BERMUDA MONETARY AUTHORITY

Quarterly Banking Digest

Q4 2009

HIGHLIGHTS

- The sector recorded an aggregate loss in Q4, reflecting the recognition of substantial investment losses primarily related to the lingering impact of the global economic downturn and a significant increase in provisions for impaired loans, largely confined to one institution.
- As a result, the aggregate risk asset ratio for the sector fell from 17.2% at the end of September to 15.5% at the end of December while the total asset to capital multiple rose from 10.9 to 12.1.
- Since year end, a substantial injection of new equity into the bank recording the Q4 losses has restored its capital position and pushed the aggregate ratio for the sector to a new peak. On a pro-forma basis, the aggregate risk asset ratio and asset to capital multiples improved to 19.8 percent and 9.4 times respectively.
- The aggregate exposure to equity tranches of securitisation instruments was reduced during Q4 to 0.9 percent of total investments from 2.2 percent in Q3. The level of non-performing loans decreased slightly during the quarter.
- The sector reported a year-on-year drop in total operating expenses of 8.8%, reflecting cost-cutting measures taken in response to declining revenues.
- Balance sheet size as measured by total assets and customer deposits decreased marginally during the year.

Selected Indicators

Table I below is a summary of selected indicators, including capital, earnings, asset quality and liquidity ratios for the Bermudian banking sector.

Table I: Selected Indicators (Part I)

(Ratios in percentage)	2009				2008
	Dec	Sep	Jun	Mar	Dec
Capital Position					
Risk Asset Ratio	15.5	17.2	17.7	16.1	17.5
Asset to Regulatory Capital Multiple	12.1	10.9	10.7	11.9	11.8
Equity to Total Assets	10.7	12.0	12.1	10.7	10.2
Profitability					
Interest margin to interest income	80.0	79.1	76.6	73.0	55.3
Return on assets	-3.1	0.9	0.8	0.3	1.5
Return on equity	-27.3	7.9	7.1	3.0	14.7

Table I: Selected Indicators (Part II)

(Ratios in percentage)	2009				2008
	Dec	Sep	Jun	Mar	Dec
Loan Book					
Provisions to Non-Performing Loans (NPLs)	56.6	17.3	17.3	22.0	21.7
NPLs to total loans	3.1	3.2	3.1	2.5	2.3
NPLs to capital	14.5	13.6	12.4	10.9	9.5
Other					
BD$ money supply growth	-0.4	1.0	0.3	-0.8	-0.1
Asset growth rate	1.6	-3.0	2.2	-5.9	-6.1
Customer deposits growth rate	3.6	-2.8	1.6	-6.9	-7.0
FX denominated deposits to total deposits	79.5	78.6	79.5	79.1	80.3
Loans to deposits	45.2	46.6	44.9	43.2	41.0

All figures in this report are reported at the consolidated level unless otherwise stated.

BALANCE SHEET

Aggregate Balance Sheet for the Sector

Table II below is a summary of balance sheet condition showing the trend in the sector.

Table II: Aggregate Balance Sheet Condition

(BD$ billions)	2009				2008	Change (%)	
	Dec	Sep	Jun	Mar	Dec	QoQ	YoY
Assets							
Cash	0.1	0.1	0.1	0.1	0.1	**7.5**	**-6.5**
Deposits	5.7	5.2	5.4	5.9	6.3	**9.0**	**-9.7**
Loans & Advances	8.3	8.3	8.2	7.8	8.0	**0.4**	**4.9**
Investments	6.5	6.6	7.2	6.6	7.4	**-2.1**	**-12.2**
Other Assets	1.1	1.1	1.1	1.1	1.1	**-2.3**	**-4.7**
Total Assets	**21.6**	**21.3**	**21.9**	**21.5**	**22.8**	**1.6**	**–5.2**
Liabilities							
Savings Deposits	4.5	4.1	4.2	3.6	4.2	**8.7**	**6.6**
Demand Deposits	8.1	7.6	7.7	8.1	8.1	**6.1**	**0.4**
Time Deposits	5.9	6.1	6.5	6.3	7.1	**-3.0**	**-17.2**
Total Deposits	**18.5**	**17.8**	**18.3**	**18.0**	**19.4**	**3.6**	**-4.7**
Other Liabilities	0.6	0.6	0.7	0.8	0.8	**-7.4**	**-29.5**
Total Liabilities	**19.1**	**18.4**	**19.0**	**18.9**	**20.2**	**3.2**	**-5.7**
Equity and Subordinated Debt	2.6	2.8	2.9	2.6	2.6	**-8.8**	**-0.8**
Total Liabilities and Equity	21.6	21.3	21.9	21.5	22.8	**1.6**	**-5.2**

Totals may not add due to rounding

- The sector experienced a shift in asset allocation during the year, with loans and advances accounting for 38.6% of total assets at December 31, 2009 (34.9% in the previous year), while investments fell to 29.9% (32.3% in the previous year).

- Early in 2009, the Bermuda Monetary Authority mandated a proactive recapitalisation effort of the banking sector, via a stress testing exercise. Such initiative assisted in strengthening the sector's balance sheet and approximately $220 million of new capital was raised. The sector also benefitted from an additional capital injection in March of 2010.

- The sector's total assets increased by 1.6 percent during the latest quarter of 2009. Loans and advances increased by 0.4 percent during the quarter and 4.9 percent year on year.

- Customer deposits increased by 3.6 percent during the quarter but remained substantially lower than a year earlier.

Summary of Balance Sheet Ratios

Table III below is a summary of balance sheet ratios measuring asset quality, capital and liquidity.

Table III: Summary Balance Sheet Ratios

(Ratios in percentage)	2009				2008
	Dec	Sep	Jun	Mar	Dec
Asset Allocation					
Investments	29.9	31.0	32.7	30.7	32.3
Loans	38.6	39.0	37.5	36.4	34.9
Deposits	26.1	24.4	24.5	27.3	27.4
Deposits Allocation					
Savings	24.2	23.0	22.6	20.2	21.6
Demand	43.9	42.9	41.9	45.1	41.7
Time	31.9	34.1	35.5	34.7	36.7
Capital Position					
Risk Asset Ratio	15.5	17.2	17.7	16.1	17.5
Equity to Total Assets	12.1	12.0	12.1	10.7	10.2
Asset to Regulatory Capital Multiple	10.7	10.9	10.7	11.9	11.8
Loan Book					
NPLs to total loans	3.1	3.2	3.1	2.5	2.3
Provisions to NPLs	56.6	17.3	17.3	22.0	21.7
Provisions to total loans	1.8	0.6	0.5	0.6	0.5

Totals may not add due to rounding

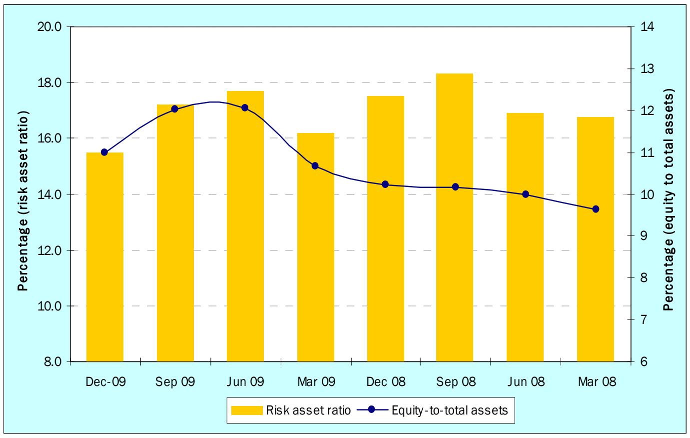
- The proportion of non-performing loans to total loans decreased marginally during the quarter from 3.2 percent in Q3 2009 to 3.1 percent. However, the level of provisions as a proportion of total loans increased significantly during the quarter from 0.6 percent to 1.8 percent, suggesting proactive management of impaired loans.

- The proportion of loans to total assets increased from about 35 percent of total balance sheet in Q4 2008 to 38.6 percent at year-end 2009, accentuated by the shrinkage of the balance sheet for the period.

Capital Adequacy

Chart I below shows the movement in the risk asset ratio and the ratio of equity to total assets quarter-on-quarter for the last eight quarters.

Chart I: Risk Asset Ratios and Proportion of Equity to Total Assets



- The aggregate risk asset ratio for the sector decreased in Q4 2009 from 17.2 percent to 15.5 percent largely reflecting a substantial loss associated with the write-down of assets within the investment portfolio. There were also increases in specific provisions for credit losses which further reduced the level of capital.

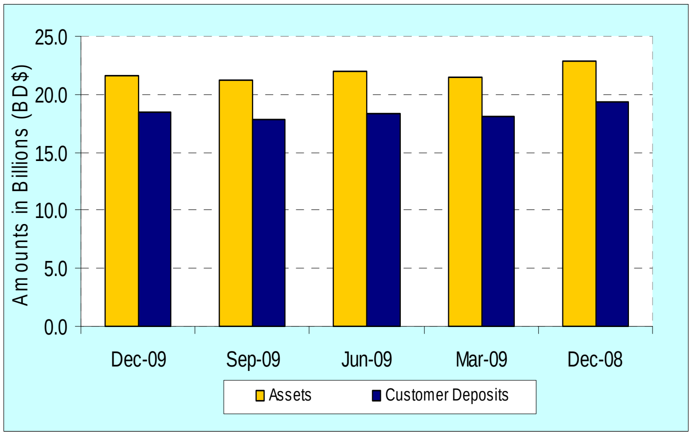
- A substantial amount of new equity capital raised by one bank in early 2010 will have improved the quantity and quality of regulatory capital for the sector. Specifically, the sector's aggregate risk asset ratio is estimated to have increased to approximately 19.8 percent on a pro-forma basis.

- The year-on-year decrease in the risk asset ratio was also partly the result of the shift to the Basel II capital framework, where additional capital charges previously not captured were applied. Specifically, the introduction of the operational risk charge resulted in a downward impact on the risk asset ratio. The operational risk charge was somewhat offset by the preferential treatment on the mortgage book, which under the Basel II capital framework rules, gets a more favourable treatment.

Total Assets and Customer Deposits

Chart II below shows changes in assets and customer deposits for the last five quarters.

Chart II: Assets and Customer Deposits



- Total assets for the sector increased during the quarter from BD$21.3 billion in Q3 2009 to BD$21.6 billion.

- The sector's customer deposit liabilities increased by 3.6 percent from BD$17.8 billion in Q3 2009 to BD$18.5 billion. The increase is attributable to increases in both savings and demand deposits of 8.7 percent and 6.1 percent respectively. Time deposits decreased by 3.0 percent.

Loan Book

Table IV below 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

(Ratios in percentage)	2009				2008
	Dec	Sep	Jun	Mar	Dec
Loans and advances quarter-over-quarter growth rate	0.4	0.9	5.5	-1.9	1.9
Mortgages on residential property to total loans	52.3	51.2	49.4	42.6	41.8
BD$ denominated loans to total loans	60.1	60.8	60.3	62.8	60.3
Non-Performing Loans					
NPLs to total loans	3.1	3.2	3.1	2.5	2.3
NPLs to capital	14.5	13.6	12.4	10.9	9.5
Net charge-offs to loans	4.94	0.14	0.16	0.15	0.13
Provisioning Practices					
Provisions to NPLs	56.6	17.3	17.3	22.0	21.7
Provisions to total loans	1.8	0.6	0.5	0.6	0.5

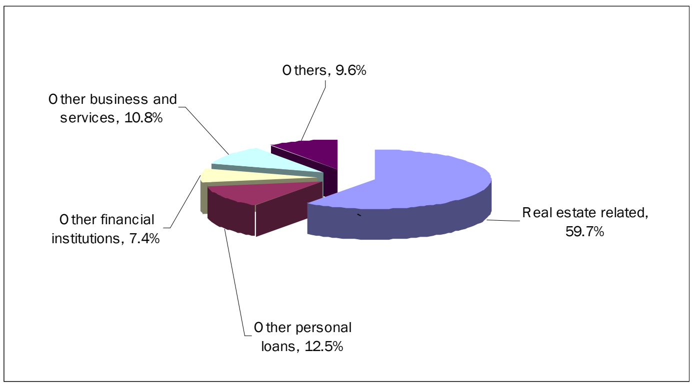
- The proportion of performing loans to total loans, although slightly down on a year earlier, remained high at 96.9 percent of total loans.

- The annualised proportion of net charge-offs to loans increased from 0.14 percent in Q3 2009 to 4.94 percent in Q4 2009 as a result of increase in the capital net charge for bad debts (provisions) from BD$3.0 million in Q3 2009 to BD$103 million in Q4 2009. This increased the total closing provision for the sector at the end of 2009 to BD$146.7 million (Q3 2009: BD$46.2 million) and somewhat reflects prudence in the provisioning practices within the sector. The increase in provisions was mainly confined to one institution and related to commercial property.
- The level of provisions as a proportion of total loans increased during the quarter from 0.6 percent to 1.8 percent. This is attributed to the 3.2 times increase in total provisions for the sector during the quarter as compared to a 0.4 percent increase in loans.

Sectoral Distribution of Loans

Chart III below shows the sectoral distribution of loans as at 31st December 2009.

Chart III: Sectoral Distribution of Loans and Advances

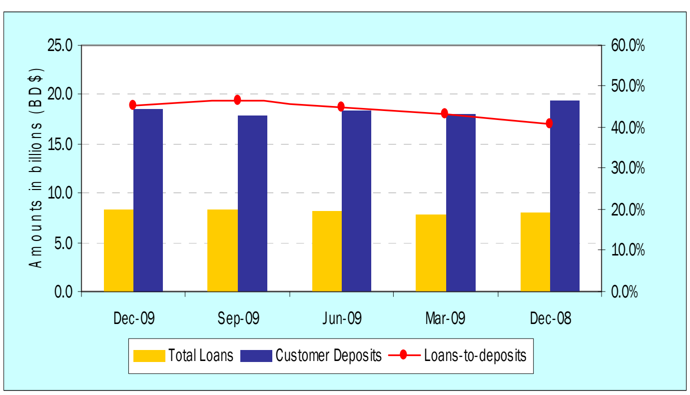


- The loan book for the sector continues to be dominated by real estate exposure reported at 59.7 percent of total loans and advances (Q3 2009: 57.4 percent).

Loans-to-Deposits Ratios

Chart IV below shows the movement in total loans, customer deposits and the ratio of total loans-to-customer deposits for the last five quarters.

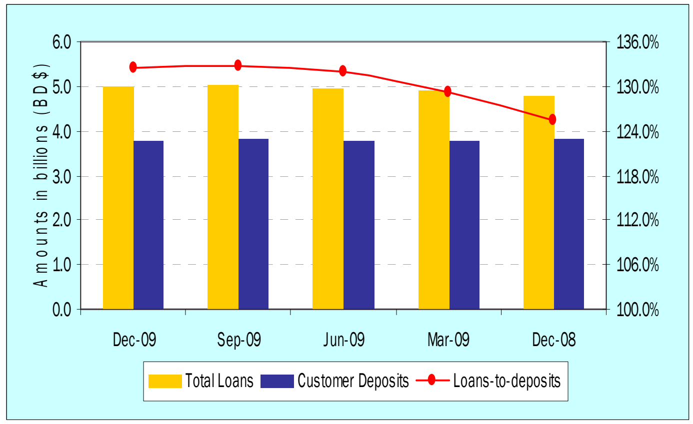
Chart IV: Total Loans and Customer Deposits



- The overall loans-to-deposits ratio slightly decreased quarter-on-quarter from 46.6 percent in Q3 2009 to 45.2 percent. This is due to the 0.4 percent increase in loans and advances during the quarter as compared to a 3.6 percent increase in customer deposits.

Chart V below shows the movement in Bermuda dollar denominated loans and customer deposits, and the ratio of Bermuda dollar denominated loans-to-customer deposits for the last five quarters.

Chart V: Bermuda Dollar Loans and Customer Deposits

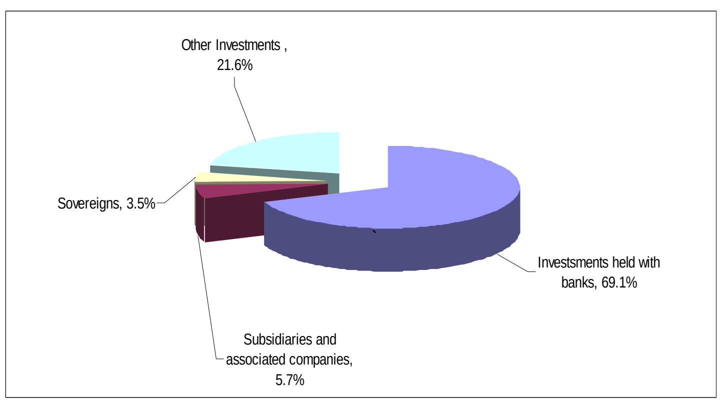


- The Bermuda dollar loans-to-deposits ratio decreased marginally during the quarter from 132.7 percent in Q3 2009 to 132.4 percent in Q4 2009, up from 125.4 percent in Q4 2008. This is due to the 0.8 percent decrease in Bermuda dollar denominated loans and advances as compared to a 0.6 percent decrease in Bermuda dollar denominated customer deposits.

Investment Book

Chart VI below shows the structure of the investment book as at 31st December 2009.

Chart VI: Structure of the Investment Book



- Within the 'other investments' category is a relatively small exposure to equity tranches of securitisation instruments comprising of about 0.9 percent of the total investment portfolio down from 2.2 percent in Q3 2009.

- The investment book is otherwise mainly invested in the interbank market.

Foreign Currency Position

Table V below shows the foreign currency position for the sector for the last five quarters.

Table V: Foreign Currency Position

(ratios in percentage)	2009				2008
	Dec	Sep	Jun	Mar	Dec
FX denominated assets to total assets	73.8	73.2	74.8	74.5	76.6
FX denominated loans to total loans	39.9	39.2	39.7	37.2	39.7
FX denominated deposits to total deposits	79.5	78.6	79.5	79.1	80.3
Changes in FX assets	2.5	-5.0	2.6	-8.5	-8.6
Changes in FX loans and advances	2.3	-0.4	12.7	-8.1	-1.4
Changes in FX customer deposits	4.7	-3.8	2.2	-8.3	-8.6

- Foreign currency denominated customer deposits increased by 4.7 percent during the quarter as compared to a decrease of 3.8 percent in the previous quarter. The increase is attributed to increases in foreign currency savings and demand deposits during the quarter of 13.4 percent and 7.4 percent respectively. Foreign currency time deposits however decreased by 3.9 percent during the quarter.

- In Q4 2009, total foreign currency assets of BD$16.0 billion consisted of BD$9.8 billion denominated in US dollars. US dollar assets make up 61.3 percent of total foreign currency denominated assets and 45.2 percent of total assets for the sector.

Bermuda Dollar Denominated Balance Sheet

Table VI below shows the Bermuda dollar balance sheet for the sector for the last five quarters.

Table VI: Bermuda Dollar Balance Sheet Position

(BD$ billions)	2009				2008	Change (%)	
	Dec	Sep	Jun	Mar	Dec	QoQ	YoY
Loans and Advances	**5.0**	**5.1**	**5.0**	4.9	4.8	**-0.8**	**4.5**
Total Assets	**5.7**	**5.7**	**5.5**	5.5	5.3	**-0.7**	**6.2**
Deposit Liabilities	**3.8**	**3.8**	**3.8**	3.8	3.8	**-0.6**	**-1.1**
Equity and Subordinated Debt	**1.7**	**1.9**	**2.0**	2.0	1.5	**-9.5**	**11.4**

- Total Bermuda dollar assets increased by 6.2 percent year-on-year but remained stable quarter-on-quarter. The growth in Bermuda dollar assets is attributed to an increase in Bermuda dollar denominated equity, up by 11.4 percent year-on-year as a result of recapitalisation.

PROFIT AND LOSS

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

Table VII: Summary of Profitability Ratios

(Ratios in percentage)	2009				2008
	Dec	Sep	Jun	Mar	Dec
Interest margin to interest income	80.0	79.1	76.6	73.0	55.3
Interest margin to total income	113.6	50.4	49.5	59.2	55.5
Non-interest expenses to total income	167.7	72.1	75.3	87.7	71.8
Personnel expenses to non interest expenses	57.4	58.1	59.6	56.4	57.5
Return on assets (ROA)	-3.1	0.9	0.8	0.3	1.5
Adjusted ROA	-3.3	0.9	0.8	0.3	1.0
Return on equity (ROE)	-27.3	7.9	7.1	3.0	14.7
Adjusted ROE	-27.3	7.9	7.1	3.0	9.9
Interest income to earning assets	2.7	2.8	2.8	2.9	4.5
Interest expenses to customer deposits	0.6	0.7	0.7	0.9	2.2

Margin Analysis

- The net losses reported during the quarter were mainly a result of non-recurring items consisting of other-than-temporary impairment on held-to-maturity investments recognised in net income and additional provisions for credit losses related to the mortgage book.

- The interest margin to interest income increased substantially from 55.3 percent in Q4 2008 to 80.0 percent in Q4 2009. The sector benefited from the steepening of the yield curve, which allowed banks to secure short-term funding cheaply while being able to continue to lend at relatively high rates.

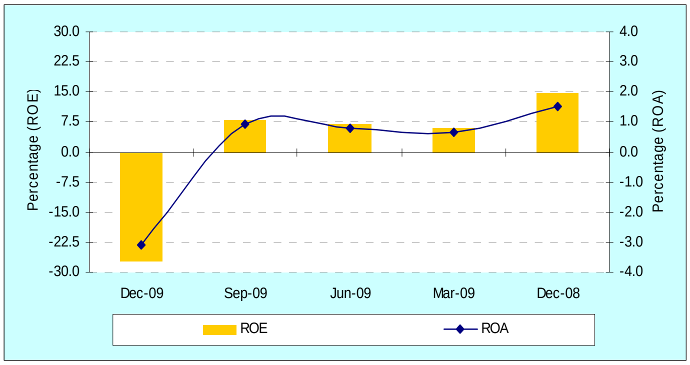
- The significant quarter-on-quarter increases in the proportion of non-interest expenses to total income and in the proportion of interest margin to total income is as a result of a significant decreases in total income during the quarter. The decrease in total income is mainly attributed to other-than-temporary impairment (OTTI) losses on held to maturity investments recognised in net income.

- Total operating expenses for the sector remained relatively stable during the quarter as compared to the previous quarter while net interest income decreased by 3.2 percent.

Profitability Ratios

Chart VII below shows the trend in the return on assets and return on equity over the last five quarters.

Chart VII: Return on Assets and Return on Equity

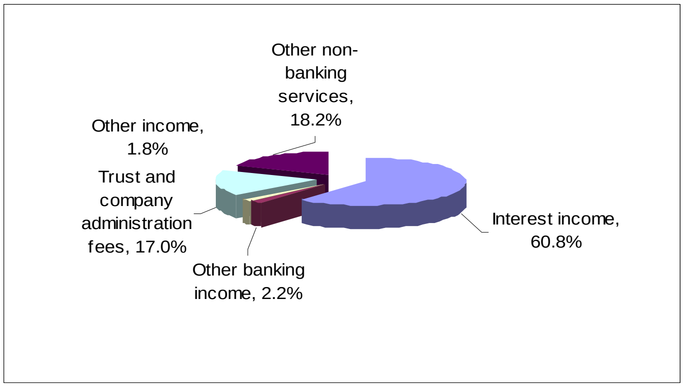


- Despite the marginal improvement in interest margins, losses attributable to the write-down of investments and additional provisions for credit losses exerted downward pressure on bottom line earnings and both ROA and ROE were in negative territory for the year ended 31st December 2009.
- For fiscal year end 2009, the sector reported ROA and ROE of -0.3 percent and -2.5 percent respectively down from 1.0 percent and 10.1 percent respectively the prior year.

Distribution of Income Sources

Chart VIII below shows the distribution of income sources for the year ended 31st December 2009.

Chart VIII: Distribution of Income Sources

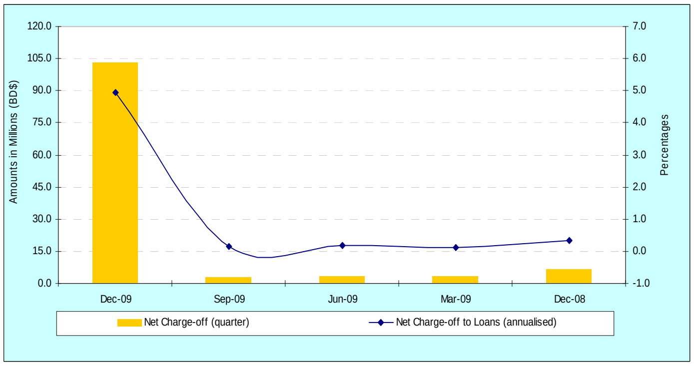


- During the year, net interest income was the main contributor of total income representing 60.8 percent of total income while income from non-banking services contributed 35.2 percent (Trust and company administration fees: 17.0 percent).
- During the quarter, net interest income for the sector exceeded total income (net of decreases in book value of investments) by 13.6 percent mainly as a result of a drag on other income as a result of decreases in book value of investments book by some institutions.

Net Profit and Loss Charge for Loan Provisions

Chart IX below shows the trend in the net charge-offs for bad and doubtful loans and net charge-off as a proportion of total loans over the last five quarters.

Chart IX: Net Annualised Charge-Offs and Proportion of Charge-Offs To Loans



- The net profit and loss charge for bad debt (provisions) increased from BD$3.0 million in Q3 2009 to BD$103 million in Q4 2009 mainly a result of increases in amount held as specific provisions to BD$106.3 million in Q4 2009.
- The increase in provisions was mainly confined to one institution and related to commercial mortgages in the hospitality industry.
- The annualised proportion of net charge-off to total loans increased year-on-year from 0.13 percent in Q4 2008 to 4.9 percent in Q4 2009. This increase is considered to be a one-off event and was part of an effort by the sector to reduce the risk profile of their exposures given increases in non-accrual loans attributable to the global financial crisis.

Table VIII below shows the trend in the overall money supply for Bermuda for the last five quarters.

Table VIII: Bermuda Money Supply (Unconsolidated)

	2009				2008
(BD$ millions)	Dec	Sep	Jun	Mar	Dec
Notes and coins in circulation*	137	123	127	126	141
Deposit liabilities	3,840	3,858	3,816	3,802	3,815
Banks and deposit companies	3,977	3,981	3,943	3,929	3,956
Less: Cash at banks and deposit companies	70	60	60	59	57
Bermuda dollar money supply	3,907	3,921	3,883	3,870	3,900
% growth on previous period	-0.36	0.98	0.33	-0.76	-0.10
% Growth year-on-year	0.18	0.43	0.44	2.12	5.01

** The table above includes the supply of Bermuda dollars only.*

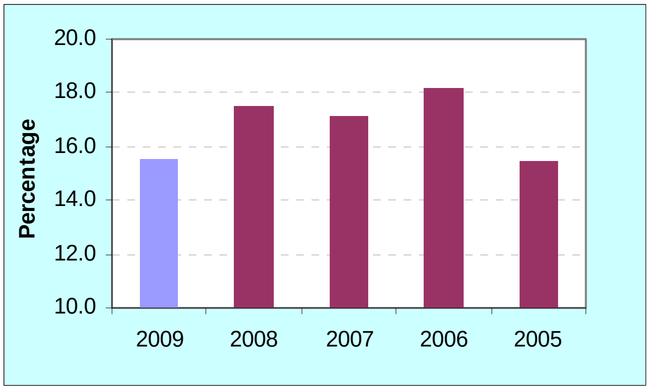
- The money supply in Bermuda was reduced by 0.36 percent during the quarter, but increased by 0.2 percent year-on-year.

KEY PERFORMANCE INDICATORS – LAST FIVE YEARS

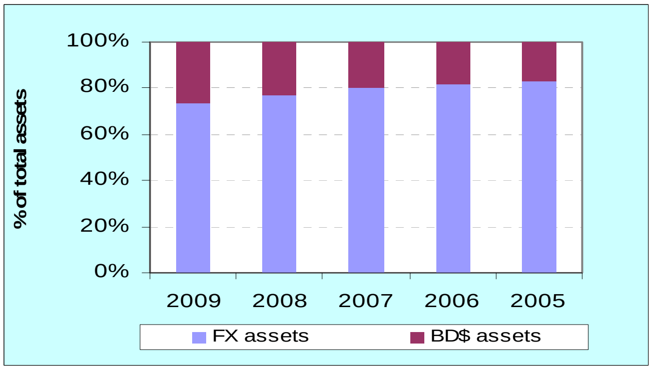
(Ratios in percentage)	2009	2008	2007	2006	2005
Risk Asset Ratio (RAR)	15.5	17.5	17.1	18.2	15.5
NPLs to total loans	3.1	2.3	1.9	1.0	1.3
Profitability					
Interest margin to interest income	76.8	55.0	47.2	48.9	55.9
Interest margin to total income	60.1	55.5	48.5	48.2	45.0
Non-interest expenses to total income	88.9	71.8	57.7	60.2	60.0
Return on Assets	-0.3	1.0	2.0	1.7	1.7
Return on Equity	-2.5	10.1	20.2	19.7	22.7
Asset Allocation Structure					
Investments	29.9	32.3	34.7	33.6	31.0
Loans	38.6	34.9	30.4	29.5	26.3
Deposits	26.1	27.4	29.7	31.7	35.5
Others	5.4	5.4	5.1	5.2	7.2
Deposit Structure					
Savings	24.2	21.6	16.5	14.3	10.6
Demand	43.9	41.7	42.0	44.0	48.8
Time	31.9	36.7	41.6	41.7	40.6
Foreign Currency (FX) Position					
FX denominated assets to total assets	73.8	76.6	80.3	81.5	83.0
FX denominated loans to total loans	39.9	39.7	42.2	44.7	43.1
FX denominated deposits to total deposits	79.5	80.3	82.5	82.4	82.7
Balance Sheet Changes					
Changes in total assets	-5.2	-5.6	4.6	3.3	9.2
Changes in loans and advances	4.9	8.2	8.0	15.6	7.1
Changes in customer deposits	-4.7	-6.9	4.5	1.6	7.2
Changes in BD$ assets	6.2	12.2	11.4	12.3	16.4
Changes in FX assets	-8.6	-10.0	3.1	1.4	7.8
Others					
Loans to deposits	45.2	41.0	35.3	34.2	30.1
BD$ loans to BD$ customer deposits	132.4	125.4	116.7	107.6	98.9
FX loans to FX customer deposits	22.7	20.3	18.1	18.6	15.7

SELECTED CHARTS

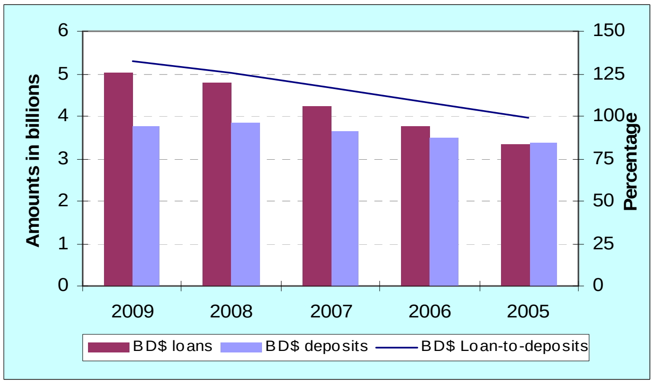
Banking Sector Consolidated Risk Asset Ratio



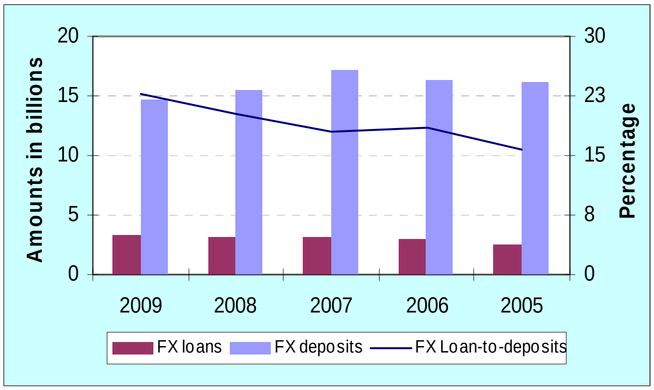
Foreign Currency and Bermuda Dollar Assets



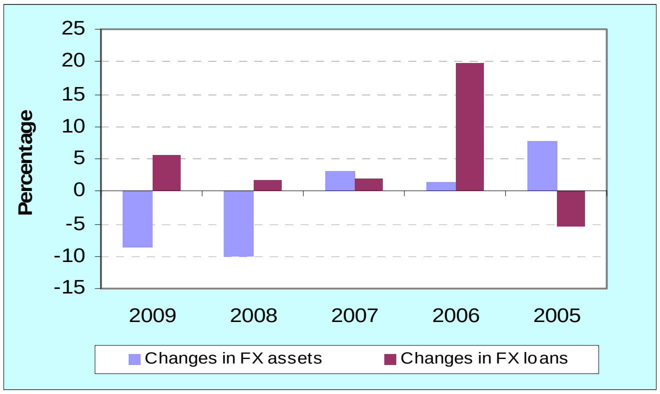
Bermudian dollar loans and customer deposits of Bermudian banks



FX loans and FX deposits of Bermudian banks



YoY Changes in total assets and total loans and advances



SELECT INTERNATIONAL DEVELOPMENTS

The section below highlights international developments that occurred during the quarter, as they contribute to shaping international regulatory and financial trends. The section does not reflect the view of the Bermuda Monetary Authority.

The Financial Stability Board (FSB) in January 2010 launched a peer review of implementation of the FSB Principles for Sound Compensation Practices and their Implementation standards. The principles and standards were endorsed by the G20 Leaders at their Summits in London in April 2009 and Pittsburg in September 2009. The peer review on compensation will focus on the steps being taken or planned by FSB member jurisdictions to ensure effective application of the principles and standards, as well as progress to date in implementation by significant financial institutions.

The FSB met in Basel on 9th January 2010 to take forward the regulatory policy reform agenda and reaffirm the timeline for policy development and implementation in 2010. The meeting also agreed on the policy framework for strengthening adherence to international standards, and reviewed current conditions and adjustments in the financial system. It was noted that although there are signs of recovery in the global system as a whole, the strength of that recovery is increasingly differentiated among markets and institutions. The policy response including continued official support may therefore need to be more targeted to addressing specific areas of weakness than during the crisis itself and its immediate aftermath.

It was reported that momentum is being maintained towards meeting the clear targets set by G20 Leaders for improving financial regulation and that coordination is taking place to achieve consistency across borders and to maintain a level playing field.

The Group of Central Bank Governors and Head of Supervision, the oversight body of the Basel Committee on Banking Supervision, met in January 2010. They welcomed the Basel Committee's focus on both microprudential reforms to strengthen the level and quality of international capital and liquidity standards, as well as the introduction of a macroprudential overlay to address procyclical and systemic risk. They also provided guidance and noted the importance of making progress in the following key areas: provisioning, introducing a framework of countercyclical capital buffers, addressing the risk of systemic banking institutions, contingent capital and liquidity.

The Basel Committee on Banking Supervision (BCBS) at its December 2009 meeting, approved for consultation a package of proposals to strengthen global capital and liquidity regulations with the goal of promoting a more resilient banking sector. Along with the measures taken by the Committee in July 2009 to strengthen the Basel II Framework, the proposal are part of the Committees comprehensive response to address the lessons of the crisis related to the regulation, supervision and risk management of global banks.

The Committee's consultative documents cover the following areas: raising the quality, consistency and transparency of the capital base; strengthening the risk coverage of the capital framework; introducing a leverage ratio as a supplementary measure to the Basel II risk-based framework with a view to migrating to a Pillar 1 treatment based on appropriate review and calibration; introducing a series of measures to promote the build-up of capital buffers in good times that can be drawn upon in periods of stress; and introducing a global minimum liquidity standard for internationally active banks that includes a 30-day liquidity coverage ratio requirement underpinned by a longer-term structural liquidity ratio.

The Basel Committee on Banking Supervision issues Compensation Principles and Standards Assessment Methodology. The Methodology seeks to foster supervisory approaches that are effective in promoting sound compensation practices at banks and to help support a level playing field. The Methodology will help supervisors assess a firm's compliance with the Financial Stability Board's "Principles for Sound Compensation Practices" and related compensation standards.

T***he Senior Supervisors Group issues a report on risk management lessons from the global financial crisis of 2008 in October 2009***. The report identifies various deficiencies in the governance, firm management, risk management, and internal control programs that contributed to, or were revealed by, the financial and banking crisis of 2008. The report highlights a number of areas of weakness that require further work by the firms to address, including the following: the failure of some boards of directors and senior managers to establish, measure, and adhere to a level of risk acceptable to the firm; compensation programmes that conflict with the control objectives of the firm; inadequate and often fragmented technological infrastructures that hindered effective risk identification and measurement; and institutional arrangements that conferred status and influence on risk takers at the expense of independent risk managers and control personnel.

Glossary

Adjusted return on assets is the return on assets computed using net income excluding extraordinary items.

Adjusted return on equity is the return on equity computed using net income excluding extraordinary items.

Earning assets includes deposits with other financial institutions, loans, advances and leases, and investments.

Equity refers to the shareholders' 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 is any currency other than the Bermuda dollar.

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 expenses to customer deposits is computed by dividing the annualised interest paid and payable by the average total customer deposit liabilities.

Interest income to earning assets is computed by dividing the annualised interest received and receivable by the average total earning assets.

Interest income includes interest received and receivable, and consists of interest from deposits with financial institutions, government securities, loans and other interest earning assets.

Interest margin is calculated as interest received or receivable less interest paid or payable.

Leverage is calculated as shareholders equity divided by total assets.

Mortgages refer to financing for land and buildings for purchasing real estate estate/residential property.

Net charge-offs for bad and doubtful loans is the sum of general and specific profit and loss charge for doubtful debts and transfers made to suspended interest account (net of recoveries).

Net income is derived by netting off provision for taxation from gross profit, and takes into account extraordinary items.

Non-interest income includes all other income received by the bank. Included are fees and commissions from 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 (NPLs) consist of those loans classified as substandard, doubtful and loss as per the BMA guidance on 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 increase or decrease in 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.

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 is the total (net) capital as provided by the banks in their quarterly prudential information returns. It is the sum of Tier 1 and Tier 2 capital less total capital deductions.

Regulatory capital to total assets is derived by dividing the regulatory capital by the total assets as provided in the prudential information returns.

Return on assets is calculated by dividing the net income by the average value of total assets over the same period. The average assets is obtained by averaging the total assets at the beginning and at the end of the quarter.

Return on equity is calculated by dividing net income by the average value of shareholders' equity over the same period. The average shareholders' equity is obtained by averaging the shareholders' equity at the beginning and at the end of the quarter.

Risk Asset Ratio is calculated as total (net) regulatory capital divided by total risk weighted assets.

Risk weighted assets (RWA) refers to a concept developed by the Basel Committee on Banking Supervision (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 ordinary shares, perpetual non-cumulative preference shares, reserves verified by the auditors, current year's losses and minority interest (in Tier 1) adjusted for goodwill and other intangibles, and securitisation but before capital deductions.

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 (RWA) is the sum of total credit risk weighted assets, total operational risk adjusted RWA and the total market risk adjusted RWA.

Note: 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.

All numbers have been derived from the Prudential Information Returns submitted to the Authority by individual banks.