QUARTERLY

Banking Digest

Q1-2014

BERMUDA MONETARY AUTHORITY

PERFORMANCE HIGHLIGHTS

- **Sector capital levels improved during the quarter as risk-based exposures decreased.** The capital position increased during the period as the risk asset ratio (RAR) rose to 22.7% (Q4-2013: 21.9%). Net capital levels showed little change (down 0.3%), while risk-weighted assets (RWAs) declined by 3.8%. The de-leveraging trend resumed; the leverage ratio (equity to total assets) increased to 9.1% (Q4-2013: 8.6%) as the capital base (down 2.1%) was outpaced by lower reported assets (down 3.3%).

- **The aggregate balance sheet contracted as deposit growth declined during the quarter.** The balance sheet fell by 3.3% during the quarter with interbank deposits falling at a faster rate than any other asset class (down 17.0%). This was partially attributable to the unwinding of year end deposit balances. Lending activity (down 2.4%) remained low as domestic credit supply continued to decline. Investment growth picked up, rising by 5.2% during the quarter, as banks continued to invest in less risky investment securities.

- **Sector profitability rebounded in Q1 aided by lower reported non-operating expenses and higher non-banking income.** Sector profits improved during the quarter as lower reported net charge-offs (down 51.4%), lower operating expenses (down 8.4%) and higher non-banking income (up 34.3%) helped increase quarterly earnings. Consequently, annualised RoE and RoA rose from 1.2% and 0.1% in Q4-2013 to 9.7% and 0.9%, respectively.

- **Asset quality of the banking book held steady while provision coverage rose slightly.** Large exposures to the real estate market remain a challenge, as evidenced by the unchanged non-performing loans (NPLs) to total loans ratio. The level of provisions for future asset impairments continues to climb (up 1.6%) and grew for the sixth consecutive quarter increasing modestly from 25.0% in Q4-2013 to 25.8% relative to NPLs.

SUMMARY INDICATORS

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

Table I: Selected Indicators

	2014	2013			
(Ratios in %)	Mar	Dec	Sep	Jun	Mar
Capital Position					
Risk Asset Ratio (RAR)	22.7	21.9	21.8	21.4	22.8
Tier 1 to risk-weighted assets (RWAs)	21.0	19.9	19.8	19.4	20.1*
Assets to regulatory capital (multiple)	10.9	11.2	10.4	10.5	10.0
Regulatory leverage ratio (equity to total assets)	9.1	8.6	9.4	9.2	11.7
Liquidity					
Cash/cash equivalents to total deposits liabilities	25.0	29.1	29.7	27.8	28.4
Loan-to-deposit ratio	37.9	37.4	42.4	43.4	43.4
Funding gap**	-54.9	-55.6	-50.5	-49.5	-47.9
Profitability					
Interest margin to interest income	91.0	90.5	91.5	89.3	89.4
Return on assets	0.9	0.1	0.8	0.7	0.7
Return on equity	9.7	1.2	7.1	6.2*	6.4
Loan Book					
Provisions to non-performing loans (NPLs)	25.8	25.0	23.3	22.2	21.0
NPLs to total loans	12.0	12.0	11.7	11.4	11.1
NPLs to capital	43.8	44.6	44.9	45.4	40.8
Other					
Change in BD$ money supply	1.7	-1.8	0.5	-5.4	6.8
Change in assets	-3.3	8.1	0.1	-1.3	-2.7
Change in RWAs	-3.8	-0.5	-0.3	-0.3	-4.4
Change in customer deposits	-3.8	9.6	0.4	1.8	-2.9

**restated numbers*
*** loans less deposits divided by total assets*

BALANCE SHEET

Aggregate Balance Sheet

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

Table II: Aggregate Balance Sheet

(BD$ blns)	2014	2013				Change (In %)	
	Mar	Dec	Sep	Jun	Mar	QoQ	YoY
Assets							
Cash	0.1	0.1	0.1	0.1	0.1	*-32.6*	*40.3*
Deposits	5.3	6.4	6.0	5.6	5.6	*-17.0*	*-5.5*
Loans & advances	8.1	8.3	8.6	8.8	8.6	*-2.4*	*-5.7*
Investments	9.9	9.4	7.7	8.0	8.3	*5.2*	*19.4*
Other assets	0.8	0.8	0.8	0.8	0.9	*0.6*	*-8.6*
Total assets	**24.3**	**25.1**	**23.2**	**23.2**	**23.5**	***-3.3***	***3.2***
Liabilities							
Savings deposits	5.9	5.9	5.4	5.4	5.3	*0.2*	*10.7*
Demand deposits	10.5	10.2	8.8	9.5	9.0	*2.7*	*16.8*
Time deposits	5.1	6.2	6.1	5.4	5.6	*-18.1*	*-9.1*
Total deposits	**21.5**	**22.3**	**20.3**	**20.3**	**19.9**	***-3.8***	***7.9***
Other liabilities	0.5	0.4	0.5	0.6	0.6	*14.0*	*-19.7*
Total liabilities	**21.9**	**22.7**	**20.8**	**20.9**	**20.5**	***-3.4***	***7.1***
Equity and subordinated debt	2.3	2.4	2.4	2.3	3.0	*-1.9*	*-23.0*
Total liabilities and equity	**24.3**	**25.1**	**23.2**	**23.2**	**23.5**	***-3.3***	***3.2***

Totals may not add due to rounding.

- Total assets declined during the quarter falling by 3.3% from $25.1 billion to $24.3 billion, but remain above levels reported in the same period in 2013 (up 3.2%). De-leveraging resumed during the quarter as interbank deposits fell sharply (down 17.0% or $1.1 billion) partly due to unwinding of year end deposit balances. The de-leveraging trend was also impacted by a decrease in overall lending (down 2.4% or $203 million), which continues a pattern of negative growth. Investments rose for the second consecutive quarter, increasing by 5.2% (or $494 million) to $9.9 billion, offsetting some of the quarterly decline in total assets.

- Total deposits fell during the period by 3.8% (or $838 million) following four successive quarters of positive growth. The most notable change occurred within time deposits (down 18.1% or $1.1 billion) as all other deposit categories experienced little movement. The combination of lower US$-denominated time deposits (down 14.3%) and other FX$-denominated time deposits (down 26.5%) contributed mainly to the overall decrease in total deposits.

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)	2014	2013			
	Mar	Dec	Sep	Jun	Mar
Asset allocation					
Investments	41.0	37.6	33.4	34.4	35.4
Loans	33.6	33.3	37.2	37.9	36.7
Deposits	21.8	25.4	25.7	23.9	23.7
Deposits allocation					
Savings	27.5	26.4	26.7	26.4	26.8
Demand	48.8	45.7	43.5	47.0	45.0
Time	23.7	27.9	29.9	26.6	28.1
Capital position					
Risk Asset Ratio (RAR)	22.7	21.9	21.8	21.4	22.8
Equity to total assets	9.1	8.6	9.4	9.2	11.7
Assets to regulatory capital (multiple)	10.9	11.2	10.4	10.5	10.0
Loan book					
NPLs to total loans	12.0	12.0	11.7	11.4	11.1
Provisions to NPLs	25.8	25.0	23.3	22.2	21.0
Provisions to total loans	3.9	3.6	3.2	3.0	2.7

Totals may not add due to rounding.

- The banking sector's capital position improved in Q1-2014 as the overall risk asset ratio (RAR) rose from 21.9% to 22.7%, while the regulatory leverage ratio improved to 9.1% (Q4-2013: 8.6%) as the sector's capital base (down 2.1%) was outpaced by lower reported assets (down 3.3%). Tier 1 capital as a percentage of risk-weighted assets (RWAs) also increased from 19.9% to 21.0% during the quarter.

- NPLs as a percentage of total loans remained stable in Q1-2014, while provisions to NPLs continue to rise steadily for the sixth consecutive quarter, increasing to 25.8% (Q4-2013: 25.0%), though at a slower pace when compared to the previous four quarters.

Capital Adequacy

Chart I below shows the movement in the risk asset ratio (RAR) and the leverage ratio over the last two years.

Chart I: Risk Asset Ratio and Leverage

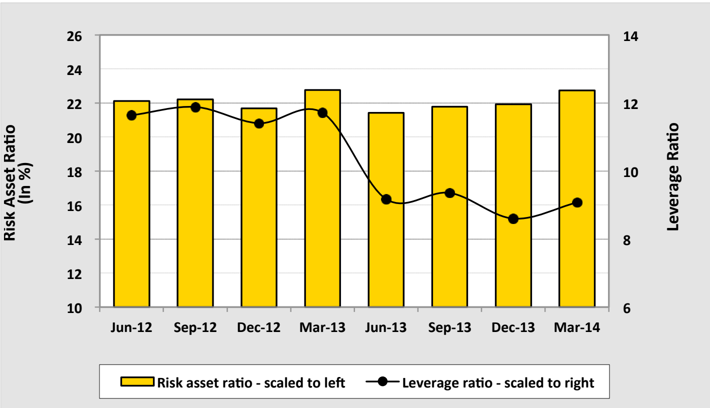
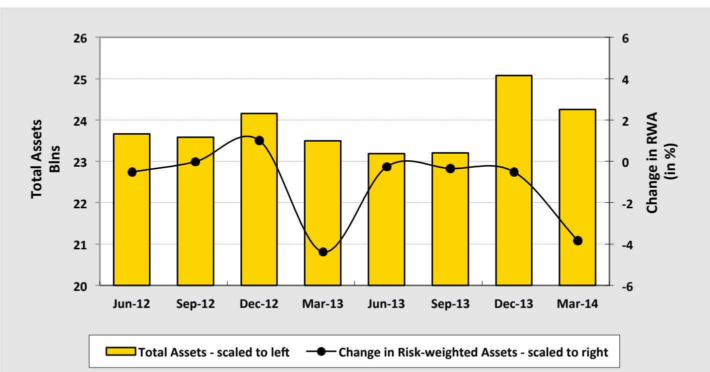


Chart II below reflects the movement in total assets and the change in risk-weighted assets (RWAs) over the last two years.

Chart II: Total Assets and Change in RWAs



- The sector's overall capital levels improved during the quarter reaching levels comparable to a year ago. During Q1-2014, the aggregate risk asset ratio (RAR) rose to 22.7% as net capital levels remained fairly even (down 0.3%) when compared to the decline in RWAs (down 3.8%).

- The leverage ratio (equity to total assets) increased to 9.1% (Q4-2013: 8.6%) as equity levels decreased by 2.1% (or $44.7 million) relative to the sharp decline in total assets (down 3.3% or $825 million) during the period. The sector's leveraging position improved during the quarter, reverting to levels similar to Q2-2013.

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.

- The proportion of non-performing loans (NPLs) as a percentage of total loans remained stable at 12.0% in Q1-2014 halting six quarters of steady growth.

- Bank provisions for loan losses continue to rise though at a slower pace, increasing by 1.6% in Q1-2014. Consequently, the stock of provisions set by banks, relative to total loans rose modestly to 3.9% (Q4-2013: 3.6%).

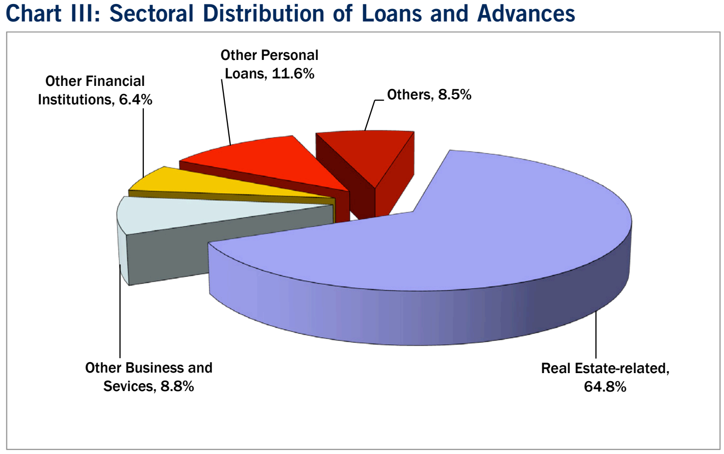
Table IV: Quality of the Loan Book

	2014	2013			
(In %)	Mar	Dec	Sep	Jun	Mar
Loans and advances quarter-over-quarter growth rate	-2.4	-3.3	-1.8	1.8	-2.3
Residential mortgages to total loans	55.1	54.6	53.0	52.0	53.1
Loan impairments					
NPLs to total loans	12.0	12.0	11.7	11.4	11.1
NPLs to capital	43.8	44.6	44.9	45.4	40.8
Net charge-offs to loans (annualised)	0.9	1.9	1.5	2.3	1.3
Loan provisioning					
Provisions to NPLs	25.8	25.0	23.3	22.2	21.0
Provisions to total loans	3.9	3.6	3.2	3.0	2.7

Sectoral Distribution of Loans

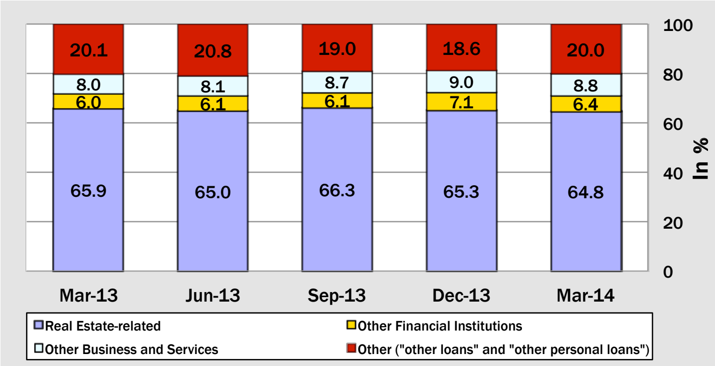
Charts III and IV reflect the sectoral distribution of loans during the quarter and the variation of lending to the different sectors over the last five quarters.

Chart III: Sectoral Distribution of Loans and Advances



- Real estate-related loans continue to dominate a large portion of overall lending; representing 64.8% of all loans and advances (Q4-2013: 65.3%). Sector lending to "Other personal loans" grew to 11.6% (Q4-2013: 9.5%), while loans to "Other financial institutions" fell to 6.4% (Q4-2013: 7.1%).

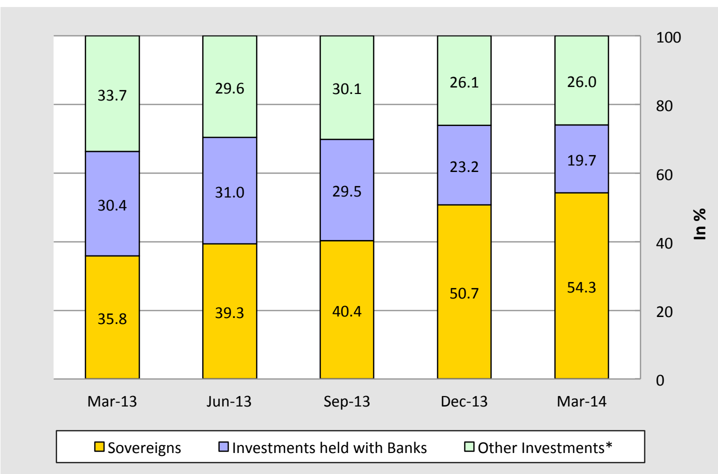
Chart IV: Sectoral Distribution of Loans and Advances



Investment Book

Chart V below shows the structure of the aggregate investment book during the quarter.

Chart V: Sectoral Structure of the Investment Book**



** includes "Other Investments" and "Subsidiaries and Associated Companies"*
*** revised*

- The investment book growth remains positive as banks continue to de-risk their portfolios in favour of holding safer assets. The shift toward sovereign investments has risen over the last five quarters to 54.3% (Q4-2013: 50.7%) of the overall investment book, when compared to a year ago (35.8%). As a result, "Investments held with banks" continued to be impacted, falling to 19.7% (Q4-2013: 23.2%) as a percentage of total investments.

Liquidity

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

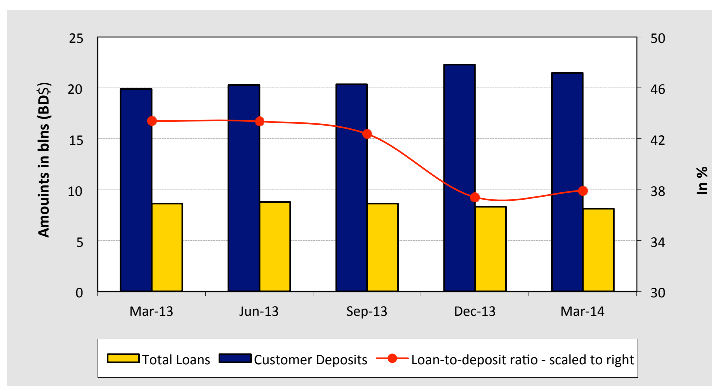
Table V: Liquidity Indicators

	2014	2013			
(In %)	Mar	Dec	Sep	Jun	Mar
Cash and deposits to total assets	22.1	25.9	26.0	24.3	24.0
Cash and cash equivalents to total deposit liabilities	25.0	29.1	29.7	27.8	28.4
Loan-to-deposit ratio	37.9	37.4	42.4	43.4	43.4
Loans to total assets	33.6	33.3	37.2	37.9	36.7
Funding gap	-54.9	-55.6	-50.5	-49.5	-47.9

- All institutions met the regulatory minimum liquidity standards.
- Structural funding conditions remained fairly stable. The loan-to-deposit ratio improved marginally to 37.9% during the quarter (Q4-2013: 37.4%) as total deposits fell at a faster rate (down 3.8%) than overall lending (down 2.4%).

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

Chart VI: Total Loans and Deposits



PROFIT AND LOSS

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

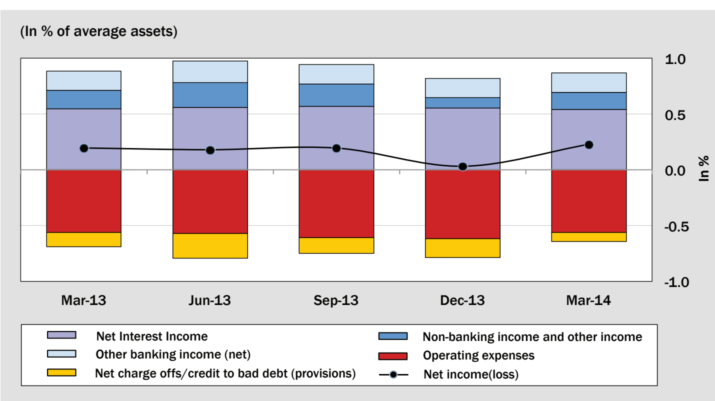
Table VI: Summary of Profitability Ratios

(In %)	2014	2013			
	Mar	Dec	Sep	Jun	Mar
Net interest margin to total income	62.0	67.5	60.4	57.5	61.9
Annualised net interest margin to (average) earning assets	2.2	2.2	2.3	2.2	2.2
Annualised interest income to (average) earning assets**	2.4	2.4	2.5	2.5	2.4
Banking income to total income	82.3	88.4	79.0	77.1	81.3
Non-interest income to total income	17.7	11.6	21.0	22.9	18.7
Non-interest expenses to total income	73.8	96.2	79.4	81.5	77.9
Personnel expenses to non-interest expenses	45.9	38.1	43.7	39.7	46.6
Return on assets (RoA)**	0.9	0.1	0.8	0.7	0.7
Return on equity (RoE)***	9.7	1.2	7.1	6.2*	6.4

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

Chart VII below shows the change in income and expense elements of the aggregate profit and loss statement of the sector over the last five quarters.

Chart VII – Income and Expenses



Margin Analysis

- Sector earnings rebounded during the quarter, in spite of increased pressure on revenue sources resulting from lower interbank deposits, negative lending growth, and increased investment in highly liquid, low-yielding investment securities. Earnings growth improved as lower net charge-offs (down 51.4%), lower operating expenses (down 8.4%) and higher non-banking income (up 34.3%) helped to offset some of the revenue pressures and boost quarterly earnings.

- The core earnings of banking income to total income declined following three consecutive quarters of growth, falling to 82.3% in Q1-2014 (Q4-2013: 88.4%).

- The sector's cost efficiency also improved during the period, as non-interest expenses to total income declined to 73.8% (Q4-2013: 96.2%), resulting from lower operating and non-operating expenses (down 17.6%).

Chart VIII reflects the distribution of income sources as of end-March 2014.

Chart VIII: Distribution of Income Sources

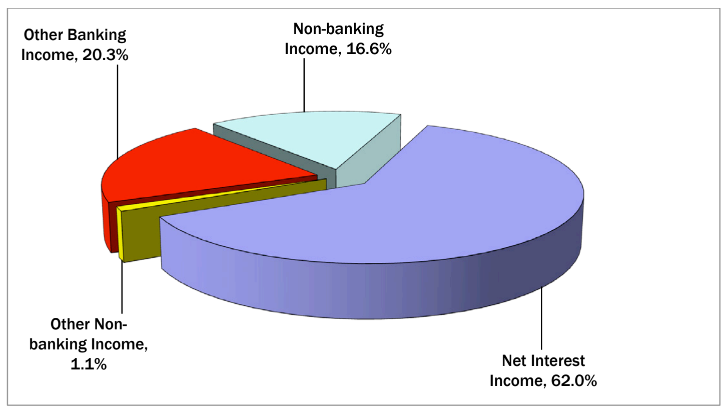
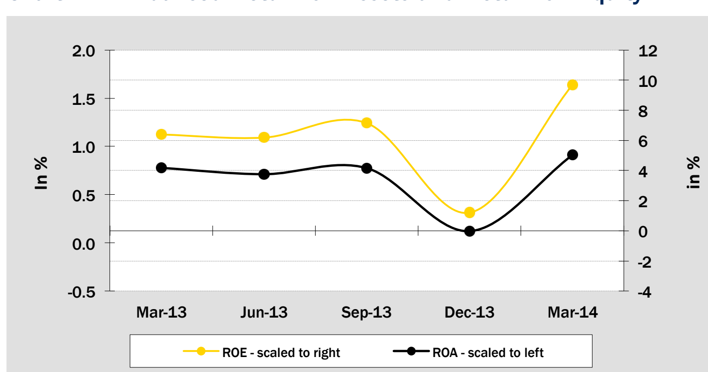


Chart IX shows the trend in RoE and RoA over the last five quarters.

Chart IX: Annualised Return on Assets and Return on Equity



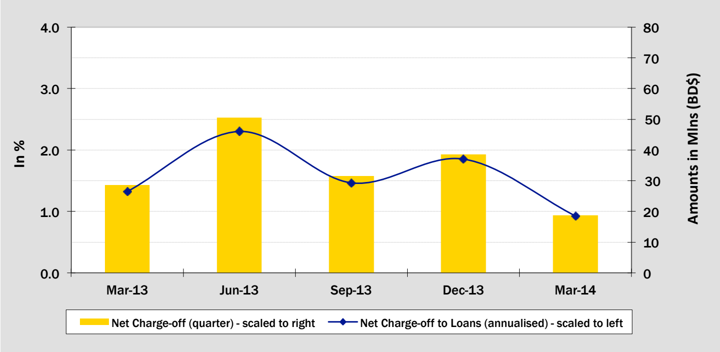
- Profitability indicators improved as quarterly earnings returned to positive growth. Annualised RoE rose to 9.7% (Q4-2013: 1.2%) during the period, while RoA increased to 0.9% (Q4-2013: 0.1%).

Charge-offs for Loan Losses and Loan Impairments

- Asset quality indicators show that annualised net charge-off to total loans declined sharply to 0.9% compared to the previous quarter (1.9%) and remains below levels reported in the same period last year (1.3%). Overall charges amounted to $18.8 million (down 51.4%) during the quarter and are down $9.8 million (or 34.2%) over the same period last year.

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

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



Foreign Currency (FX) Balance Sheet

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

Table VII: Foreign Currency Balance Sheet

	2014	2013				Change (In %)	
(In BD$ blns)	Mar	Dec	Sep	Jun	Mar	*QoQ*	*YoY*
Loans and advances	3.8	3.9	4.1	4.1	4.0	*-3.1*	*-3.8*
Total assets	19.2	19.9	18.1	17.8	18.1	*-3.6*	*6.2*
Deposit liabilities	18.1	19.0	17.0	16.9	16.4	*-4.7*	*10.7*

- The FX$-denominated loans remained fairly flat during the quarter, while FX$-denominated assets decreased by 3.6% to $19.2 billion, representing 79.3% of total assets.

- FX$-denominated total deposits fell by 4.7% mainly due to declining FX$-denominated time deposits (down 21.1%), followed by FX$-denominated demand deposits (down 2.5%).

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

Table VIII: Foreign Currency Positions

	2014	2013			
(In %)	Mar	Dec	Sep	Jun	Mar
FX-denominated assets to total assets	79.3	79.5	78.0	76.8	77.1
FX-denominated loans to total loans	46.7	47.1	48.0	46.2	45.8
FX-denominated deposits to total deposits	84.4	85.3	83.6	83.6	82.3
Changes in FX assets	-3.6	10.2	1.6	-1.6	-3.5
Changes in FX loans and advances	-3.1	-5.2	2.0	2.7	-3.7
Changes in FX customer deposits*	-4.7	11.8	0.4	3.5	-4.8

** Percentage change based on absolute numbers.*

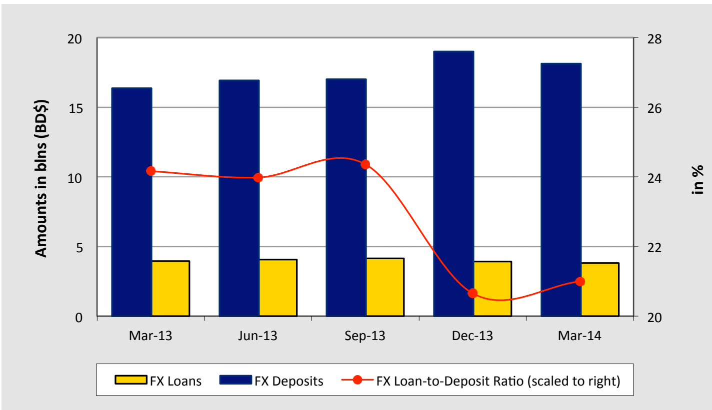
Table IX is a summary of ratios measuring the liquidity of the FX-denominated bank balance sheet for the last five quarters.

Table IX: Liquidity Indicators (FX Positions)

	2014	2013			
(In %)	Mar	Dec	Sep	Jun	Mar
Cash and deposits to total assets	27.5	32.0	32.9	31.2	30.7
Cash and cash equivalents to total deposit liabilities	29.2	33.5	35.1	32.8	34.0
Loan-to-deposit ratio	21.0	20.7	24.4	24.0	24.2
Loans to total assets	19.8	19.7	22.9	22.8	21.8
Funding gap	-74.5	-75.6	-71.1	-72.2	-68.5

Chart XI 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 XI: FX Loans and Customer Deposits



- The FX loan-to-deposit ratio increased marginally from 20.7% to 21.0%, as FX-denominated deposits fell at a faster rate (down 4.7%) relative to FX-denominated loans (down 3.1%).

Bermuda Dollar Balance Sheet

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

- Total BD$-denominated balance sheet amounts experienced minimal change during the quarter, yet continue to be lower than levels reported in the same period last year.

Table X: Bermuda Dollar Balance Sheet

	2014	2013				Change (In %)	
(In BD$ blns)	Mar	Dec	Sep	Jun	Mar	QoQ	YoY
Loans and advances	4.3	4.4	4.5	4.7	4.7	*-1.8*	*-7.3*
Total assets	5.0	5.1	5.1	5.4	5.4	*-2.1*	*-6.7*
Deposit liabilities	3.3	3.3	3.3	3.3	3.5	*1.7*	*-5.3*

Note: The BD$-denominated balance sheet of the sector aggregates data submitted on legal entity reporting basis, which is different from the presentation of the banking statistics in the Regulatory Update, which shows the consolidated sector balance sheet.

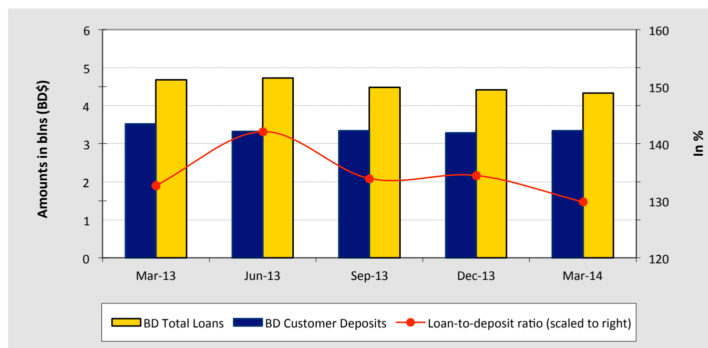
Table XI is a summary of ratios measuring the liquidity of the BD$-denominated balance sheet over the last five quarters.

Table XI: Liquidity Indicators (BD$ Positions)

	2014	2013			
(In %)	Mar	Dec	Sep	Jun	Mar
Cash and deposits to total assets	1.5	2.1	1.5	1.4	1.6
Cash and cash equivalents to total deposit liabilities	2.3	3.3	2.3	2.2	2.4
Loan-to-deposit ratio	129.8	134.4	133.9	142.1	132.7
Loans to total assets	86.3	86.0	87.7	87.9	86.8
Funding gap	19.8	22.0	22.2	26.1	21.4

Chart XII 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 XII: Bermuda Dollar Loans and Customer Deposits



- The BD$ loan-to-deposit ratio fell during the quarter to 129.8% (Q4-2013: 134.4%) as the rate of decline in BD$ lending (down 1.8%) slightly exceeded the growth in BD$ deposits (up 1.7%). The overall effect resulted in a narrowing in the funding gap to 19.8% (Q4-2013: 22.0%).

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)	2014	2013			
	Mar	Dec	Sep	Jun	Mar
Notes and coins in circulation	111	145	127	123	122
Deposit liabilities	3,400	3,343	3,404	3,386	3,582
Banks and deposit companies	**3,512**	**3,488**	**3,532**	**3,509**	**3,704**
less: cash at banks and deposit companies	31	66	46	38	37
Bermuda dollar money supply	**3,480**	**3,422**	**3,486**	**3,470**	**3,666**
% Growth on previous period	1.7	-1.8	0.5	-5.4	6.8
% Growth y-o-y	-5.1	-0.4	0.2	-1.4	2.9

The table includes the supply of Bermuda dollars only.

- The sector's overall money supply rose by 1.7% during the quarter but declined by 5.1% year-on-year as BD$ customer deposits increased by 1.7% (or $57 million). Following four successive quarters of steady growth the volume of notes and coins declined by 23.3% to $111 million for the quarter.

SELECTED INTERNATIONAL DEVELOPMENTS

This section lists important publications issued during Q4-2013 by international organisations and national supervisory authorities. This section does not reflect the views of the BMA.

Bank for International Settlements (BIS)

In April, the Banking Committee on Banking Supervisors (BCBS) issued "Frequently Asked Questions on Basel III's January 2013 Liquidity Coverage Ratio framework", which consists of a list of questions and responds relating to Basel III's January Liquidity Coverage Ratio (LCR) framework.

http://www.bis.org/publ/bcbs284.pdf

The BCBS published "Supervisory framework for measuring and controlling large exposures", which is a revised framework that will help ensure a common minimum standard for measuring, aggregating and controlling single name concentration risk across jurisdictions.

http://www.bis.org/publ/bcbs283.pdf

The BCBS published "Capital requirements for bank exposures to central counterparties", which is a revised policy framework for the capital treatment of bank exposures to central counterparties (CCPs).

http://www.bis.org/publ/bcbs282.pdf

The BCBS published its progress report, "Progress report on implementation of the Basel regulatory framework". The report provides a high-level view of Basel Committee members' progress in adopting Basel II, Basel 2.5 and Basel III, as of end March 2014.

http://www.bis.org/publ/bcbs281.htm

In March, the BIS issued its Quarterly Review, "International banking and financial market developments", which looks at the latest developments during the first quarter of 2014. These developments include, emerging market economies; international banking markets in the third quarter of 2013; and special features like, "The credit-to-GDP gap and countercyclical capital buffers: questions and answers."

http://www.bis.org/publ/qtrpdf/r_qt1403.pdf

The BIS published "Basel III Monitoring Report", which highlights the results from its periodic review of the implications of the Basel III standards for financial markets.

http://www.bis.org/publ/bcbs278.pdf

In January, the BCBS issued "A Sound Capital Planning Process: Fundamental Elements", which presents sound practices to help foster overall improvement in the capital planning processes of banks required to implement the Basel III framework.

http://www.bis.org/publ/bcbs277.pdf

The BCBS published "Basel III leverage ratio framework and disclosure requirements", which sets out the Basel III leverage ratio framework, along with the public disclosure requirements applicable as from 1st January 2015.

http://www.bis.org/publ/bcbs270.pdf

The BCBS published its revisions to the Basel framework, "Basel III: The Net Stable Funding Ratio", which sets out the requirement for banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities.

http://www.bis.org/publ/bcbs271.pdf

The Bank of England (BoE)

In January, the BoE published its paper, "The impact of capital requirements of bank lending", which looks at the effect of changes in regulatory capital requirements on bank capital and lending to UK households and firms.

http://www.bankofengland.co.uk/research/Documents/workingpapers/2014/wp486.pdf

The European Central Bank (ECB)

The ECB published "Asset Quality Review – Phase 2 Manual", which is an extensive manual for the second phase of the comprehensive assessment of the Eurozone banks the ECB will supervise directly.

http://www.ecb.europa.eu/pub/pdf/other/assetqualityreviewphase2manual201403en.pdf??e8cc41ce0e4ee40222cbe148574e4af7

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.

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

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.

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

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

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

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

Risk-weighted assets (RWAs) refer 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 (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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