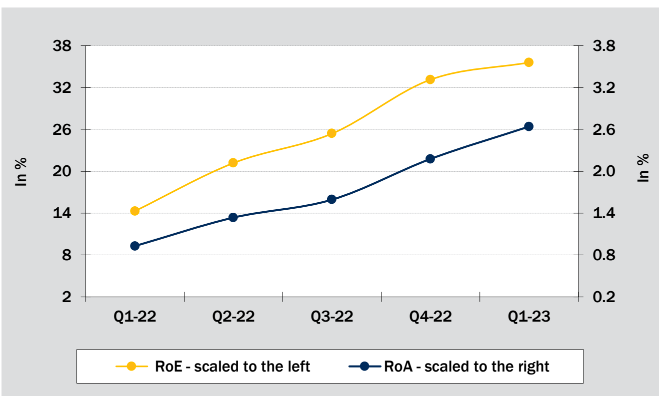


Chart X: Net Charge-off and Proportion of Annualised Charge-offs to Total Loans

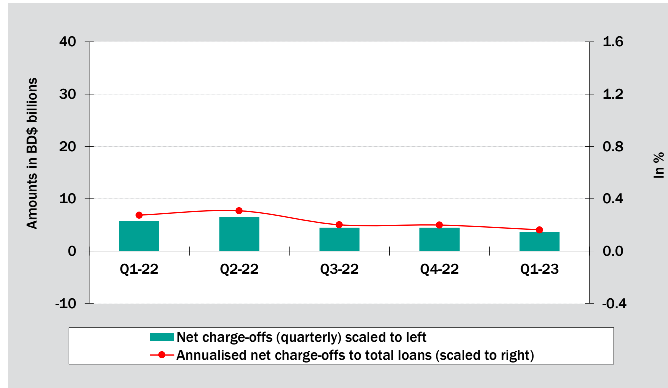


Table VII shows the aggregate FX balance sheet of the sector over the last five quarters.

Table VII: FX Balance Sheet Extract

(BD$ billions)	2023	2022				Change (in %)	
	Mar	Dec	Sep	Jun	Mar	QoQ	YoY
Cash	0.1	0.1	0.1	0.1	0.1	–	–
Deposits (interbank)	2.7	4.0	3.2	4.2	6.5	-32.5	-58.5
Loans and advances	6.2	6.2	6.0	5.6	5.4	–	14.8
Investments	11.7	11.9	12.5	13.0	12.3	-1.7	-4.9
Other assets	0.4	0.5	0.4	0.4	0.4	-20.0	–
Total assets	21.1	22.7	22.2	23.3	24.7	-7.0	-14.6
Deposit liabilities	17.9	19.7	19.1	20.1	21.4	-9.1	-16.4

FX assets stood at $21.1 billion, a 7.0% (or $1.6 billion) decline from the previous quarter.

FX customer deposit liabilities amounted to $17.9 billion, a decrease of 9.1% (or $1.8 billion) from the prior quarter and down 16.4% (or $3.5 billion) compared to the same quarter last year. The quarterly decline was driven by lower FX demand deposits which fell by 17.9% (or $1.9 billion) to $8.7 billion, partly offset by an increase in FX time deposits which grew by 3.1% (or $0.1 billion) to $3.8 billion while FX savings deposits remained unchanged.

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

Table VIII: FX Positions

	2023	2022			
	Mar	Dec	Sep	Jun	Mar
	%	%	%	%	%
FX-denominated assets to total assets	86.5	87.3	87.1	87.3	88.2
FX-denominated loans to total loans	68.9	68.9	67.4	65.9	65.1
FX-denominated deposits to total deposits	82.1	83.8	83.0	83.1	84.3
Changes in FX assets	-7.0	2.3	-4.7	-5.7	5.6
Changes in FX loans and advances	0.0	3.3	7.1	3.7	-5.3
Changes in FX customer deposits	-9.1	3.1	-5.0	-6.1	5.9

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

Table IX: Net FX Positions

(BD$ billions)	2023	2022			
	Mar	Dec	Sep	Jun	Mar
Total FX assets	21.1	22.7	22.2	23.3	24.7
Less: other assets	0.4	0.5	0.4	0.4	0.4
Less: FX loans to residents	0.9	0.9	0.9	0.9	0.9
Adjusted FX assets	19.8	21.3	20.9	22.0	23.4
FX liabilities*	18.2	20.0	19.6	20.6	21.8
Add: BD$ deposits of non-residents	0.1	0.1	0.1	0.1	0.1
Adjusted FX liabilities	18.3	20.1	19.7	20.7	21.9
Net FX position	1.5	1.2	1.2	1.3	1.5

**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.

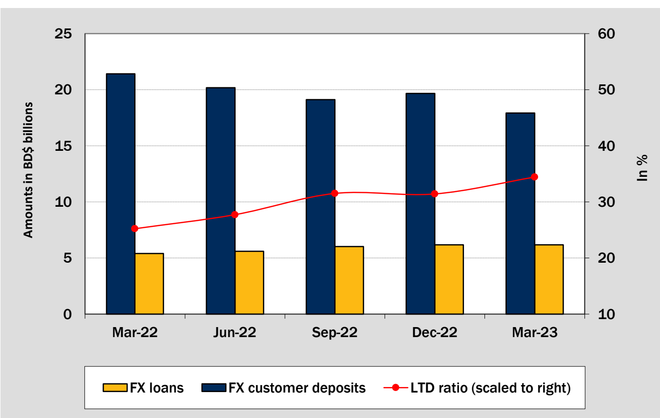
Table X: Liquidity Indicators (FX Positions)

	2023	2022			
	Mar	Dec	Sep	Jun	Mar
	%	%	%	%	%
Cash and cash equivalents to total assets	13.3	18.5	14.9	18.5	26.7
Cash and cash equivalents to total deposit liabilities	15.6	21.3	17.3	21.4	30.8
LTD ratio	34.6	31.5	31.4	27.9	25.2
Loans to total assets	29.4	27.3	27.0	24.0	21.9
Funding gap*	-55.5	-59.5	-59.0	-62.6	-65.0

**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)	2023	2022				Change (in %)	
	Mar	Dec	Sep	Jun	Mar	QoQ	YoY
Loans and advances	2.9	3.0	3.0	3.0	3.0	-3.3	-3.3
Total assets	3.6	3.6	3.6	3.7	3.7	–	-2.7
Deposit liabilities	3.9	3.8	3.9	4.0	4.0	2.6	-2.5

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.

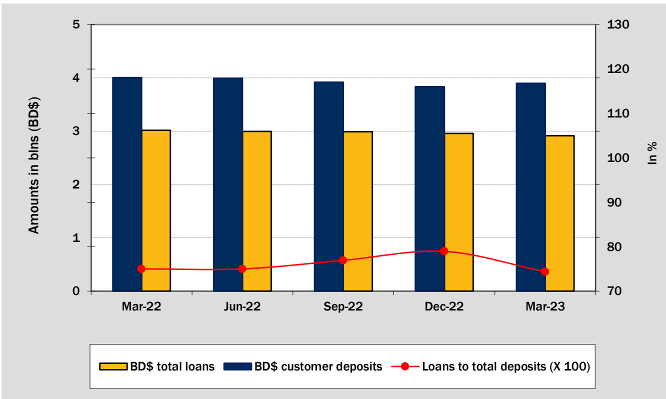
Table XII: Liquidity Indicators (BD$ Positions)

	2023	2022			
	Mar	Dec	Sep	Jun	Mar
	%	%	%	%	%
Cash and cash equivalents to total assets	2.3	2.4	2.4	2.4	2.1
Cash and cash equivalents to total deposit liabilities	2.2	2.3	2.2	2.2	1.9
LTD ratio	74.4	78.9	76.9	75.0	75.0
Loans to total assets	80.6	83.3	83.3	81.4	81.1
Funding gap*	-27.8	-22.2	-25.6	-27.0	-27.0

**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 fell in Q1, down 4.5 percentage points to 74.4%. The decline was due to lower domestic loans, which declined by 3.3% to $2.9 billion, compared to the previous quarter; while deposit liabilities were moderately higher, up 2.6 percentage points to $3.9 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)	2023	2022			
	Mar	Dec	Sep	Jun	Mar
Notes and coins in circulation	187	193	188	190	187
Deposit liabilities	3,896	3,837	3,922	3,996	4,004
Banks and deposit companies	4,083	4,030	4,110	4,186	4,191
Less: cash at banks and deposit companies	66	70	66	66	60
BD$ money supply	4,017	3,960	4,044	4,120	4,131
% Growth on previous period	1.4	-2.1	-1.8	-0.3	0.9
% Growth YoY	-2.7	-3.3	-0.2	1.8	2.2

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

The domestic money supply grew by 1.4% to $4.0 billion for the quarter. The increase was due to the higher inflows in local customer deposits, up 1.5% to $3.9 billion. Notes and coins in circulation fell by 3.1% to $187 million over the same 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).

Bank for International Settlements (BIS)

In January, the BIS published a joint report that provides an assessment of whether and how multilateral platforms could bring meaningful improvements to the cross-border payments ecosystem.

https://www.bis.org/cpmi/publ/d213.pdf

European Banking Authority (EBA)

In February, the ECB published its final report which provides guidelines to resolution authorities on the publication of the write-down and conversion and bail-in exchange mechanic.

https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Guidelines/2023/1051851/Final%20Report%20on%20Guidelines%20on%20the%20publication%20of%20the%20write-down%20and%20conversion%20and%20bail-in%20exchange%20mechanic.pdf

Financial Stability Board (FSB)

In January, the FSB published its progress report on the implementation of G20 non-bank financial intermediation reforms.

https://www.fsb.org/wp-content/uploads/P180123.pdf

Office of Financial Research (OFR)

In March, the OFR published a paper that considers the financial stability consequences of digital currency should it become fully integrated into the financial sector.

https://www.financialresearch.gov/working-papers/files/OFRwp-23-01_digital-currency-and-banking-sector-stability.pdf

Prudential Regulation Authority (PRA)

In January, the PRA published a paper on the cyclicality of bank credit losses and capital ratios under the expected loss model.

https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2023/the-cyclicality-of-bank-credit-losses-and-capital-ratios-under-expected-loss-model.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).*

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