QUARTERLY
Banking Digest
Q2-2018

BMA
BERMUDA MONETARY AUTHORITY

BASEL III REQUIREMENTS

- As of 1 January 2018, Bermuda's banks are required to meet a Net-Stable Funding Ratio (NSFR) as part of the Authority's implementation of Basel III standards. The NSFR is a measure used to ensure that banks maintain a minimum amount of Available Stable Funding (ASF) that is not less than the amount of its Required Stable Funding (RSF) over a one-year horizon.

- The phased-in Basel III Liquidity Coverage Ratio (LCR) requirement for 2018 is 90.0%. A fully phased-in LCR minimum of 100.0% will be in place by 1 January 2019.

- All banks are required to hold additional capital in the form of a Capital Conservation Buffer (CCB). The phased-in CCB for 2018 was 1.88% for all banks, raising the minimum Common Equity Tier 1 (CET1) plus CCB to 6.38% of Risk-Weighted Assets (RWAs).

- Banks deemed to be systemically important to the island's economy are required to maintain a Domestic Systemically Important Banks (D-SIB) buffer which can range from 0.0% to 3.0%, depending on the bank's balance sheet size.

PERFORMANCE HIGHLIGHTS

- **The Bermuda banking sector's capital position remained sound during Q2,** with the CET 1 ratio and Risk-Asset Ratio (RAR) increasing to 23.1% and 21.5%, respectively. The leverage position was marginally higher at 8.4%.

- **Banking sector assets fell by 1.3% to $21.6 billion over the past year,** primarily driven by declines in loans and advances (down 5.6%) and investments (down 2.0%). Interbank deposits were higher, up 12.7% over the same period.

- **Bank performance improved over the past year,** as banks posted a significant increase in net profits compared to a year ago; improving overall returns.

SUMMARY INDICATORS

Table I is a summary of selected indicators, including capital, earnings and asset quality.

Table I: Selected Financial Soundness Indicators

	2018		2017		
(Ratios in %)	Jun	Mar	Dec	Sep	Jun
Capital Position					
Basel III - RAR	23.1	21.5	21.0	22.3	21.4
Basel III - CET 1 ratio (5.75%)	21.5	20.7	19.9	20.8	19.8
Basel III - Leverage Ratio (5.0%)	8.4	8.2	7.8	8.4	7.7
Liquidity					
Cash/cash equivalents to total deposits liabilities	17.7	15.2	17.4	13.2	15.6
Loan-to-deposit ratio	44.1	45.5	44.5	47.3	46.2
Funding gap [a)]	-49.3	-47.9	-48.9	-46.4	-47.2
Profitability					
Interest Margin to interest income	92.1	93.1	93.3	93.6	93.9
Return on assets (annualised)	0.4	0.4	0.4	0.4	0.3
Return on equity (annualised)	4.6	4.1	4.0	4.4	2.7
Loan Book					
Provisions to Non-Performing Loans (NPLs)	29.5	30.6	32.1	19.5*	20.1*
NPLs to total loans	5.9	6.2	6.3	7.1	7.1
NPLs to Basel III capital	24.9	28.2	28.8	32.1	33.8
Other					
Change in BD$ money supply (QoQ)	1.0	0.0	-2.1*	-0.4	1.1
Change in assets (QoQ)	1.3	-1.9	1.8	-2.4	-2.4
Change in RWAs (QoQ)	-0.3	-1.3	0.5	0.6	-1.1
Change in customer deposits (QoQ)	1.4	-1.9	1.9	-2.2	-3.6

**Restated*

a) Loans, less deposit liabilities; divided by total assets.
QoQ - percentage change over prior quarter.

BALANCE SHEET

Aggregate Balance Sheet

Table II provides a summary of key balance sheet trends in the sector.

Table II: Aggregate Balance Sheet

(BD$ blns)	2018		2017			Change (In %)	
	Jun	Mar	Dec	Sep	Jun	QoQ	YoY
Assets							
Cash	0.1	0.1	0.1	0.1	0.1	*4.5*	*-3.3*
Deposits (Interbank)	3.3	2.8	3.2	2.4	2.9	*18.6*	*12.7*
Loans & advances (net)	8.4	8.6	8.5	8.9	8.9	*-1.8*	*-5.6*
Investments	9.2	9.3	9.3	9.4	9.4	*-1.2*	*-2.0*
Other assets	0.7	0.6	0.6	0.6	0.6	*3.6*	*3.5*
Total Assets	**21.6**	**21.3**	**21.8**	**21.4**	**21.9**	***1.3***	***-1.3***
Liabilities							
Savings deposits	6.5	6.5	6.4	6.1	6.6	*-0.5*	*-2.3*
Demand deposits	9.7	9.1	9.7	9.9	9.7	*6.9*	*-0.1*
Time deposits	2.9	3.2	3.0	2.8	2.9	*-10.3*	*-0.8*
Total deposits	**19.1**	**18.8**	**19.2**	**18.8**	**19.2**	***1.4***	***-0.9***
Other liabilities	0.5	0.6	0.6	0.5	0.6	*-6.3*	*-17.1*
Total liabilities	**19.6**	**19.4**	**19.8**	**19.3**	**19.9**	***1.2***	***-1.5***
Equity and subordinated debt	2.0	2.0	2.0	2.1	2.0	*2.1*	*0.0*
Total liabilities and equity	**21.6**	**21.3**	**21.8**	**21.4**	**21.9**	***1.3***	***-1.3***

Totals may not add due to rounding.

- Total asset size of the bank sector expanded by 1.3% to $21.6 billion during the quarter, though remained 1.3% lower than levels reported a year earlier. Most of the quarterly growth was attributed to the increase in interbank deposits (up 18.6% or $514 million), compared to loans and advances and investments which experienced moderate declines over the same period. Relative to Q2-2017, the banking sector recorded negative asset growth as declines in lending (down 5.6%) and investments (down 2.0%) offset the growth observed in interbank deposits (up 12.7%).

- On the liabilities side, the customer deposit base increased by 1.4% (or $265.3 million) to $19.1 billion but decreased by 0.9% compared to a year ago. The quarterly increase was driven by the higher inflow of demand deposits (up 6.9% or $629.1 million) to $9.7 billion; contrasting the declines experienced by the other customer deposit holdings. The banking sector's reliance on customer deposits as the main source of funding remained high at 88.1% of total assets.

Summary of Balance Sheet Ratios

Table III provides a summary of balance sheet ratios measuring asset quality and capital.

Table III: Summary of Balance Sheet Ratios

(In % unless indicated otherwise)	2018		2017		
	Jun	Mar	Dec	Sep	Jun
Asset allocation					
Investments	42.6	43.6	42.8	44.0	42.8
Loans	38.8	40.1	39.1	41.5	40.6
Deposits (Interbank)	15.2	13.0	14.9	11.2	13.3
Other assets	3.0	3.0	2.8	2.9	2.9
Deposits allocation					
Savings	34.1	34.7	33.6	32.5	34.5
Demand	50.9	48.3	50.6	52.7	50.4
Time	15.1	17.0	15.7	14.8	15.0
Capital position					
Basel III - RAR	23.1	21.5	21.0	22.3	21.4
Basel III - Leverage Ratio	8.4	8.2	7.8	8.4	7.7

Totals may not add due to rounding.

Capital Adequacy

Chart I shows movement in the RAR and Leverage Ratio over the last two years.

Chart I: Risk-Asset Ratio and Leverage Ratio

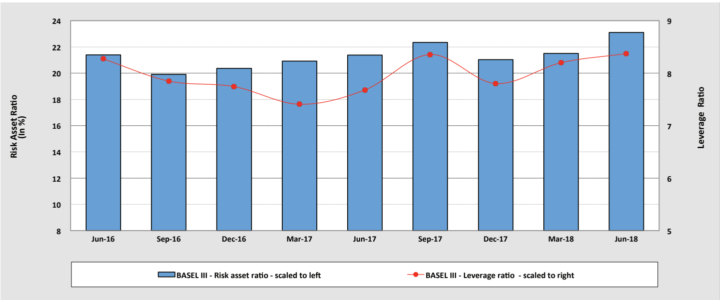
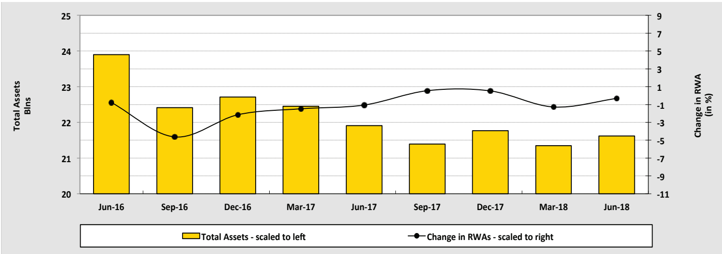


Chart II reflects the movement in total assets and the change in Risk Weighted Assets (RWAs) over the last two years.

Chart II: Total Assets and Change in RWAs



- The banking sector's capital position improved during the quarter, with the Risk-Asset Ratio (RAR) rising from 21.5% to 23.1% and the CET 1 ratio increasing by 80 (BPS) to 21.5% over the same period. Banks held higher levels of regulatory capital, with an overall regulatory capital increasing by 7.1% (or $132.2 million) to $1.9 billion; while the sector's Risk-Weighted Assets (RWA) were stable at $8.6 billion.

- The banking sector's leverage position stayed positive, with the supplemental leverage ratio rising slightly from 8.2% to 8.4%.

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

(In %)	2018		2017		
	Jun	Mar	Dec	Sep	Jun
Loans and advances quarter-over-quarter growth rate	-1.8	0.5	-4.2	0.0	3.0
Residential mortgages to total loans	49.2	48.6	48.5	46.0	45.6
Loan impairments					
NPLs to total loans (net)	5.9	6.2	6.3	7.1	7.1
NPLs to Basel III capital	24.9	28.2	28.8	32.1	33.8
Net charge-offs to loans (annualised)	0.0	0.1	0.1	0.2*	0.2
Loan provisioning					
Provisions to Gross NPLs	29.5	30.6	32.1	19.5	20.1
Specific provisions to NPLs	26.1	27.1	25.5	11.9	11.3
Provisions to total loans (net)	2.3	2.5	2.7*	1.6	1.6

** Restated*

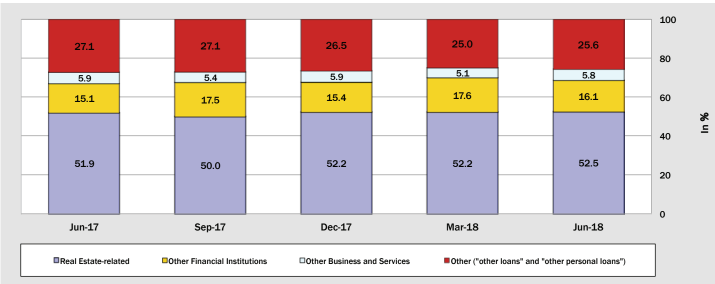
- Asset quality, as measured by the ratio of net Non-Performing Loans (NPLs) to total loans, fell from 6.2% to 5.9% for Q2. The percentage of provisions to NPLs declined slightly from 30.6% to 29.5% during the quarter.

- Banks set aside $195.9 million in loan loss provisions during Q2, a reduction of 10% (down $21.9 million) from the prior quarter, but was 37.6% (or $53.5 million) higher compared to the same quarter last year. Provisions to total loans remained steady at 2.3% during the quarter, but were higher than the 1.6% ratio reported a year earlier.

Sectoral Distribution of Loans

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

Chart III: Sectoral Distribution of Loans and Advances

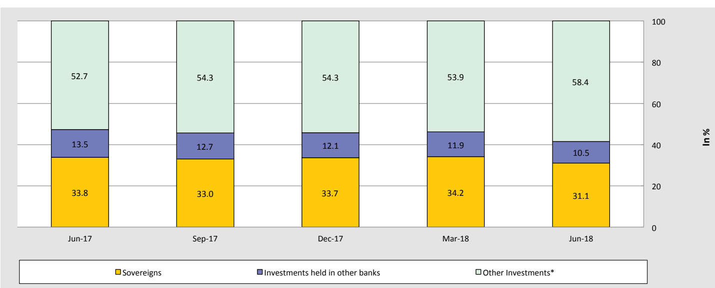


- Loans and advances continued to be relatively consistent across key sectors, with the majority of lending dominated by the real estate sector. Loans to "Other financial institutions" were down for the quarter, as lending to this sector declined from 17.6% to 16.1% of all loans.

Investment Book

Chart IV shows the structure of the aggregate investment book during the quarter.

Chart IV: Sectoral Structure of Investment Book



** Includes: Public Sector Entities (PSEs), securitised (non-equity tranches) Investments, securitised (equity tranche) Investments, investments in the capital of other banks, and investments in subsidiaries and associated companies.*

- A breakdown of the investment structure revealed increased preference toward "Other" types of investments. Other types of investments increased from 53.9% to 58.4%, which represents the highest quarterly increase over the last five quarters. The risk exposure to "Other" types of investments is limited as they are predominantly non-equity, government guaranteed securitised instruments (comprising 85.0%). Sovereign investments held by the banking sector, fell to its lowest level over the past five quarters, down to 31.1% of total investments.

Liquidity and Liquidity Coverage Ratio (LCR)

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

Table V: Liquidity Indicators

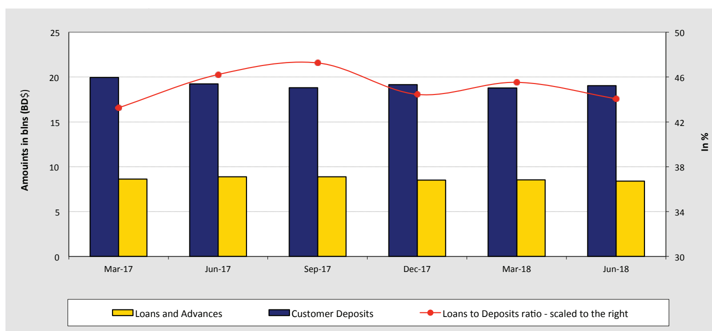
(In %)	2018		2017		
	Jun	Mar	Dec	Sep	Jun
Cash and deposits to total assets	15.6	13.4	15.3	11.6	13.7
Cash and cash equivalents to total deposit liabilities	17.7	15.2	17.4	13.2	15.6
Loan-to-deposit ratio	44.1	45.5	44.5	47.3	46.2
Loans to total assets	38.8	40.1	39.1	41.5	40.6
Funding gap*	-49.3	-47.9	-48.9	-46.4	-47.2

** The difference between total loans and total deposits divided by total assets.*

- All regulated banks were in compliance with the minimum LCR requirement and the new Net-Stable Funding Ratio (NSFR) per Basel III standards.

Chart V shows the change in total loans, customer deposits and the consolidated loan-to-deposit ratio (for both BD$ and FX (USD and other)) over the last six quarters.

Chart V: Total Loans and Deposits



- The banking sector's liquidity position experienced minimal change during the quarter, with the loan-to-deposit ratio falling from 45.5% to 44.1%. Customer deposits held by the sector were 1.4% higher (up $265.3 million) while the stock of loans across the banking sector fell by 1.8% (or $157.6 million).

PROFIT AND LOSS

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

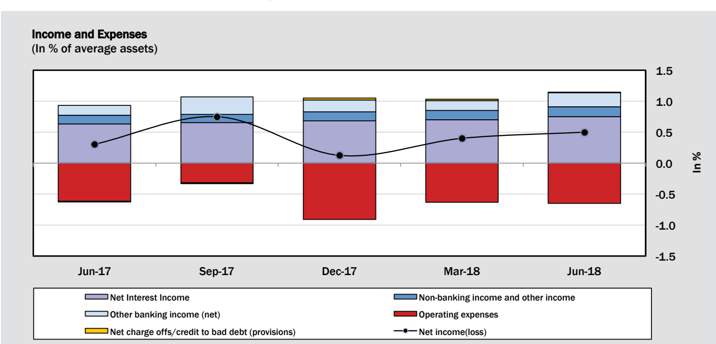
Table VI: Structure of Income statement

(In %)	2018		2017		
	Jun	Mar	Dec	Sep	Jun
Net interest margin to total income	66.1	69.6	67.8	60.6	67.5
Annualised net interest margin to (average) earning assets*	3.0	2.8	2.8	2.6	2.5
Annualised interest income to (average) earning assets*	3.3	3.0	3.0	2.8	2.7
Banking income to total income	86.0	85.4	86.9	86.6	84.6
Non-interest income to total income	33.9	30.4	32.2	39.4	32.5
Non-interest expenses to total income	56.1	60.3	87.6	30.7	67.4
Personel expenses to non-interest expenses (Efficiency Ratio)	56.9	54.8	43.0	13.5	52.9
Annualised Return on Assets (RoA)*	0.4	0.4	0.4	0.4	0.3
Annualised Return on Equity (RoA)**	4.6	4.1	4.0	4.4	2.7

** Earning assets are averaged over the last four quarters.*
*** Shareholders' equity is averaged over the last four quarters.*

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



Margin Analysis

- Banks reported higher earnings during the quarter, with the net interest margin up 6.5% (or $9.6 million) to $156.9 million over the quarter and 14.7% ($20.1 million) higher from a year ago. Other sources of banking-related income were also up, with non-banking income rising to $33.7 million (up 13.8% or $4.1 million); while other banking income grew to $47.2 million (up 41.4% or $13.8 million) during the quarter. Total income increased by 12.1% (up $25.7 million) to $237.4 million during the quarter and 17.2% (up $34.8 million) over the same quarter last year. Operating and non-operating expenses were higher, up 4.3% (or $5.4 million) over the prior quarter, 2.5% (or $3.4 million) lower than the amounts reported a year earlier. Overall net income increased by 24.2% (or $20.3 million) during the quarter, 57.9% (or $38.1 million) higher than the same quarter last year.

- The sector's cost efficiency ratio continued to decline over the first half of the year, falling from 60.3% to 56.1% (see Table VI), as the faster increase in total income (up 12.1%) exceeded the increase in operating costs (up 4.3%) during the quarter.

Chart VII reflects the distribution of income sources as of end-June 2018.

Chart VII: Distribution of Income Sources

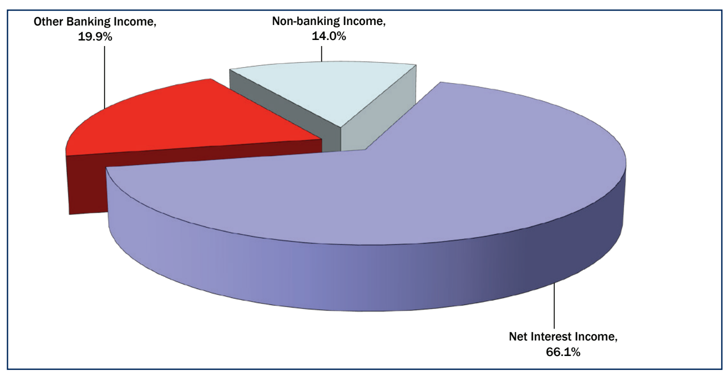
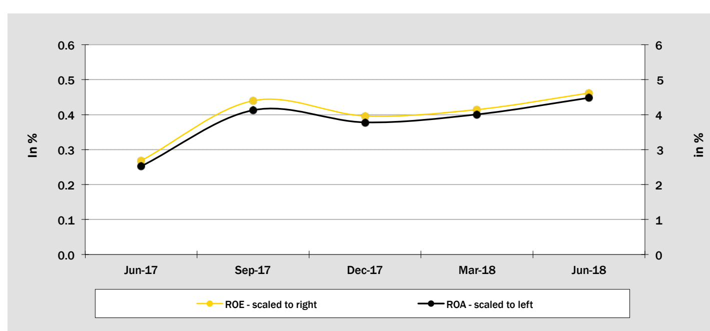


Chart VIII shows the trend in RoE and RoA over the last five quarters.

Chart VIII: Annualised RoA and RoE

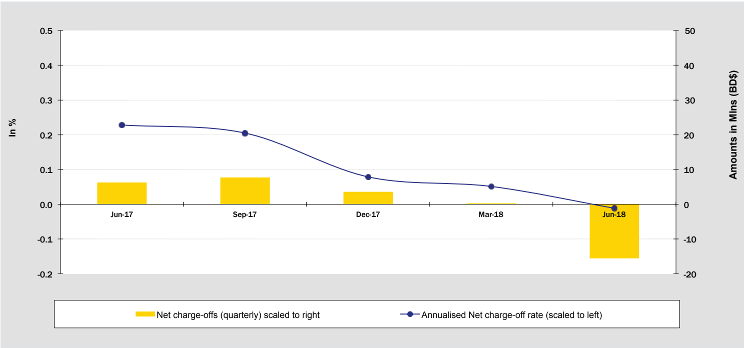


Percentages may not agree to scale due to rounding

- The improved performance of the banking sector resulted in better returns, with annualised RoE trending up to 4.6% and annualised RoA remaining stable at 0.4%

Chart IX shows the actual net charge-offs and the annualised change relative to total loans over the last five quarters.

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



** Amounts may not agree due to rounding.*

- With the implementation of IFRS 9 in 2018, banks subject to the new international standard have adjusted their accounting treatment for expected credit losses. Consequently, the IFRS changes combined with higher recoveries during the quarter have resulted in a favourable net charge-off position, causing the annualised net charge-offs to total loans to fall to their lowest level for the period. However, this was offset by a corresponding increase in specific provisions as a result of the new IFRS 9 standards.

Foreign Currency (FX) Balance Sheet

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

Table VII: Foreign Currency Balance Sheet

(In BD$ blns)	2018		2017			Change (In %)	
	Jun	Mar	Dec	Sep	Jun	QoQ	YoY
Loans and advances	5.0	5.1	5.1	5.4	5.3	-2.4	-6.2
Deposits (Interbank)	3.3	2.8	3.2	2.4	2.9	18.4	12.9
Investments	9.2	9.3	9.3	9.4	9.4	-1.2	-2.0
Total assets	17.8	17.5	17.9	17.4	17.9	1.6	-0.7
Deposit liabilities	15.6	15.4	15.7	15.3	15.7	1.5	-0.7

Totals may not add up due to rounding.

- Foreign currency assets expanded by 1.6% to $17.8 billion over the prior quarter, matching levels reported a year earlier. Most of the growth occurred in FX interbank deposits, which increased by 18.4% (or $506.7 million) to $3.3 billion; while declines in FX loans and advances (down 2.4% or $123.8 million) and FX investments (down 1.2% or $118.6 million) offset some of the overall growth in foreign currency assets.

- Foreign currency customer deposits grew by 1.5% to $15.6 billion for the quarter, which was comparable to levels reported a year ago. The quarterly increase in asset funding sources was largely attributed to the inflow of FX demand deposits (up 7.6% or $609.6 million) to $8.6 billion. The other FX customer deposits were down, most notably FX time deposits, which fell by 13.8% (or $333.1 million) to $2.0 billion for the quarter. Savings deposits stood at $4.8 billion.

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

Table VIII: Foreign Currency Positions

(In %)	2018		2017		
	Jun	Mar	Dec	Sep	Jun
FX-denominated assets to total assets	82.1	81.9	82.0	81.5	81.6
FX-denominated loans to total loans	59.6	60.0	59.3	60.6	60.0
FX-denominated deposits to total deposits	81.9	81.8	82.1	81.3	81.7
Changes in FX assets (QoQ)	1.6	-2.1	2.4	-2.5	-2.5
Changes in FX loans and advances (QoQ)	-2.4	1.6	-6.2	1.0	6.5
Changes in FX customer deposits (QoQ)*	1.5	-2.3	2.8	-2.7	-4.5

**Percentage change may not be consistent due to rounding.*
QoQ - percentage change over prior quarter

Table IX is a summary of ratios measuring the liquidity of the FX-denominated bank balance sheet for the last five quarters.

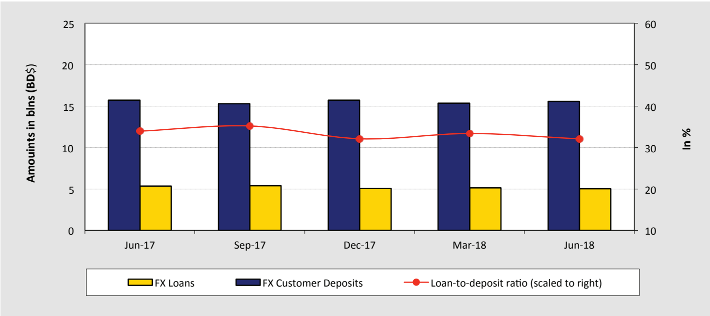
Table IX: Liquidity Indicators (FX Positions)

(In %)	2018		2017		
	Jun	Mar	Dec	Sep	Jun
Cash and deposits to total FX assets	18.7	16.0	18.3	13.9	16.4
Cash and cash equivalents to total FX deposit liabilities	21.2	18.2	20.8	15.9	18.7
Loans-to-deposits ratio	32.1	33.4	32.1	35.2	34.0
Loans to total FX assets	28.2	29.3	28.3	30.9	29.8
Funding gap*	-59.6	-58.5	-59.8	-56.8	-58.0

** The difference between total loans and total deposits divided by total assets*

Chart X shows the movement in FX-denominated loans and deposits, and the ratio of FX-denominated loans to customer deposits for the last five quarters.

Chart X: FX Loans and Customer Deposit



Bermuda Dollar Balance Sheet

Table X shows the aggregate Bermuda Dollar balance sheet of the sector over the last five quarters.

Table X: Bermuda Dollar Balance Sheet

(In BD$ blns)	2018		2017			Change (In %)	
	Jun	Mar	Dec	Sep	Jun	*QoQ*	*YoY*
Loans and advances	3.4	3.4	3.5	3.5	3.6	*1.0*	*-4.7*
Total assets	3.9	3.9	3.9	4.0	4.0	*-0.2*	*-4.1*
Deposit liabilities	3.5	3.4	3.4	3.5	3.5	*0.8*	*-1.8*

Note: The BD$-denominated balance sheet of the sector aggregates data submitted by legal entities. This varies from the consolidated sector balance sheet banking statistics in the Regulatory Update.

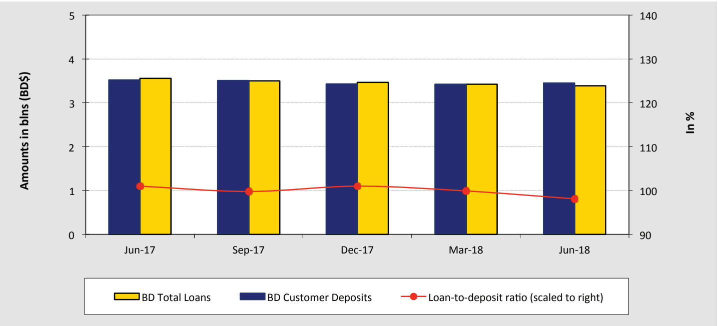
Table XI is a summary of ratios measuring the liquidity of the BD$-denominated balance sheet over the last five quarters.

Table XI: Liquidity Indicators (BD$ Positions)

(In %)	2018		2017		
	Jun	Mar	Dec	Sep	Jun
Cash and deposits to total assets	1.5	1.3	1.4	1.4	1.8
Cash and cash equivalents to total deposit liabilities	1.7	1.5	1.6	1.5	2.0
Loan-to-deposit ratio	98.1	99.9	101.0	99.8	101.0
Loans to total assets	87.8	88.5	88.5	88.6	88.3
Funding gap to total BD$ assets	-1.7	-0.1	0.9	-0.2	0.9

Chart XI shows the movement in BD$-denominated loans and deposits, along with the ratio of BD$-denominated loans to deposits for the last five quarters.

Chart XI: Bermuda Dollar Loans and Customer Deposits



- Bermuda dollar loan-to-deposit (LTD) ratio declined slightly during the second quarter, falling from 99.9% to 98.1%. The domestic lending conditions continued to be muted, with loans falling by 1.0% (or $33.8 million) to $3.4 billion for the quarter; while local customer deposits experienced marginal growth (up 0.8% or $28.4 million) to $3.4 billion over the same period.

Monetary Aggregates

Table XII shows the trend in the domestic money supply over the last five quarters.

Table XII: Bermuda Money Supply (Unconsolidated)

(In BD$ mln)	2018		2017		
	Jun	Mar	Dec	Sep	Jun
Notes and coins in circulation	140	136	141	133	138
Deposit liabilities	3,472	3,438	3,441	3,518	3,532
Banks and deposit companies	**3,612**	**3,575**	**3,582**	**3,651**	**3,670**
Less: cash at banks and deposit companies	39	37	43	36	40
Bermuda dollar money supply	**3,573**	**3,538**	**3,538**	**3,614**	**3,630**
% Growth on previous period	1.0	0.0	-2.1	-0.4	1.1
% Growth YoY	-1.6	-1.5	0.0	2.1	2.3

The table includes the supply of Bermuda dollars only.

- The domestic money supply was higher in Q2, increasing by 1.0% (or $35.0 million); led by the inflow of customer deposits (up 1.0%) coupled with the increase in notes and coins in circulation (up 2.2%).

SELECTED INTERNATIONAL DEVELOPMENTS

This section lists important publications issued during the last quarter by international organisations and national supervisory authorities. The listing does not reflect endorsement by the Bermuda Monetary Authority.

Banking Committee on Banking Supervision (BCBS)

In April, the Bank for International Settlements (BIS) published its fourteenth progress report on the adoption of the Basel regulatory framework. The report focused on ensuring Basel III standards are transformed into national law or regulation according to the internationally agreed timeframes, and includes for the first time the finalized Basel III post-crisis reforms.

In June, the BIS published a chapter on cryptocurrencies in its Annual Economic Report. The section on cryptocurrencies evaluates whether cryptocurrencies could play any role as a form of money.

https://www.bis.org/publ/arpdf/ar2018e5.pdf

Bank of England (BoE)

In April, the BoE allowed TransferWise, a FCA-regulated firm, to become the first non-bank payment service provider (PSP) to participate in the UK's Faster Payments System.

https://www.bankofengland.co.uk/news/2018/april/non-bank-psp-access-to-the-payments-system-announcement

In June, the BoE Independent Evaluation Office (IEO) published a report on the effectiveness of the BoE's resolution arrangements. The report found that significant progress as the costs of failure would increasingly be absorbed by investors, rather than taxpayers.

https://www.bankofengland.co.uk/-/media/boe/files/independent-evaluation-office/2018/ieo-report-resolution-june-2018.pdf?la=en&hash=90647A3E7481C7671E22FCC51B39B7901FDFC8BF

Financial Stability Board (FSB)

In June, the FSB asked for feedback on the technical implementation of the Total Loss-Absorbing Capacity (TLAC) standard. The submitted views and evidence should help inform the FSB's examination of whether the implementation of the TLAC standard is proceeding in a manner consistent with the TLAC principles and the Term Sheet.

http://www.fsb.org/wp-content/uploads/P060618.pdf

The FSB has launched its third thematic peer review on bank resolution planning, to evaluate implementation of the international standard set out in the FSB's earlier guidance.

http://www.fsb.org/wp-content/uploads/R040618.pdf

The FSB released a guidance paper that sets out principles to assist authorities when developing resolution strategies and make resolution plans operational for G-SIBs.

http://www.fsb.org/wp-content/uploads/P210618-1.pdf

Financial Conduct Authority (FCA)

In June, the FCA published a letter on crypto assets and financial crime. The letter highlighted the good financial crime practices the FCA expects from banks offering services to clients and the financial crime risks posed by these products.

https://www.fca.org.uk/publication/correspondence/dear-ceo-letter-cryptoassets-financial-crime.pdf

Prudential Regulation Authority (PRA)

In June, the PRA released a "Dear CEO letter" clarifying its expectations of prudential, governance and conduct requirements for firms with existing or planned exposure to crypto-assets.

https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2018/existing-or-planned-exposure-to-crypto-assets.pdf?la=en&hash=21DA12EE4697E4BDF0D6D4E9BFF0DDBEE07FFD36

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.

Additional Tier 1 Capital (AT1) is represented by allowable components of Tier One Capital other than Common Equity.

Annualised is expressing a quantity (such as an interest rate, profit, expenditure etc.) as if it applied or were measured over one year.

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 Capital (CET 1) is the primary and predominant form of regulatory capital, and will be used as the primary capital adequacy measure for all Bermuda banks once Basel III becomes fully implemented.

CET 1 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.

Coverage Ratio (Provisions to NPLs) is the ratio that shows the extent to which non-performing loans are already covered by provisions.

Domestic Systemic Important Banks (D-SIBs) are banks that are deemed to be systemically important to the local economy.

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

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 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 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 shareholder equity divided by total assets.

Leverage ratio (Basel III) is the ratio of Tier 1 Capital (including AT1) to total exposure (on-balance sheet exposures, derivative exposures, Securities Financing Transaction (SFT) exposures, and Off-Balance Sheet (OBS) 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 Highly-Quality Liquid Assets (HQLA) 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 profit, and loss charge for doubtful debts and transfers made to suspended interest account (net of recoveries).

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 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, 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 (NPLs) 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.

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 Tier 1 and Tier 2 capital net of applicable 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.

Annualised Return on assets is calculated by dividing the average net income by the average value of total assets over the same period. The average assets are obtained by averaging the total assets over the last four quarters.

Annualised Return on equity is calculated by dividing the average net income by the average value of shareholder equity over the same period. The average shareholder equity is obtained by averaging the shareholder equity over the last four quarters.

Risk Asset Ratio is calculated as total (net) regulatory capital divided by total RWA.

Risk-Weighted Assets (RWAs) refer 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 Common Equity Tier 1 capital (CET1) plus Additional Tier 1 capital (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 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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