CAYMAN ISLANDS MONETARY AUTHORITY

2017 BANKING DIGEST

Contents

Table of Acronyms

ACH	Automated Clearing House
BIS	Bank for International Settlements
BTCL	Banks and Trust Companies Law
BSD	Banking Supervision Division
BCBS	Basel Committee on Banking Supervision
CAR	Capital Adequacy Ratio
CDs	Certificates of Deposit
CDB	Caribbean Development Bank
CIACH	Cayman Islands Automated Clearing House
CIBA	Cayman Islands Bankers Association
CIMA	Cayman Islands Monetary Authority
CIE	Cheque Image Exchange
CPIS	Coordinated Portfolio Investment Survey
D-SIBs	Domestic Systemically Important Banks
DBA	Domestic Banking Activity
EFT	Electronic Funds Transfers
ESO	Economics and Statistics Office
EU	European Union
FATF	Financial Action Task Force
FSI	Financial Soundness Indicator
GDP	Gross Domestic Product
IFC	International Financial Centres
IIP	International Investment Position
IMF	International Monetary Fund
LBS	Locational Banking Survey
NPL	Non-Performing Loans
PLL	Provisions for Loan Losses
ROAA	Return on Average Assets
ROAE	Return on Average Equity
USA	United States of America
USD	United States Dollar

List of Tables

List of Figures

Preface

The Cayman Islands Monetary Authority ("CIMA" or "the Authority") is the designated financial sector regulator and is responsible, *inter alia*, for promoting and maintaining a sound financial system. The mission of the Authority is:

> *to protect and enhance the reputation of the Cayman Islands as an International Financial Centre by fully utilising a team of highly skilled professionals and current technology, to carry out appropriate, effective and efficient supervision and regulation in accordance with relevant international standards and by maintaining a stable currency, including the prudent management of the currency reserve*.

The Authority has four principal functions namely, monetary, regulatory, cooperative and advisory[1]. In carrying these functions, CIMA is bound by the obligations to, amongst other things, act in the best economic interests of the Cayman Islands; promote and maintain a sound financial system in the Cayman Islands; endeavour to promote and enhance market confidence, consumer protection and the reputation of the Cayman Islands as a financial centre; and be transparent and fair. In its quest to continued fulfilment of its obligations, the Authority presents the Banking Sector Digest for 2017.

The 2017 Banking Sector Digest builds on the information and analysis presented in previous editions of the publication and continues to provide a comprehensive assessment of the safety and soundness, and trends and vulnerabilities of the banking sector in the Cayman Islands. All balances in this document are presented in millions of United States Dollars (USD) unless otherwise stated. The 2017 and all other comparative data is as at 31 December of the referenced year[2], except where otherwise articulated.

[1] https://www.cima.ky/what-we-do
[2] In the case of prior year data, information may be revised based on entity resubmissions of the various returns.

Global Economic and Financial Performance - 2017

"*Economic activity in 2017 ended on a high note — growth in the second half of the year was above 4 percent, the strongest since the second half of 2010, supported by a recovery in investment*."[3] Gross Domestic Product (GDP) continued to accelerate over much of the world, boosted by a recovery in investment and rebounds in global trade growth. Growth accelerated in about three quarters of countries, with several in the Euro area[4] recording strong employment growth. Some major emerging market economies, including Argentina, Brazil and Russia finally came out of recession. Notwithstanding, growth in almost half of emerging market and developing economies, particularly small states, lagged behind advanced economies, with almost a quarter recording declines.

Following a decade of increased globalisation, international banking suffered a setback after the global financial crisis, as there have been significant declines in cross-border flows, bank claims and syndicated loans and reduced foreign bank entry. There were differing trends in foreign bank entry globally; however, generally, developed country banks retrenched while developing country banks continued their international expansion. Regulatory barriers to foreign banking increased in the post-crisis period, but large international banks continued to expand as international bank lending remained an important source of finance for developing countries. Post-crisis supervisory and regulatory reforms intended to enhance bank balance sheets and financial stability, such as more stringent capital requirements and macro prudential regulations, have been at least partially responsible for these changes.[5]

Global Economic Outlook - 2018 and Beyond

"*The global economic upswing that began around mid-2016 has become broader and stronger*."[6] The upswing was notable in investment and trade throughout 2017, with global growth recorded at 3.8 per cent and expected to rise to 3.9 per cent in 2018 and 2019. Advanced economies as well as emerging market and developing economies are expected to experience continued growth through 2018 and slightly beyond, a trend that is not expected to last as global growth is projected to soften after 2019. The medium-term projections appear challenging with a clear lean to the downside as risks from growing trade tensions and tightening financial conditions, *inter alia*, become more pervasive.

Futures prices are indicating general stability with some moderation in prices going forward. Equity valuations have continued their ascent and are near record highs, as central banks have maintained accommodative monetary policy settings amid weak inflation.

Regional Review and Outlook

The extreme vulnerabilities of the Caribbean region were underscored in 2017 with many countries being severely affected by hurricanes during the 2017 Atlantic Hurricane Season. The region recorded 0.6 per cent in growth for the year, a notable underperformance when compared to other small country groupings. Fiscal conditions continued to deteriorate and high public indebtedness continued to remain a challenge for many Caribbean countries. The banking sector was assessed as relatively stable based on satisfactory capital adequacy, declining levels of non-performing loans (NPLs) and high levels of liquidity. The loss of correspondent banking relationships continued to pose a threat to financial system stability.

In 2018, the Caribbean Development Bank (CDB) projects that the region will grow by 2.0 per cent, a direct result of the global growth projections, notwithstanding some downside risks. Growth is expected to be driven largely by recovery in the energy sector; reconstruction efforts by countries recently affected by hurricanes; and rebounds in agriculture and fisheries for other countries.[7]

[3] *World Economic Outlook*, April 2018, International Monetary Fund
[4] The Euro area consists of those Member States of the European Union that have adopted the euro as their currency
[5] Source: *Global Financial Development Report 2017/2018*, World Bank Group, June 2017
[6] *Global Economic Prospects*, World Bank Group, June 2018
[7] *2017 Country Economic Review/ 2018 Outlook*, Caribbean Development Bank, February 2018

Domestic Economic and Financial Environment[8]

The Cayman Islands economy has gradually picked up pace over the five years under review; resulting in the financial sector returning to stable, albeit modest growth since 2014. The economy has reaped the benefits from diversification to professional, scientific and technical activities. This diversification, together with a boom in tourism, pushed the growth rate of the economy close to pre-crisis levels. GDP, in 2017, grew by an annualised rate of 2.9 per cent[9], with contributions from all major sectors of the economy, with the exception of agriculture and fishing. The expansion was led by construction (7.0%), hotels and restaurants (4.5%), electricity and water supply (4.1%) and business activities (3.6%)[10].

The financial services sector recorded declines in the number of banking, trust and insurance licences, and mutual funds during 2017. On the other hand, registration of new companies and new partnerships increased and stock market activities expanded. Unemployment at the end of 2017 was recorded at 4.9 per cent, while the Consumer Price Index increased year on year to 1.9 per cent, with broad-based inflationary pressures from most major sectors.

At the end of 2017, the fiscal surplus increased while the central government recorded a 1.8 per cent increase in its revenue collection, totalling $578.1 million. Total expenditure for the first nine months of 2017 increased by 2.1 per cent to $463.1 million as a result of higher net capital expenditure and increased net lending.

The CDB projects GDP growth of 3.2 per cent for the Cayman Islands in 2018.

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[8] Source: *The Cayman Islands' Third Quarter Economic Report 2017*, Cayman Islands Government – The Economics and Statistics Office (ESO), February 2018

[9] Source: *The Cayman Islands' Compendium of Statistics 2017*, Cayman Islands Government - The Economics and Statistics Office (ESO), July 2018

[10] Source: *Country Economic Review 2017: Cayman Islands*, Caribbean Development Bank, April 2018

Introduction to the 2017 Banking Sector Digest

The Authority in its role as regulator and supervisor for the Cayman Islands' banking sector commenced the publication of the Banking Sector Digest in 2015. The main objective of the Authority in this initiative is to provide key stakeholders with a snapshot of the banking sector landscape, performance, trends and projections in a timely and comprehensive report. The 2017 Banking Sector Digest is the third edition of the annual publication and each year the Authority seeks to improve and expand on its usefulness by presenting more comprehensive information and analysis. In this publication, a number of key data presentations are disaggregated to allow for improved transparency and insights by readers.

Section I of this Digest presents an overview of the banking sector for 2017 by reviewing the balance sheet composition, earnings and profitability and financial soundness indicators on the health and soundness of the entire sector as at 31 December 2017. The role of the banking sector as a financial intermediary in the global economy through its cross-border transactions is presented in Section II. Section III presents an overview and detailed analysis of the Category 'A' banks, with emphasis on the retail commercial banking sector, while Section IV focuses on the Category 'B' banks.

Data is sourced from a number of key forms and surveys to prepare the Banking Digest including, but not limited to, the Locational Banking Statistics (LBS) Survey, Domestic Banking Activities (DBA) Survey and the Coordinated Portfolio Investment Survey (CPIS). The remainder of this section provides a description of these key input sources.

Locational Banking Statistics (LBS) Survey[11]

The Bank for International Settlements (BIS) collects data on international banking activity on a quarterly basis from 43 reporting countries including the Cayman Islands. The data collected by CIMA through the LBS Survey is aggregated for international claims and liabilities, broken down by instrument, currency, sector, country of residence of counterparty and nationality of reporting banks. These statistics cover the balance sheets of internationally active banks. The locational statistics provide information about the geographical and currency composition of banks' assets and liabilities, including intragroup business.

Domestic Banking Activities (DBA) Survey[12]

DBA is a quarterly survey on the domestic banking activities covering category 'A' Banks, retail and non-retail banks. DBA provides information about the geographical, industry and currency composition of banks' assets and liabilities, including intragroup business asset and labilities distribution, by industry, currency and geographical distribution. The interest rates are also included in the survey.

Coordinated Portfolio Investment Survey (CPIS)[13]

The CPIS collects information on investments in equity, long-term and short-term debt securities of unrelated non-residents owned by entities legally incorporated in the Cayman Islands semi-annually as at 30 June and 31 December. The survey is conducted in coordination with the International Monetary Fund (IMF) to facilitate international data comparability. The objectives are to collect comprehensive information, with geographical detail on the country of residence of the issuer, on the stock of cross-border equities, long-term and short-term debt instruments for use in the compilation of international investment position (IIP) statistics on portfolio investment capital and to exchange bilateral data.

[11] https://www.cima.ky/locational-banking-statistics-lbs-survey-bis-collects-data-on-international-banking-activity-on-a
[12] https://www.cima.ky/domestic-banking-survey
[13] https://www.cima.ky/coordinated-portfolio-investment-survey

Section I: Overview of Cayman Island's Banking Sector

The Cayman Islands' banking sector remained stable over the review period, largely due to strong and improving economic fundamentals, locally and internationally. Financial Soundness Indicators continue to highlight the health and safety of the sector, characterised by adequate capital, improving liquidity, earnings and asset quality.

As the Cayman Islands are an international financial centre (IFC), the financial sector is highly exposed to policies, events and macroeconomic conditions around the globe. Consequently, geo-political, regulatory and economic developments in the jurisdiction's major trading partners have presented some challenges to the banking sector, including, but not limited to, a sustained trend of banks exiting the Islands[14]. This has resulted in a further decline in the ranking of the Cayman Islands' as an IFC to 10th and 9th in terms of cross-border assets and liabilities, respectively, as at December 2017.

The banking sector in the Cayman Islands has made significant strides in ensuring compliance with international standards and embracing best practice, led by the Authority which continues to develop a robust regulatory and supervisory framework. During 2017, the Authority continued its efforts to enhance this framework based on the Basel Accord and tailored to the unique nature of licensees and the jurisdiction.

Financial Soundness Indicators for 2017

Overall, the banking sector continued to report healthy Financial Soundness Indicators (FSIs) for 2017 as capital adequacy ratios (CARs), asset quality, liquidity and earnings continued to meet the required standard. The sector contributes significantly to the Cayman Islands' robust and dynamic financial system as performance remains satisfactory and financial stability is buoyed by the improved performance in key indicators including, but not limited to, net interest income and net non-interest income.

Capital Adequacy Ratio

During 2017, the CAR for the sector rose to 40.6% from 35.6% primarily due to continued increases in regulatory capital requirements for subsidiary institutions from South America. This is as a result of additional capital requirements to support exposures to downgraded sovereign investments.

Asset Quality

The ratio of NPLs to total loans for the banking sector declined by 50% from 0.8% (2016) to 0.4% (2017), as non-performing loans went down 55.8% ($1.5 billion) to $1.2 billion. The movement was primarily attributed to declines in NPLs in Category 'B' banks. Subsidiaries[15], having previously experienced significant losses due to market volatility and depressed commodity prices, reported low NPLs for 2017 but maintained high levels of provisioning.

Earnings and Profitability

The banking sector reported continued losses of $1.0 billion, an improvement from prior year losses of $2.0 billion reflected in the Return on Average Assets (RoAA) of -0.1% at the end of 2017[16]. These losses primarily stemmed from Category 'B' branch entities.

Liquidity

The sector continued to maintain adequate liquidity, though the levels of liquid assets declined marginally from 48.2% (2016) to 44.4% (2017) across all banks, primarily as a result of the reduction in licensees. The

[14] Source: Risk transfers in international banking, Aldosora and Ehlers. BIS Quarterly Review, 2017: https://www.bis.org/publ/qtrpdf/r_qt1712b.htm

[15] Primarily South American banks

[16] The RoAA for 2016 was -0.2%.

liquid assets to short-term liabilities ratio fell from 97.2% (2016) to 82.7% (2017), stemming from significant decreases in Cash Items (see Banking Sector – Assets: Cash Items, Loans and Advances).

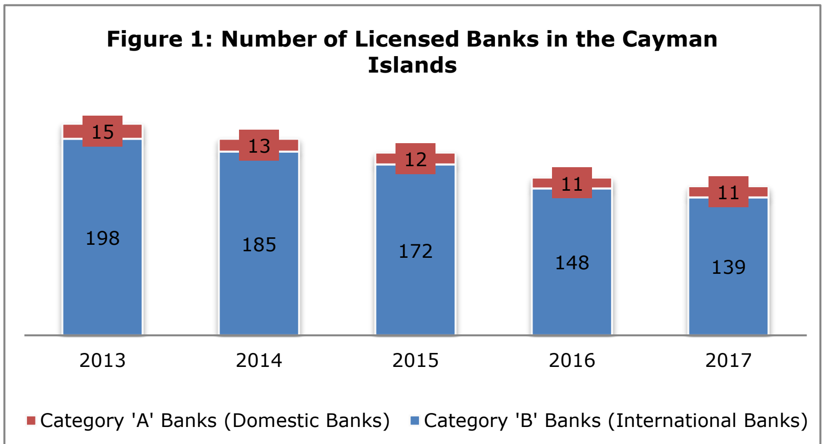
Table 1: Financial Soundness Indicators for the Banking Sector

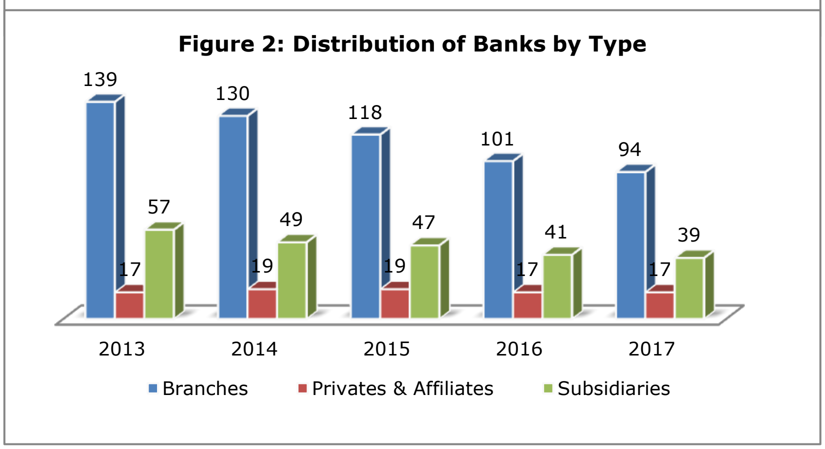
Core Financial Soundness Indicators	Category 'A' Retail Banks		Category 'A' Non-Retail Banks		Category 'B' - Subsidiary (Subsidiary, Private, Affiliate)		Category 'B' - Branch		All Sectors[17]	
Indicator %	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
Capital Adequacy										
Regulatory capital to risk-weighted assets	19.0	22.2	35.1	36.0	47.2	54.2	n/a	n/a	35.6	40.6
Regulatory Tier 1 capital to risk-weighted assets	16.8	19.8	31.7	33.9	44.5	51.1	n/a	n/a	33.1	37.9
Regulatory Tier 2 capital to risk-weighted assets	2.2	2.4	3.4	2.0	2.7	3.0	n/a	n/a	2.5	2.7
Regulatory capital to total assets	10.8	11.5	6.4	8.5	20.5	22.7	n/a	n/a	15.4	17.0
Nonperforming loans net of provisions to capital (equity)	6.1	3.8	0.0	0.0	(0.2)	0.3	n/a	n/a	1.2	1.0
Asset Quality										
Nonperforming loans to total gross loans	2.1	1.8	0.0	0.0	0.3	1.6	0.8	0.3	0.8	0.4
Total loan loss provisions to non-performing loans	47.5	54.4	0.0	0.0	216.7	75.8	69.5	133.5	68.9	122.3
Specific provisions to non-performing loans	35.1	42.1	0.0	0.0	202.1	69.8	57.0	94.2	56.3	87.5
Earnings and Profitability										
Return on equity (net income before extraordinary items and taxes to average capital (equity))	13.3	13.0	9.2	7.9	4.8	7.5	n/a	n/a	7.0	8.7
Return on assets (net income to average total assets)	1.5	1.6	0.6	0.6	0.9	1.6	(0.2)	(0.2)	(0.2)	(0.1)
Interest margin (net interest income) to gross income	69.9	70.0	34.6	39.1	37.3	55.9	146.5	116.6	112.6	79.4
Noninterest expenses to gross income	50.2	48.7	59.7	56.5	52.3	30.6	135.3	225.1	106.8	107.4
Liquid Assets										
Liquid assets to total assets (liquid asset ratio)	24.5	33.5	32.9	47.3	20.6	19.1	49.5	45.3	48.2	44.4
Liquid assets to short-term liabilities	38.2	53.4	39.5	55.8	68.0	97.8	99.6	83.6	97.2	82.7

[17] For ratios that include equity or capital, Category 'B' branches are excluded as capital is maintained by the parent company for these entities and would therefore skew the data significantly.

Banking Sector Structure

The Authority, through its Banking Supervision Division (BSD), licenses, regulates and supervises all banking entities operating in and from the Cayman Islands. The Banks and Trust Companies Law (2013 Revision) allows for two categories of banking licences: Category 'A' licence, which permits banks to operate both in the domestic and international markets; and Category 'B' licence, which permit the conduct of international banking business and limited domestic activity. Box 1 presents additional details on the unique nature and landscape of the Cayman Islands banking sector.

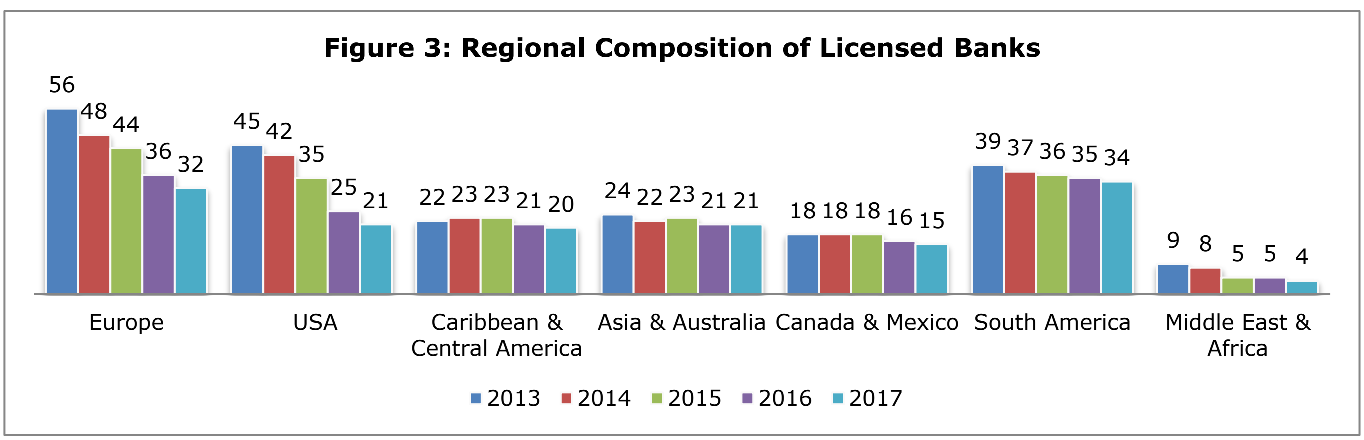




The number of bank licences has steadily declined over the review period, with a total of 150 licensees as at December 2017, a decline by 9 during the year (Figure 1). The number of Category 'A' banks remained unchanged during 2017. Over the five year period ended December 2017, the total number of banks declined by 29.6% (63). The repeal of Regulation Q by the Dodd-Frank Act has resulted in a reduced footprint of banks from the United States of America (USA).

As at 31 December 2017, the majority (94) of licensees were branches of foreign banks. The number of subsidiary banks declined by 2, to 39; while the number of privately owned Cayman Islands' licensed banks or affiliates of other banks remained unchanged from 2016, totalling 17 (Figure 2).

During 2017, there were declines in licensees from banks originating in every region with the exception of Asia and Australia (Figure 3), whose numbers remained unchanged at 21. Banks originating from Europe and the USA declined by 4 licences each, to 32 and 21 licences, respectively as at December 2017. Three years prior, in 2014, these regions held the majority of bank licences, which has now shifted to banks originating from South America.



Box 1: The Unique Nature of the Cayman Islands' Banking Sector

Category 'A' Banks

Within the Category 'A' bank licence, there are two subcategories of institutions: banks that provide services to non-retail clients and those that provide services to both retail and non-retail clients. Category 'A' banks may carry out business within and outside the islands without any restriction on the type of clients. There are currently eleven (11) Category 'A' banks namely, Butterfield Bank (Cayman) Limited, Cainvest Bank and Trust Limited, Cayman National Bank Limited, CIBC Bank and Trust Company (Cayman) Limited, Deutsche Bank (Cayman) Limited, Fidelity Bank (Cayman) Limited, FirstCaribbean International Bank (Cayman) Limited, Merrill Lynch Bank and Trust Company (Cayman) Limited, MUFG Alternative Fund Services (Cayman) Limited, RBC Royal Bank (Cayman) Limited and Scotiabank & Trust (Cayman) Limited.

Category 'B' (International) Banks

Category 'B' banks primarily serve clients that are outside the jurisdiction. These banks are owned by shareholders in North and South America, Europe, Asia and the Pacific region, Latin America and the Caribbean as well as the Cayman Islands. Category 'B' banks can be subsidiaries or branches of foreign banks or may be private or affiliate banks. At present, there are one hundred and thirty nine (139) banks holding Category 'B' licences.

These international banks may not accept deposits, invest in any assets or grant loans to any Cayman Islands' resident, except to another exempt or an ordinary non-resident company which is not carrying on business in the Islands.

Regulation and Supervision of Banks in the Cayman Islands

The Authority supervises banks on a consolidated basis. Upon licensing, the Authority will determine whether the new licensee is already supervised on a consolidated basis by another banking supervisor. Where this is the case, the Authority will agree to consolidated supervisory responsibility with its regulatory counterpart.

Due to consolidated supervision, advances in technology, as well as globalisation, banks that are branches or subsidiaries can conduct international business without the need for physical presence, as the services are provided by their head office or parent groups. Such banks utilise head office employees to operate and access capital markets, provide proximity to client bases and benefit from economies of scale.

Category 'B' banks employ 265 staff in the Cayman Islands as well as 3,285 employees working from outside the Cayman Islands. Banks that are neither branches nor subsidiaries of a foreign bank must demonstrate that they have offices, staff and resources in the Cayman Islands sufficient to carry on their banking business. All banks must maintain specified records in the Cayman Islands.

The Authority supervises banks in accordance with applicable international standards, including the Core Principles for Effective Banking Supervision issued by the Basel Committee for Banking Supervision and the Financial Action Task Force's 40 Recommendations relating to Anti-Money Laundering and Countering Terrorism Financing. The legislative framework is supported by numerous regulatory measures issued by the Authority including rules, statements of guidance, regulatory policies, and regulatory procedures. It is important to note that there is no preferential treatment based on the residence or local presence of licensees for taxation or regulatory purposes in any sector of the financial system.

Banking Sector Financial Overview

Banking Sector - Balance Sheet Profile

Continued Contraction in Banks' Balance Sheets

Over the three year period ended 31 December 2017, the Cayman Islands' banking sector has experienced a sustained decline in assets and liabilities. The cross border asset and liability positions of banks fell below the one trillion dollar mark to $927.6 billion as at December, 2017 for the first time since 2011. The overarching reasons for the contraction range from strategic redirections, to major changes to regulation and supervision in key source jurisdictions including the European Union (EU) and the USA which includes changes in legislation in the USA and concerted efforts by the EU to minimise cross border exposures for EU banks.

Banks' liabilities reported a reduction of 10.4% ($102.2 billion) to $885.5 billion at the end of 2017. The contraction in liabilities was primarily reflected in reduced deposits 9.9% ($80.2 billion), creditors and other liabilities by 39.0% ($15.0 billion) as well as other borrowings of 10.8% ($7.8 billion). Over the five-year period, sector liabilities have shown a considerable decline of 37.3% ($525.7 billion).

Correspondingly, total assets recorded a decline of 10.6% ($110.4 billion), to $927.6 billion, for the year ended December 2017. Banking sector assets fell by 36.0% ($521.7 billion) since December 2014. One contributor to the declines stemmed from a decision by the Swedish National Debt Office to impose a new resolution fee on Swedish banks and their branches. Swedish banks in turn reduced overnight borrowings and loans, a majority of which were held with USA-based entities. Additionally, the reduction in the number in licensees resulted in the contraction of Group bank and non-bank deposit liabilities of USA-based banks which moved funds onshore to Parent Groups.

During 2017, Shareholders' Equity for the banking sector deteriorated by 16.3% ($8.2 billion), following an extraordinary increase of 116.7% ($46.3 billion) in 2016, which was largely due to a change in reporting methodology.

Table 2: Total Assets and Liabilities for Banking Sector as at 31 December 2017

	US$'000,000[18]				
	2013	**2014**	**2015**	**2016**	**2017**
ASSETS					
Cash Items	701,712	745,829	584,104	501,311	412,137
Financial Assets at Fair Value	20,210	24,646	31,511	36,432	36,384
Investments - Held-to-Maturity	4,682	5,392	5,842	6,128	5,606
Investments -Available-for-Sale	40,078	37,733	48,673	47,400	53,142
Other Investments	51,009	57,368	43,128	59,921	61,470
Loans and Advances (Gross)	528,191	498,990	413,209	328,337	308,321
Net Loans	527,179	496,290	411,414	326,829	307,289
Other Assets	64,120	81,999	54,975	59,961	51,532
TOTAL ASSETS	**1,408,990**	**1,449,257**	**1,179,647**	**1,037,983**	**927,560**
LIABILITIES					
Deposits	1,236,198	1,254,628	958,833	812,490	732,340
Repurchase Agreements (REPOS)	9,591	18,399	14,903	16,267	17,090
Hybrid Debt and Subordinated Debt	13,825	18,062	16,171	12,407	13,305
Other Notes, Bonds and Commercial Paper	62,027	62,518	51,399	34,950	34,124
Other Borrowings	53,635	48,073	91,080	72,362	64,539
Creditors and Other Liabilities	35,204	43,978	42,524	38,492	23,461
Other Loss Provisions	737	711	769	754	627
TOTAL LIABILITIES	**1,411,217**	**1,446,369**	**1,175,679**	**987,722**	**885,486**
TOTAL SHAREHOLDERS' EQUITY	**-2,244**	**2,890**	**3,968**	**50,261**	**42,074**
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	**1,408,973**	**1,449,259**	**1,179,647**	**1,037,983**	**927,560**

[18] All table data reflects US$'000,000 unless otherwise stated.

Banking Sector - Asset Distribution

Diversified and Healthy Composition of Assets

The consolidated banks' balance sheet remained relatively stable in terms of asset composition (Figure 4), with Cash Items and Loans and Advances remaining as the major asset components. Cash Items and Loans and Advances showed a declining trend with reductions of 17.8% ($89.2 billion) and 6.1% ($20.0 billion), while accounting for 44.4% ($412.1 billion) and 33.2% ($308.3 billion) of total assets respectively. There was a slight year on year increase in the ratio of Loans and Advances to Total Assets which moved from 31.5% in 2016 to 33.2% in 2017, which was largely counteracted by the decline in cash items.

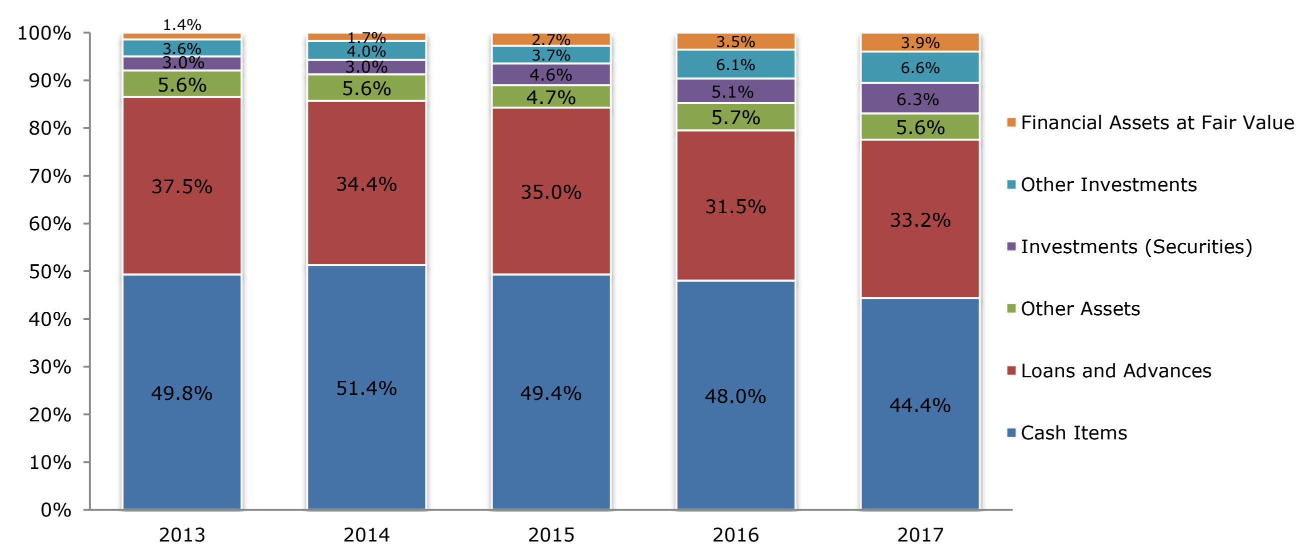
This high level of cash and lower than traditional industry benchmark for loans are indicative of international banking financial centres, where a large number of Category 'B' banks access funding and foreign currency on the international markets to provide liquidity and credit to non-resident Parent Groups.

The majority of assets are held within the Category 'B' banks as most 'B' Banks are branches that facilitate cross border movements of cash to mainly group entities. Of the $412.1 billion in Cash Items, $402.9 billion (98%) was held by Category 'B' banks and $9.3 billion (2%) with Category 'A' banks. Similarly, of the $308.3 billion in gross Loans and Advances, Category 'B' banks held $297.4 billion (96.5%) and $10.9 billion (3.5%) were held with Category 'A' banks.

Table 3: Asset Distribution for Banking Sector as at 31 December 2017

Assets	Category 'A' Banks	Category 'B' Banks	Total
Cash Items	9,267	402,870	412,137
Financial Assets at Fair Value	4	36,380	36,384
Investments - Held-to-Maturity	906	4,701	5,606
Investments - Available-for-Sale	2,004	51,138	53,142
Other Investments	205	61,264	61,470
Loans and Advances	10,915	297,406	308,321
Less Loan Loss Provisions	*51*	*981*	*1,032*
Specific Loan Loss Reserves	*40*	*932*	*972*
Unearned Interest	*12*	*49*	*60*
Net Loans	10,864	296,425	307,289
Other Assets	504	51,028	51,532
TOTAL ASSETS	**23,753**	**903,807**	**927,560**

Figure 4: Banking Sector Assets Distribution



Banking Sector - Assets: Cash Items, Loans and Advances

Contraction in Cross-Border Liquidity and Credit

Total Cash Items declined by $89.9 billion in 2017, to $412.1 billion, which was largely attributable to the 17.9% ($89.4 billion) decline in non-resident Certificates of Deposit (CDs). The declining trend in CDs was largely in part due to the closure of branches of Cayman banks from developed countries including USA, Canada and Germany. CDs booked in the resident sector recorded a 54.3% ($715.0 million) increase from $1.3 billion in 2016 to $2.0 billion in 2017 due to the activities of banks originating from the USA, Canada, Switzerland and Brazil.

Table 4: Cash Items Distribution for Residents and Non-Residents (Banking Sector)

Cash Items	2013		2014		2015		2016		2017	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Cash	53	1,477	49	467	50	745	46	12	52	11
Gold and bullion	0	0	0	0	0	0	0	0	2	0
Cash items in process of collection	10	86	10	39	15	72	33	0	13	2
Balances & Certificates of Deposits (CD's):	5,597	685,434	4,186	736,503	7,399	573,912	1,316	498,630	2,031	409,240
Group Bank - Parent, Branch, Subsidiary & Affiliate	*5,278*	*656,181*	*3,823*	*717,135*	*6,797*	*556,184*	*1,129*	*480,584*	*1,421*	*392,322*
Group Non-Bank entities	*0*	*14,887*	*73*	*7,887*	*5*	*5,324*	*11*	*6,561*	*15*	*6,221*
Other Banks	*319*	*14,366*	*290*	*11,481*	*597*	*12,404*	*176*	*11,485*	*595*	*10,697*
Due from financial institutions	21	9,034	4	4,571	1	1,861	0	1,276	4	782
TOTAL	**5,681**	**696,031**	**4,249**	**741,580**	**7,465**	**576,590**	**1,395**	**499,915**	**2,102**	**410,035**

Total Loans and Advances in the banking sector have declined steadily since 2013, moving from $528.2 billion to $308.3 billion, a 41.8% ($220.9 billion) decline over the five-year period.

During 2017, banks reported a 6.1% ($19.5 billion) decline in non-resident Loans and Advances, following a 20.3% ($81.5 billion) decline in 2016. The contraction emanated largely from a reduction in intragroup and non-financial corporation activities of European, USA and Canadian banks.

Table 5: Loans & Advances Distribution per Residents and Non-Residents (Banking Sector)

Loans and Advances	2013		2014		2015		2016		2017	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Sovereigns and Central Banks	618	678	591	890	591	928	429	976	348	793
Non Central Government Public Sector Entities	77	478	90	562	84	517	99	281	63	212
Multilateral Development Banks (MDBs)	0	49	0	0	0	0	0	0	0	0
Group Bank - Parent, Branch, Subsidiary or Affiliate	866	287,158	1,844	234,394	4,627	173,804	1	157,187	115	153,065
Group non-bank entities	4,648	147,672	321	164,717	432	139,428	1,930	88,240	1,870	78,079
Other banks	25	1,695	158	2,249	323	7,455	184	3,510	80	3,565
Non-financial Corporations - Commercial Private Sector	1,359	48,551	1,676	47,944	1,733	45,821	1,540	37,286	1,505	31,325
Non-Financial Corporations - Commercial Mortgages	328	1,993	88	1,834	175	1,953	255	1,752	238	3,944
Other financial Corporations - Financial Intermediaries	927	9,271	929	17,362	841	13,769	941	15,818	563	15,343
Retail Lending/Consumer Loans - Households	325	2,269	355	2,547	351	3,154	352	2,942	346	2,290
Residential Mortgages - Households	1,643	923	1,823	767	1,869	829	1,925	608	1,972	436
Other loans and advances	212	16,427	144	17,706	176	14,348	140	11,968	131	12,038
TOTAL	**11,028**	**517,164**	**8,019**	**490,972**	**11,202**	**402,006**	**7,786**	**320,551**	**7,231**	**301,090**

Table 6 shows the jurisdictions with the highest loan exposure for Cayman banks and their share in total loans for the banking sector. While it was noted in Figure 3 that the South American region currently holds the most bank licences, the majority of assets are held by licensees in Europe and the Asia and Pacific regions.

Table 6: Loan Exposure of Licensed Banks by Jurisdiction as at 31 December 2017

Position	Country	Gross Loans ($)	% of Total Sector Loans
1	Switzerland	94,153	30.54
2	Australia	48,569	15.75
3	Japan	32,360	10.50
4	Canada	15,296	4.96
5	Brazil	10,670	3.46
	All Other	107,272	34.79

Banking Sector - Liabilities Distribution

Further contraction in Deposits

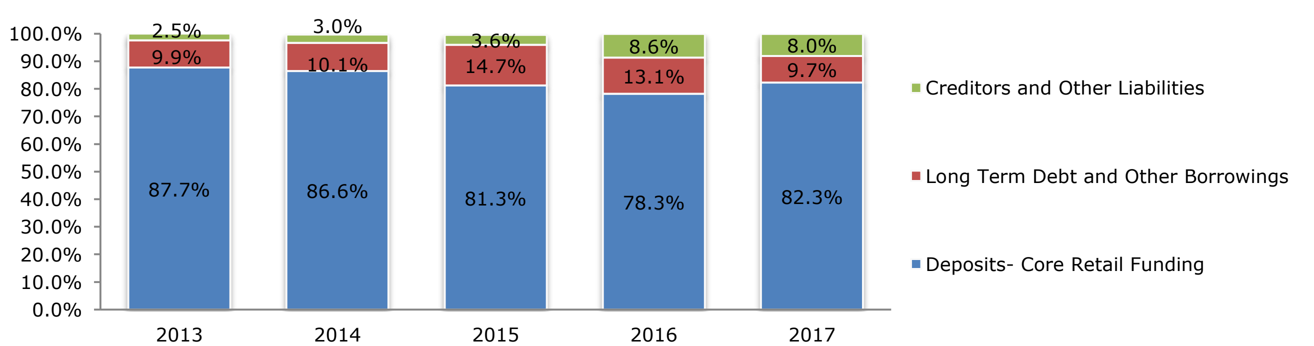
There was a further decline in total deposits in 2017, which fell to $732.3 billion, a notable decline of $80.2 billion (9.9%). Since 2014, core retail deposits have declined significantly from $1.3 trillion, translating to a 41.6% decline in 4 years as seen in Table 2.

Table 7: Liabilities Distribution for the Banking Sector as at 31 December 2017

	Category 'A' Banks	Category 'B' Banks	Total
Deposits	18,964	713,375	732,340
Repurchase Agreements (REPOS)	0	17,090	17,090
Hybrid Debt and Subordinated Debt	0	13,305	13,305
Other Notes, Bonds and Commercial Paper	0	34,124	34,124
Other Borrowings	1,603	62,936	64,539
Creditors and Other Liabilities	606	22,854	23,461
Other Loss Provisions	28	599	627
TOTAL LIABILITIES	**21,202**	**864,284**	**885,486**
TOTAL SHAREHOLDERS' EQUITY	2,552	39,523	42,074
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**23,753**	**903,807**	**927,560**

Borrowings increased slightly in absolute values from $64.0 million (2016) to $65.0 million (2017). This was mainly due to Swiss, Peruvian and Mexican banks increasing repos; Mexican and Brazilian banks increasing hybrid and subordinated debt; and Brazilian and Thai Banks increasing debt securities (other notes, bonds and commercial paper). Banking sector funding was consistently sourced from core retail deposits, which contributed 82.3% as seen in Figure 5.

Figure 5: Banking Sector Liabilities Distribution



Banking Sector - Loans to Funding and Liquidity Ratios

Banking Sector maintains stable Loan-to-Deposit and Liquidity Ratios

Loan-to-Deposit ratio (LTD), a measure of funding profile and liquidity, for the sector increased marginally from 40.4% in 2016 to 42.1% at the end of 2017. The increase was recorded because the percentage reduction in loans (6.1%) was smaller than that of deposits (9.9%).

Table 10: Liquidity Ratios as at 31 December 2017

	2013	2014	2015	2016	2017
Liquid Assets (Cash Items) to Short-Term Liabilities (Deposits up to 90 days)	67.4%	77.2%	78.5%	97.7%	82.7%
Liquid Assets (Cash Items) to Total Assets (Liquid Assets Ratio)	49.9%	51.4%	49.6%	48.3%	44.4%
Loans to Deposits Ratio	42.4%	39.8%	43.1%	40.4%	42.1%
Total Assets	1,404,768	1,450,089	1,177,628	1,037,984	927,560
Loans	524,508	499,243	413,209	328,337	308,321
Liquid Assets	701,092	745,997	583,789	501,311	412,137
Deposits	1,236,198	1,254,628	958,833	812,490	732,340
Short-Term Liabilities	1,040,503	966,595	743,425	513,131	498,158

Banking Sector - Funding Distribution

Contraction in Deposits from USA and Developed European Banks

Non-resident deposits constituted 94.8% of the $732.3 billion in total deposits and the decline in this sector accounted for 96.4% of the reduction in total deposits. The $77.3 billion decline in non-resident core retail deposit funding was largely attributable to the up-streaming of deposits by branches of USA banks to Parent Group bank and non-bank entities onshore. Resident core retail funding decreased by $2.9 billion from $40.8 billion (2016) to $38.0 billion (2017) which was due mainly to the decrease in intragroup activity of Cayman Islands' banks with head offices in South America.

Table 8: Profile of Deposits for the Banking Sector

Deposits	2013		2014		2015		2016		2017	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Sovereigns and Central Banks	565	4,394	552	4,444	767	2,777	700	2,306	716	953
Non Central Government Public Sector Entities (PSEs)	124	1,337	156	1,651	230	1,035	247	1,080	387	822
Multilateral Development Banks (MDBs)	0	78	0	165	0	60	0	200	0	220
Group Bank: Parent, Branch, Subsidiary or Affiliate	8,535	635,698	8,717	668,353	10,033	498,053	4,672	471,402	5,063	444,099
Group non-bank entities	3,273	140,328	7,629	160,321	5,276	103,599	4,676	57,802	5,433	49,520
Other Banks	4,918	39,681	5,973	56,825	8,020	28,137	5,270	14,561	786	14,991
Non-financial Corporations: Commercial Private Sector	7,215	146,683	8,868	143,910	4,848	117,042	5,931	109,120	6,746	101,755
Other Financial Corporations: Financial Intermediaries & Auxiliaries	8,846	197,875	13,813	147,076	14,717	110,043	14,420	91,988	14,384	59,263
Individuals - Households	1,817	4,321	1,925	4,625	2,094	4,848	1,921	3,834	1,827	2,982
Other Deposits	289	30,218	2,668	16,955	3,466	43,787	3,008	19,352	2,616	19,778
Total	**35,582**	**1,200,613**	**50,301**	**1,204,325**	**49,451**	**909,381**	**40,845**	**771,645**	**37,957**	**694,382**

Over the year ended December 2017, non-resident non-deposit funding declined by $11.4 billion (9.5%), following from a prior year decline of $38.9 billion (24.5%). The declines in both periods were mainly due to reductions in intragroup funding[19] through Other Borrowings $6.0 billion, Other Notes, Bonds and Commercial Paper $2.1 billion, and Repos $1.2 billion (Table 9).

Table 9: Distribution of Borrowings for Banking Sector

TOTAL TERM DEBT AND OTHER BORROWINGS	2013		2014		2015		2016		2017	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Repurchase Agreements (REPOS)	**836**	**8,755**	**1,817**	**16,582**	**5,076**	**9,734**	**5,849**	**10,417**	**8,609**	**8,481**
Group Bank - Parent, Branch, Subsidiary or Affiliate	836	847	1,817	3,532	4,502	3,146	1	6,010	0	4,776
Other Banks	0	7,744	0	8,065	574	5,166	624	866	819	1,859
Group non-bank entities	0	47	0	3,689	0	1,001	5,224	39	7,185	39
Other	0	117	0	1,296	0	421	0	3,502	605	1,807
Hybrid Debt And Subordinated Debt	**84**	**13,757**	**153**	**17,908**	**88**	**16,083**	**0**	**12,407**	**0**	**13,305**
Unsecured subordinated debt(over 5 years original term maturity)	84	8,017	153	9,662	88	8,648	0	5,259	0	6,155
Hybrid debt/equity instruments (over 5 years original term to maturity)	0	5,740	0	8,246	0	7,435	0	7,148	0	7,150
Other Notes, Bonds and Commercial Paper	**617**	**61,410**	**1,241**	**61,278**	**270**	**51,129**	**94**	**34,856**	**60**	**34,064**
Group Bank - Parent, Branch, Subsidiary or Affiliate	124	8,236	155	6,694	51	6,153	0	4,908	0	2,803
Group non-bank entities	398	24,485	146	17,240	60	12,465	0	301	0	1,046
Other Banks	0	21,654	911	23,402	158	18,806	94	17,345	44	15,270
Other	95	7,035	29	13,942	0	13,705	0	12,302	17	14,944
Other Borrowings (loans, overdrafts, credit facilities, etc.)	**172**	**53,471**	**700**	**47,372**	**9,109**	**81,722**	**10,299**	**62,064**	**12,008**	**52,532**
Group Bank - Parent, Branch, Subsidiary or Affiliate	154	20,132	300	18,105	300	54,925	1	44,240	45	38,191
Group non-bank entities	18	15,215	12	11,997	8,706	12,692	9,765	856	11,722	1,473
Other Banks	0	16,514	98	17,034	0	13,491	500	16,601	221	12,670
Other		1,610	290	236	102	614	33	367	21	197
Total Term Debt And Other Borrowings	**1,709**	**137,393**	**3,911**	**143,140**	**14,543**	**158,669**	**16,242**	**119,744**	**20,678**	**108,381**

Banking Sector - Earnings and Profitability

The banking sector reported improvements in income, reporting net losses of $1.0 billion at the end of 2017, following prior year losses of $2.0 billion. While the sector reported reductions in Operating Expenses of $0.9 billion, Net Interest Income and Net Non-interest Income reported significant declines of $2.6 billion and $0.7 billion, respectively.

Table 11: Summary of Earnings for Banking Sector

	2013	2014	2015	2016	2017
Net Interest Income	2,779	2,568	3,120	4,344	1,735
Net Non-Interest Income	1,725	1,302	1,107	2,115	1,394
Provisions For Credit Losses /Recoveries	219	1,881	302	1,459	355
Other Income/(Losses)	1,793	1,865	1,644	-585	-1,621
Trading Income (Gain/Loss on Financial Instruments)	1,379	1,252	1,957	-2,145	515
Operating Income	7,039	4,863	7,102	663	965
Operating Expense	1,065	1,238	2,127	2,413	1,532
Net Income Before Taxes & Dividends	**5,838**	**3,527**	**4,869**	**-1,963**	**-984**

The improvements were reflected in the ROAA and ROAE for 2017, recording -0.1% (2016: -0.2%) and 8.7% (2016: 7.0%), respectively (see Figures 6 and 7).

[19] Through parent, subsidiary or affiliate banks in the group

Figure 6: Return on Assets for Banking Sector

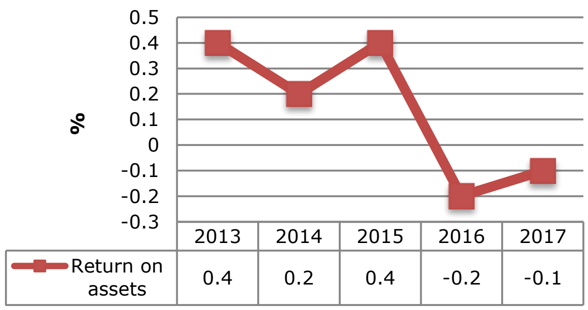
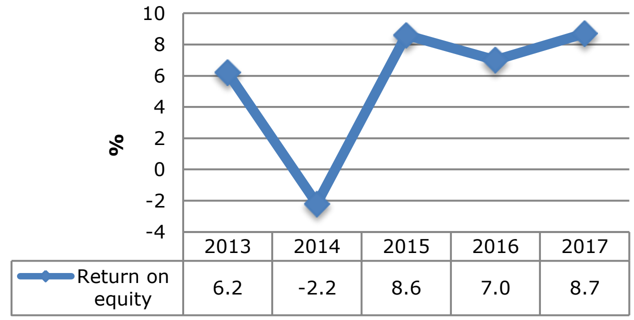


Figure 7: Return on Equity[20] for Banking Sector



Banking Sector - Non-Performing Loans and Provisioning

Improvement in Asset Quality for the Sector, satisfactory provisioning

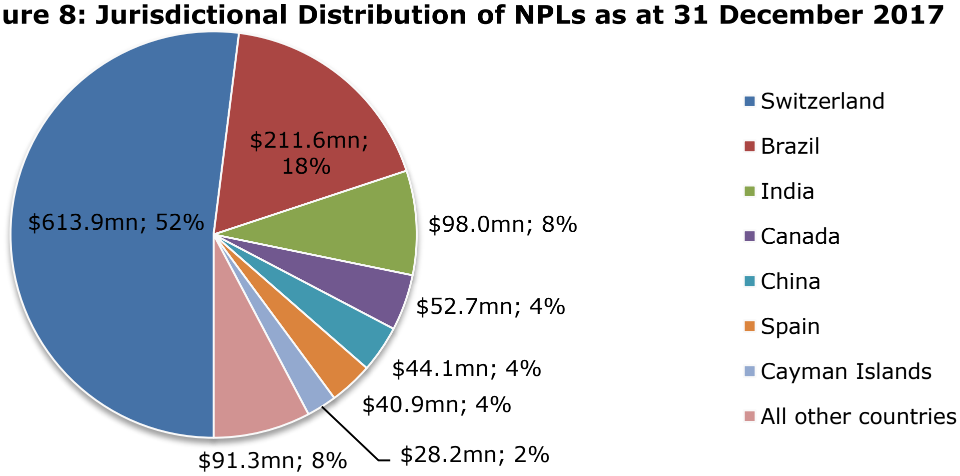
Total NPLs decreased by 55.7% ($1.5 billion) to $1.2 billion at the end of 2017. Provisions for Loan Losses (PLL) totalled $1.4 billion, which represented 122.3% of total NPLs (Table 12).

Table 12: Trend showing NPL Ratios for Banking Sector

	2013	2014	2015	2016	2017
NPLs:Total Loans	0.4%	0.6%	0.6%	0.8%	0.4%
Total Loan Loss Provisions:NPLs	65.6%	100.4%	75.1%	68.9%	122.3%
Specific Loan Loss Provisions:NPLs	43.4%	89.6%	63.5%	54.4%	82.3%
General Loan Loss Provisions:NPLs	22.3%	10.7%	11.6%	14.5%	40.0%
NPLs	2,219	2,949	2,615	2,670	1,181
Total Loan Loss Provisions	1,456	2,960	1,964	1,840	1,444
Specific Loan Loss Provisions	*963*	*2,643*	*1,659*	*1,453*	*972*
General Loan Loss Provisions	*494*	*317*	*305*	*387*	*472*
Total Loans	528,191	498,990	413,209	328,337	308,321

Figure 8 shows the geographic distribution of NPLs of CIMA-licensed banks as at December 2017. The majority of these NPLs are being reported by Category 'B' branches with non-resident exposures.

Figure 8: Jurisdictional Distribution of NPLs as at 31 December 2017



[20] Excluding Category 'B' branch entities.

Section II: Cross-border Assets and Liabilities

International and Domestic Positions

A financial centre facilitating the global movement of capital

The total positions booked by Cayman-based banks in 2017 declined to $934.0 billion and $934.1 billion in assets and liabilities, respectively. These movements followed the negative trend from 2016 and represented 10.3% ($107.6 billion) and 10.4% ($107.9 billion) declines in assets and liabilities year on year to 2017, respectively. This contraction resulted in the decline in ranking of the Cayman Islands international banking position to 10th and 9th for both cross-border assets and liabilities respectively.

The declines largely originated from cross-border positions which constitute 99.8% and 93.6% of assets and liabilities, respectively. Cross-border assets and liabilities declined by 8.8% ($90.0 billion) and 11.3% ($110.9 billion) to $931.9 billion and $874.4 billion, respectively. The BIS quarterly review for December 2017 highlighted the trend of global reallocation of banks' credit risks. "*Banks transfer a large amount of credit risk out of financial centres, such as the United Kingdom or the Cayman Islands, resulting in large negative net risk transfers. At end-June 2017 credit risks with a notional value of close to $200 billion (16% of foreign claims on an immediate counterparty basis) were transferred out of the Cayman Islands on a net basis.*"[21]

Assets booked in the domestic economy declined by 14.4% ($2.9 billion) while domestic liability positions increased slightly by 1.7% ($979.0 million) to $57.7 billion.

Figure 9: Regional Cross-Border & Domestic Assets

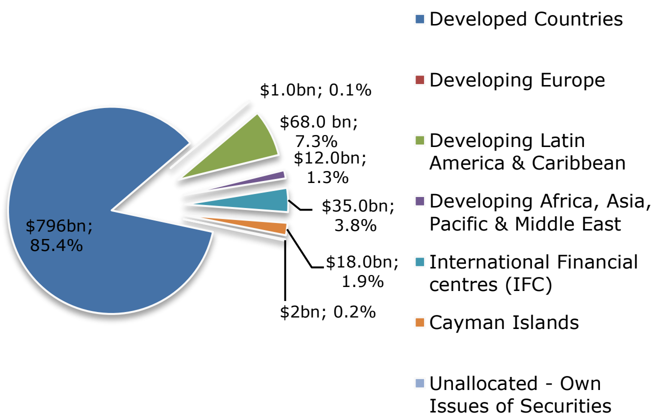
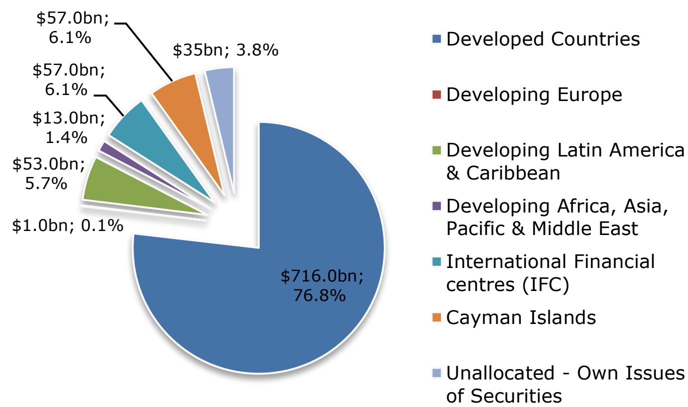


Figure 10: Regional Cross-Border & Domestic Liabilities



Net Flows - Cross-Border and Domestic - By Region

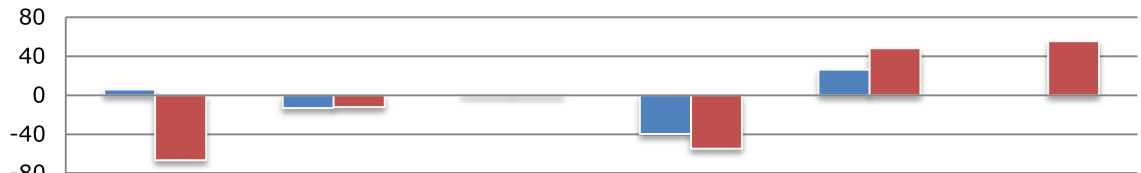
Net Flows from the assets and liabilities held on banks' balance sheets and cross-border and domestic positions booked reflect the movement of capital flows from Developed European Countries, Latin America and the Caribbean and Africa, Asia, Pacific and the Middle East jurisdictions. These funds flow to Developed Non-European Countries (primarily the USA), International Offshore Centres and other related Cayman Islands licensed entities.

A decomposition of the banking sector's net flows by region highlights the role of the Cayman Islands as a financial intermediary facilitating capital flows within advanced economies as reflected by the significant flow of funds between Europe and the United States.

[21] Source: Risk transfers in international banking, Aldosora and Ehlers. BIS Quarterly Review, 2017: https://www.bis.org/publ/qtrpdf/r_qt1712b.htm

These net flows further highlight the role of the Cayman Islands as an International Financial Centre (IFC), where the banking sector facilitates the provision of cross-border liquidity, credit and access to international markets to raise capital and foreign currency to expand operations and global market share.

Figure 11: Cross-border Net Flows by Ultimate Parent (US$ billions)



	Developed Countries	Developing Asia Pacific, Africa & Middle East	Developing Europe	Developing Latin America & Caribbean	International Financial centres (IFC)	Cayman Islands
Assets 2017	6	-13	1	-40	26	0
Liabilities 2017	-67	-12	1	-55	48	55

Domestic Positions - Foreign and Local Currency

Transactions in the real economy and with other Cayman Islands licensed entities

Of the $18.3 billion in assets and $58.2 billion in liabilities booked in the domestic economy, Category 'A' banks booked $3.8 billion in assets and $10.4 billion in liabilities. Category 'B' banks booked $14.6 billion in assets and $47.7 billion in liabilities.

Category 'A' banks domestic asset positions are booked primarily with resident Households and Non-Financial Corporations (Commercial Private Sector and Mortgages). Category 'B' banks' domestic assets positions are mainly interbank and intragroup positions with other Cayman Islands licensed banks and entities, and bookings with other Cayman Islands licensed exempt[22] or ordinary non-resident companies, which are considered residents of the domestic economy by being legally domiciled, though not carrying on business in the domestic economy.

Table 13: Domestic Asset & Liabilities Positions as at 31 December 2017

	Category 'A'		Category 'B'	Total
Domestic Assets	Retail	Non-retail		
Cash Items	223	56	1,804	2,083
Financial Assets at Fair Value	0	0	4,110	4,110
Investments: Held-to-Maturity	0	0	38	38
Investments: Available-for-Sale	4	0	1,202	1,206
Other Investments	10	10	219	239
Loans and Advances	2,928	193	3,280	6,401
Less Loan Loss Provisions	*31*	0	22	53
Net Loans	2,897	193	3,257	6,347
Other Assets	244	95	3,854	4,193
TOTAL ASSETS	**3,410**	**355**	**14,505**	**18,270**
Domestic Liabilities				
Deposits	6,767	3,380	26,725	36,872
Repurchase Agreements (REPOS)	0	0	8,609	8,609
Hybrid Debt & Subordinated Debt	0	0	0	0
Other Notes, Bond & Commercial Paper	0	0	36	36
Other Borrowings	0	0	12068	12068
Creditors & Other Liabilities	140	138	240	518
Other Loss Provisions	13	0	39	52
TOTAL LIABILITIES	**6,921**	**3,518**	**47,680**	**58,155**

Of the US$58.1 billion in liabilities positions booked in the domestic economy, 63.4% or US$36.9 billion was in retail deposits, while funding from Other Borrowings and Repurchase Agreements cumulatively contributed 35.6% or US$20.7 billion. Category 'A' banks held $10.1 billion in deposits, of which $8 billion was mainly

[22] These license exempt companies are considered residents because they are legally domiciled through licensing.

from Households and Non-Financial Corporations and $2 billion from Other Financial Corporations (mainly investment funds). Category 'B' banks booked $47.7 billion in deposits, primarily from interbank and intragroup Deposits and raised $15 billion in wholesale funding from resident Group non-bank entities

Box 2: Banking Sector Developments

Introducing the Cayman Islands' First Automated Clearing House (ACH)

ACH (Cayman) Limited was established in 2017 to facilitate the Cayman Islands Automated Clearing House (CIACH). CIACH is an electronic payment and cheque imaging system that is shared by participating banks in the Cayman Islands. Payments and clearing between commercial banks in the Cayman Islands were previously done manually via a multilateral agreement. The Cayman Islands Bankers Association (CIBA) formalised a plan to establish an automated payment and clearing system domestically that would provide two critical functions; electronic funds transfers (EFT) and cheque image exchange (CIE) to speed up the payments and clearing process. With the introduction of the payment and clearing system, CIBA expects that the clearing/payment system will become much more efficient with a reduction in the cheques being used as well as faster clearing and settlement time when cheques are used. It is expected that the system will reduce interbank transactions from two to three business days to same-day, once transactions take place within the designated hours.

The CIACH adopted a phased approach to implementation. The first phase brought the introduction of EFT which facilitates the electronic movement of direct debit and credit transactions in both Cayman Islands dollars and United States dollars to personal and corporate accounts held in the Cayman Islands. The second phase of the project is the implementation of the Electronic Cheque Image Exchange.

On Developing a D-SIB Framework for the Cayman Islands

In April 2015, the Board of the Cayman Islands Monetary Authority approved a Macroprudential Policy Framework for implementation in the jurisdiction. A core component in this framework is the identification of domestic systemically important banks (D-SIBs) in line with the Basel Committee on Banking Supervision (BCBS) related principles effected in January 2016. To this end, the Authority is in the process of developing a D-SIB Framework for the Cayman Islands which is based on the view that systemic importance should be measured in terms of the potential impact of a bank's failure on the domestic economy. The proposed assessment methodology will be aligned with the principles set out by the BCBS for identifying banks that are of domestic systemic importance and includes the suggested factors of size, inter-connectedness, substitutability and complexity. A fifth indicator will be considered to capture the level of systemic importance of any one bank to the household sector, that is, domestic content.

I. **Size** - Banks with a large share of the domestic banking activity will have more of an impact on the real economy and the collapse of a large bank is more likely to damage confidence in the financial system.

II. **Interconnectedness** - The degree to which banks have connections to other financial institutions is an important measure because it increases the risk that distress in one institution may lead to another institution being negatively impacted.

III. **Substitutability** - Some banks are more systemically important because customers and other market participants are heavily dependent on them to provide key banking services, most importantly of which, is access to credit.

IV. **Complexity -** A bank's systemic importance is higher if its business model and operations are complex and difficult to assess with respect to risks. Complex banks require more time and resources to resolve issues when they are in distress.

V. **Domestic Content -** The proposed CIMA D-SIB Framework uses this indicator to identify banks with a significant reliance on domestic household funding.

Section III: Category 'A' Banks

Category 'A' Non-retail Banks

Non-retail Banks - Balance Sheet Profile

Subsector records asset growth

Total assets of Category 'A' non-retail banks recorded an increase of 2.3% ($190.0 million); while liabilities declined slightly by 0.1% ($9.0 million). The growth in assets was largely as a result of increases in Cash Items (47.1% or $1.3 billion) to close 2017 at $4.1 billion. The growth in Cash Items was significantly funded by divestments of Held-to-Maturity securities (-$999.0 million) and $160.0 million of deposit growth. All other asset items recorded marginal declines, with the exception of Other Assets which increased by 0.7%. The fall in liabilities was significantly due to downward movements in Other Borrowings ($91.0 million) and Creditors and Other Liabilities ($77.0 million). The declines were offset by a 2.8% increase in Deposits, moving from $5.8 billion in 2016 to $5.9 billion at the end of 2017.

Table 14: Assets and Liabilities for Category 'A' Non-retail Banks

	2013	2014	2015	2016	2017
ASSETS					
Cash Items	5,105	5,282	3,630	2,773	4,078
Financial Assets at Fair Value	18	38	0	1	0
Investments - Held-to-Maturity	159	135	500	999[23]	0
Investments -Available-for-sale	21	50	6	6	5
Other Investments	16	4	4	199	117
Loans and Advances	2,087	2,673	4,749	4,312	4,279
Net Loans	2,086	2,673	4,749	4,312	4,279
Other Assets	299	366	221	143	144
TOTAL ASSETS	**7,705**	**8,548**	**9,110**	**8,434**	**8,624**
LIABILITIES					
Deposits	5,933	6,666	6,271	5,750	5,910
Repurchase Agreements (REPOS)	0	0	0	0	0
Hybrid Debt and Subordinates Debt	0	0	0	0	0
Other Notes, Bonds and Commercial Paper	0	0	0	0	0
Other Borrowings	288	321	1,707	1,645	1,554
Creditors and Other Liabilities	463	538	425	481	404
Other Loss Provisions	0	2	0	0	0
TOTAL LIABILITIES	**6,684**	**7,527**	**8,403**	**7,877**	**7,868**
SHAREHOLDERS' EQUITY	1,021	1,021	707	557	756
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**7,705**	**8,548**	**9,110**	**8,434**	**8,624**

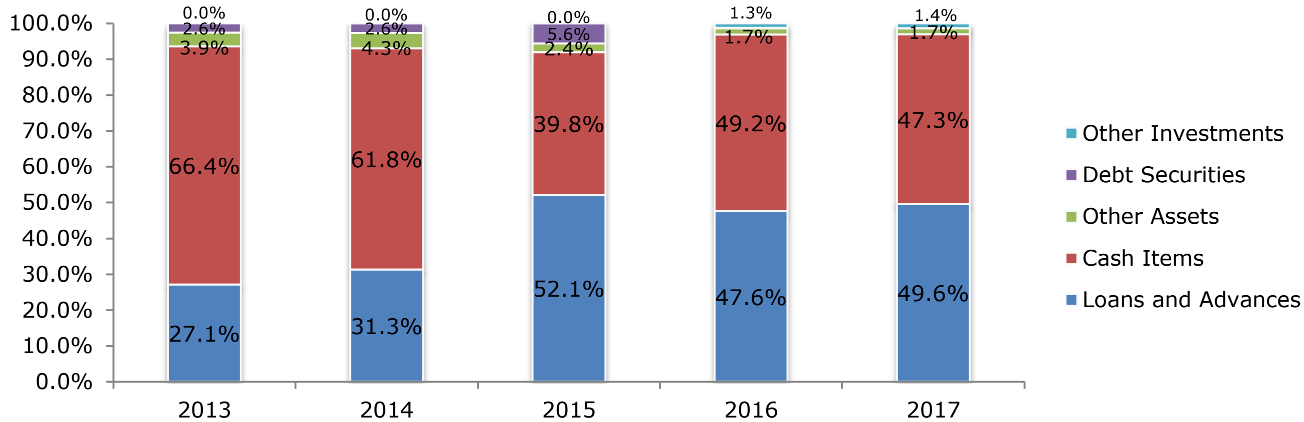
Shareholders' Equity rebounded in 2017 following two consecutive years of declines, recording an increase of 35.7% or $199.0 million.

[23] Reflects investments held by one Category 'A' non-retail bank with sovereigns/central banks.

Non-retail Banks - Asset Distribution

Asset distribution in Non-Retail banks remained relatively stable year on year as Cash Items and Loans and Advances represented 47.3% and 49.6% of assets, compared to 49.2% and 47.6% in the prior year, respectively.

Figure 12: Asset Distribution Trend for Category 'A' Non-retail Banks



Non-retail Banks - Assets: Cash Items, Loans and Advances

Of the $8.6 billion in assets held at end 2017, Cash Items accounted for $4.1 billion and Loans and Advances accounted for $4.3 billion. Cash placements with non-resident parent groups accounted for 98.6% of the $4.1 billion in Cash Items, $4.1 billion (95.5%) of the $4.3 billion in Loans and Advances were with non-residents.

Table 15: Cash Items and Loans & Advances for Category 'A'Non-retail Banks

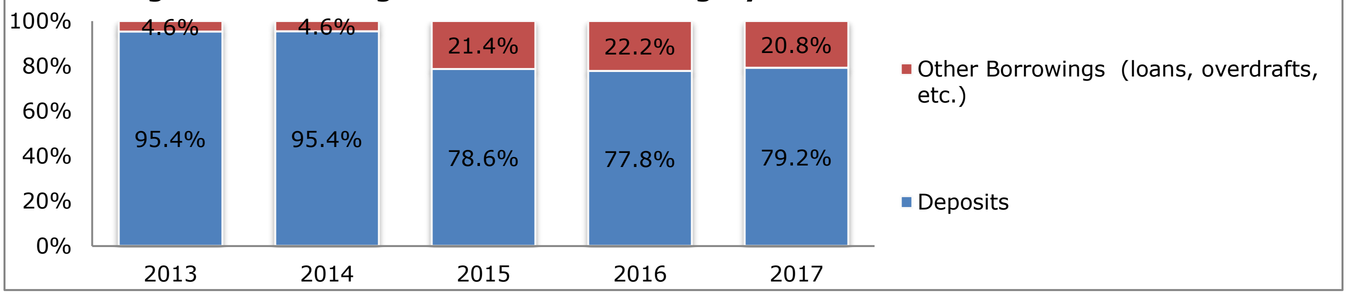
	2013		2014		2015		2016		2017	
Cash Items[24]	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Balances & CDs :	56	5,049	18	5,262	20	3,564	29	2,743	56	4,022
Group Bank - Parent, Branch, Subsidiary, Affiliate	*38*	*4,716*	*6*	*4,899*	*10*	*3,470*	*13*	*2,724*	*49*	*3,972*
Other Banks	*18*	*333*	*12*	*363*	*10*	*94*	*16*	*19*	*7*	*50*
Due from financial institutions	0	0	0	2	0	46	0	0	0	0
Total Cash Items	**56**	**5,049**	**18**	**5,264**	**20**	**3,610**	**29**	**2,743**	**56**	**4,022**
Loans & Advances[25]										
Group Bank - Parent, Branch, Subsidiary or Affiliate	0	0	0	0	0	0	0	1	0	0
Group non-bank entities	154	4	146	0	0	0	0	0	0	0
Non-Financial Corporations - Commercial Private Sector	29	586	13	952	0	2,761	0	2,527	0	2,410
Other Financial Corporations - Financial Intermediaries	160	27	277	54	132	45	123	19	193	78
Retail Lending/Consumer Loans - Households	0	1083	0	1,175	0	1,791	0	1,637	0	1,587
Residential Mortgages - Households	4	1	24	4	0	0	0	0	0	0
Other Loans and Advances	0	40	1	28	0	19	0	11	0	11
Total Loans & Advances	**347**	**1,741**	**461**	**2,213**	**132**	**4,616**	**123**	**4,195**	**193**	**4,087**

[24] Cash, Gold and bullion, Cash items in process of collection – nil balances
[25] Sovereigns & Central Banks, Non Central Government Public Sector Entities (PSEs), Multilateral Development Banks (MDBs), Group Bank - Parent, Branch, Subsidiary or Affiliate, Other Banks, Non-Financial Corporations - Commercial Mortgages – nil balances

Non-retail Banks - Funding Distribution

Category 'A' non-retail banks' funding was 79.1% or $5.9 billion from core retail funding and 20.9% ($2.0 billion) from borrowings. This composition remained relatively stable when compared to the two previous years, as seen in Figure 13. The increase in core retail deposits funding was seen in resident Other Financial Corporations (mainly investment funds) sectors.

Figure 13: Funding Distribution for Category 'A' Non-Retail Banks



Other Financial Corporations (largely comprised of investment funds) accounted for 66.0% ($3.9 billion) of the $5.9 billion in deposits reported at end of 2017. Of the $3.9 billion, $3.3 billion and $608.0 million were from residents and non-residents, respectively. This high level of funding from the investment funds sector highlights the interconnectedness of the non-retail banks (investment banks) to the investment funds sector in the resident economy.

Table 16: Profile of Deposits for Category 'A' Non-retail Banks

	2013		2014		2015		2016		2017	
DEPOSITS	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Sovereign	0	0	0	0	0	0	0	0	0	0
Non-Central Government Public Sector Entities (PSEs)	0	0	0	0	0	0	0	0	0	0
Multilateral Development Banks (MDBs)	0	0	0	0	0	0	0	0	0	0
Group Bank - Parent, Branch, Subsidiary or Affiliate	0	0	14	1	0	0	93	0	78	0
Group non-bank entities	2	2	0	0	0	0	0	0	0	0
Other Banks	2	0	3	13	0	7	0	0	0	1
Non-Financial Corporations: Commercial Private Sector	180	341	258	742	0	646	0	886	0	949
Other Financial Corporations: Financial Intermediaries	3,908	1,205	4,234	1,035	3,505	516	3,155	481	3,291	608
Individuals - Households	28	232	31	301	16	956	7	1,098	11	946
Other Deposits	0	33	0	32	0	623	0	30	0	26
TOTAL	**4,120**	**1,813**	**4,540**	**2,124**	**3,521**	**2,748**	**3,255**	**2,495**	**3,380**	**2,530**

Category 'A' - Retail Banks

Retail Banks - Financial Soundness Indicators

Capital Adequacy Ratio

The CAR for the six retail banks remained above the 8.0% benchmark prescribed by the Basel II Accord and the 10.0% requirement of the BTCL.

Asset Quality

The NPL ratio continued to decline through December 2017, recording a fall from 2.1% in 2016 to 1.8% in 2017. The reported improvements in asset quality were largely due to improvements in the economic environment over the review period.

Earnings and Profitability

Return on equity (ROE) showed a minimal decline during the period to 13.1% from 2016's 13.3%. The dip in the ROE is as a result of the increase in equity outpacing the increase in net income.

Liquidity

Liquidity amongst retail banks showed improvements in 2017 as reflected in key liquidity ratios, including the liquid assets to total assets ratio, which increased by 9 percentage points to 33.5%. The liquid assets to short-term liabilities ratio also recorded an increase moving from 38.2% in 2016 to 53.4% in 2017.

Table 17: Core Financial Soundness Indicators for Category 'A' Retail Banks

Core Financial Soundness Indicators					
Indicator (%)	**2013**	**2014**	**2015**	**2016**	**2017**
Capital Adequacy					
Regulatory Capital to risk-weighted assets	18.3	17.6	18.9	19.0	22.2
Regulatory Tier 1 Capital to risk-weighted assets	17.5	16.0	17.1	16.8	19.8
Regulatory Tier II Capital to risk-weighted assets	0.8	1.6	1.8	2.2	2.4
Total Regulatory Capital to Total assets	9.6	10.7	10.5	10.8	11.5
Non-performing loans (net of provisions) to capital	13.8	9.8	7.5	6.1	3.8
Asset Quality					
Non-performing loans to total Gross Loans	3.8	2.7	2.5	2.1	1.8
Total loan loss provisions to non-performing loans	27.9	41.6	46.2	47.5	54.4
Specific provisions to non-performing loans	23.2	29.9	33.5	34.7	42.1
Earnings and Profitability					
Return on equity	8.4	8.1	11.2	13.3	13.0
Return on assets	0.96	0.98	1.3	1.5	1.6
Interest margin to gross income	69.6	71.9	69.7	69.9	70.0
Non-interest expenses to gross income	58.0	58.3	54.0	50.2	48.7
Liquidity					
Liquid assets (core) to total assets ****	35.5	24.2	25.7	24.5	33.5
Liquid assets (core) to short-term liabilities ***	49.9	35.6	39.2	38.2	53.4

****Liquid assets (core) are defined as Cash Items. Short-Term Liabilities are Deposits up to 90 days*

Retail Banks - Balance Sheet Profile

Significant increase in asset base, with notable decline in the credit portfolio

The retail sector assets recorded a 5.1% increase ($731.0 million) in 2017, moving from $14.4 billion in 2016 to $15.1 billion. The expansion was largely attributable to the increase of $1.5 billion in Cash Items over the year. Other major asset groups recorded declines, with Loans and Advances falling by 10.3% ($758.0 million) and Total Investments falling slightly by 1.3% ($43.0 million).

On the Liabilities side, there was an overall increase of 4.3% ($555.0 million), a direct result of the 4.5% ($561.0 million) increase in Deposits. The increase in core retail deposits was due to an increase in resident deposits reflecting improvements in the domestic macro-economic environment.

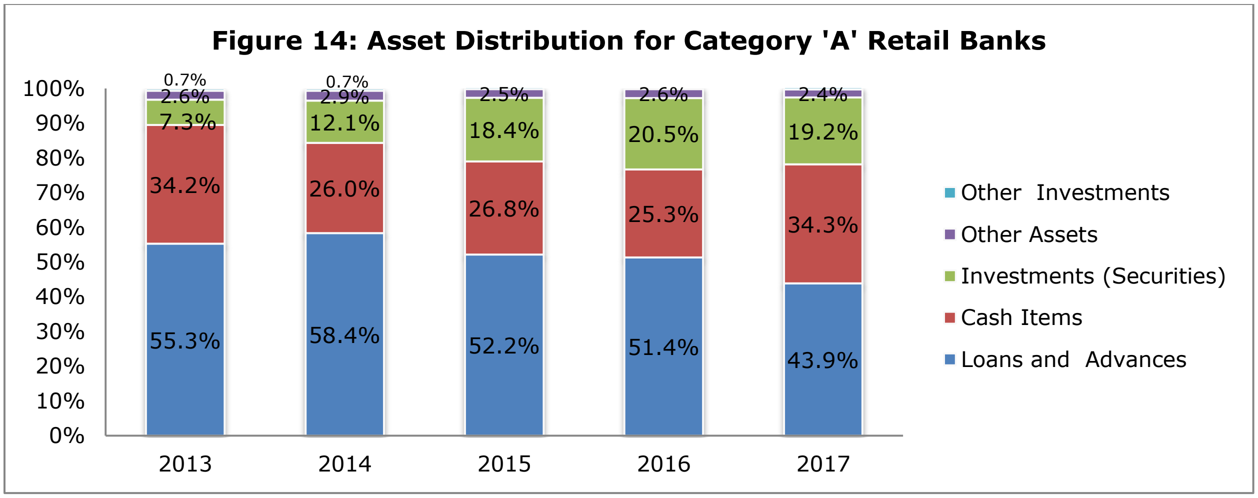
Table 18: Assets and Liabilities for Category 'A' Retail Banks

	2013	2014	2015	2016	2017
ASSETS					
Cash Items	5,025	3,108	3,753	3,648	5,189
Financial Assets at Fair Value	13	12	14	8	4
Investments - Held-to-Maturity	200	253	641	912	906
Investments - Available-for-Sale	957	1,304	1,931	2,032	1,999
Other Investments	100	89	88	88	88
Loans and Advances	7,350	7,788	7,332	7,394	6,636
Net Loans	7,293	7,727	7,273	7,340	6,585
Other Assets	375	337	342	369	359
TOTAL ASSETS	**13,963**	**12,830**	**14,042**	**14,398**	**15,129**
LIABILITIES					
Deposits	12,234	11,263	12,271	12,493	13,054
Repurchase Agreements (REPOS)	0	0	0	0	0
Hybrid Debt and Subordinates Debt	0	0	0	0	0
Other Notes, Bonds and Commercial Paper	0	0	0	0	0
Other Borrowings	0	0	0	55	50
Creditors and Other Liabilities	207	52	186	202	202
Other Loss Provisions	25	34	31	28	28
TOTAL LIABILITIES	**12,466**	**11,349**	**12,488**	**12,778**	**13,333**
SHAREHOLDERS' EQUITY	1,497	1,481	1,554	1,619	1,796
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**13,963**	**12,830**	**14,042**	**14,398**	**15,129**

Shareholders' Equity for Category 'A' retail banks continued to increase, in contrast with the entire banking sector statistics which showed an overall decline. At the end of 2017, Shareholders' Equity totalled $1.8 billion compared with the $1.6 billion recorded in 2016.

Retail Banks - Asset Distribution

The asset distribution is reflective of a banking model focused on traditional retail banking services, that is, Loans and Advances continued to form the majority of assets (despite showing a declining trend), followed by Cash Items, constituting 43.7% and 34.3% of total assets, respectively (Figure 14).



Cash Items largely represent the placement of excess liquidity with Parent Groups Banks, mostly as a result of the absence of reserve requirements for banks in the Cayman Islands. The portion of retail banks' asset portfolio invested in securities contracted slightly, from 20.5%, to a still significant 19.2% of assets.

Retail Banks - Funding Distribution

The sector's funding from core retail deposits was 97.9% ($13.1 billion) and 0.4% ($50.0 million) in borrowings. Overall, funding increased by $555.0 million, from $12.8 billion (2016) to $13.3 billion due mainly to an increase in resident deposits of $647.0 million, which partially offset a decrease in non-resident deposits of $86.0 million. Retail banks consistently fund their credit assets with minimal use of borrowings (see Table 18).

Resident

Resident deposits increased by 9.0% ($647.0 million) to end 2017 totalling $7.9 billion which represented 60.2% of total deposits. Resident deposits were comprised mainly of deposits from Non-Financial Corporations ($2.3 billion), Other Financial Corporations ($2.2 billion) and Households ($1.8 billion).

Non-Resident

Non-resident deposits accounted for 39.8% ($5.2 billion) of total deposits, a slight contraction of 1.6% ($86.0 million) from 2016. Deposits by Group Banks of $3.1 billion continued to account for the majority of these deposits at 59.2%; followed by deposits from Non-Financial Corporations of $947.0 million, which represented 18.2% of total deposits.

Table 19: Profile of Deposits for Category 'A' Retail Banks

DEPOSITS	2013		2014		2015		2016		2017	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Sovereign	565	20	553	32	531	28	700	12	716	11
Non-Central Government Public Sector Entities (PSEs)	124	15	156	15	175	16	247	14	387	9
Multilateral Development Banks (MDBs)	0	0	0	0	0	0	0	0	0	0
Group Bank - Parent, Branch, Subsidiary or Affiliate	39	3,119	28	3,356	67	3,364	45	3,310	64	3,078
Group non-bank entities	98	0	56	0	36	0	10	7	1	0
Other Banks	150	1	243	2	100	1	132	7	83	10
Non-Financial Corporations - Commercial Private Sector	2,115	1,574	1,789	1,025	2,021	1,122	2,195	981	2,328	947
Other Financial Corporations - Financial Intermediaries	2,368	212	1,271	155	1,881	349	1,741	367	2,161	462
Individuals - Households	1,781	410	1,870	537	1,745	553	1,913	531	1,791	427
Other Deposits	194	360	210	70	245	69	221	61	321	257
TOTAL	**7,434**	**5,711**	**6,176**	**5,192**	**6,801**	**5,502**	**7,204**	**5,288**	**7,851**	**5,202**

Retail Banks - Assets: Cash Items

Table 20 higlights that cash items were primarily concentrated in non-resident Group Bank CDs, which reported an increase of 39.6% or $1.4 billion during 2017.

Table 20: Cash Items Distribution for Category 'A' Retail Banks

Cash Items	2013		2014		2015		2016		2017	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Cash	47	6	47	8	46	6	46	7	52	8
Gold and bullion	0	0	0	0	0	0	0	0	0	0
Cash items in process of collection	8	1	9	2	15	1	33	-3	13	2
Balances & CDs :	202	4,583	141	2,861	28	3,656	28	3,537	178	4,937
Group Bank - Parent, Branch, Subsidiary, Affiliate	*0*	*3,368*	*0*	*1,546*	*7*	*2,229*	*4*	*2,531*	*100*	*3,639*
Group non-bank entities	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other Banks	*202*	*1,215*	*141*	*1,315*	*21*	*1,427*	*24*	*1,006*	*77*	*1,299*
Due from financial institutions	0	179	0	40	0	0	0	0	0	0
TOTAL	**257**	**4,769**	**197**	**2,911**	**89**	**3,663**	**107**	**3,541**	**242**	**4,947**

Retail Banks - Loans: Resident and Non-Resident

Loans and Advances showed declines in both the resident domestic market and the non-resident market by $126.0 million and $631.0 million, respectively. Of the $6.6 billion in Loans and Advances, 56.7% ($3.7 billion) were resident loans, as expected in domestic commercial retail banks and 43.4% ($2.9 billion) were non-resident loans.

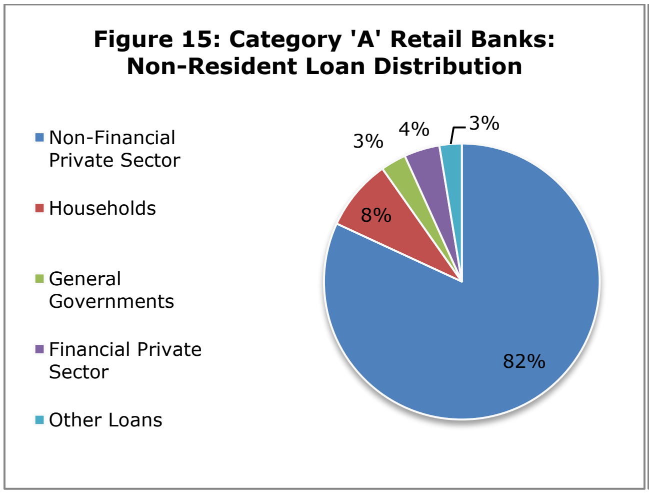
Credit to private sector residents decreased as loans to businesses[26] contracted by $61.0 million, primarily due to reductions in loans non-financial corporations and financial intermediaries. On the other hand, loans to households[27] expanded by $50.0 million, accounting for 61.9% ($2.3 billion) of resident loans, which represented the largest exposure of retail banks to the resident sector... Noteworthy was the reduction of $117.0 million in resident loans to Central Government and Public Sector entities.

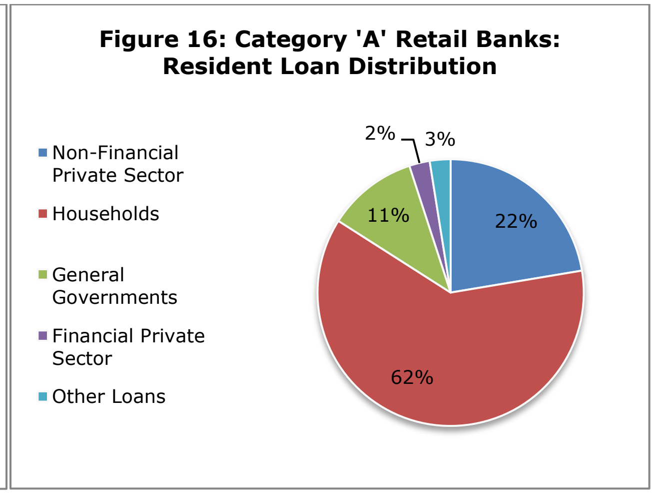
Table 21: Profile of Loans and Advances for Category 'A' Retail Banks

Loans and Advances	2013		2014		2015		2016		2017	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Sovereigns & Central Banks	472	15	481	15	476	74	429	71	348	37
Non Central Government Public Sector Entities (PSEs)	75	4	87	37	90	58	99	53	63	49
Multilateral Development Banks (MDBs)	0	0	0	0	0	0	0	0	0	0
Group Bank - Parent, Branch, Subsidiary or Affiliate	0	91	0	41	7	40	0	40	0	0
Group non-bank entities	22	0	10	0	8	0	6	0	8	0
Other Banks	0	0	0	0	0	0	0	0	0	0
Non-Financial Corporations - Commercial Private Sector	392	3,040	795	3,257	684	2,625	613	2,537	603	2,132
Non-Financial Corporations - Commercial Mortgages	463	234	156	217	181	238	255	221	238	224
Other Financial Corporations - Financial Intermediaries	18	114	19	104	103	75	120	124	86	120
Retail Lending/Consumer Loans - Households	319	25	378	71	346	36	352	46	346	53
Residential Mortgages - Households	1,604	226	1,728	228	1,864	277	1,925	359	1,972	187
Other Loans and Advances	185	50	95	68	86	62	86	57	95	75
TOTAL	**3,550**	**3,799**	**3,749**	**4,038**	**3,847**	**3,486**	**3,886**	**3,509**	**3,759**	**2,877**

[26] This includes group non-bank entities, non-financial corporations and financial intermediaries.
[27] This includes retail lending/consumer loans and residential mortgages to households.

The non-resident loans and advances were primarily comprised of facilities to non-financial private sector corporations, representing 82.0% of non-residential loans (Figure 15). Non-resident loans declined 18.0% ($632.0 million) during 2017 due to non-financial corporations (commercial private sector) falling 16.0% ($405.0 million) and.





Credit to the non-resident sector decreased by 18.0% ($631.0 million) to $2.9 billion in 2017, of which 82% or $2.1 billion were to non-financial corporations (Figure 15). Credit to the non-financial corporations (commercial private sector) decreased by 16.0% ($405.0 million) to $2.1 billion and household mortgages recording a 47.9% decline ($172.0 million). The decrease in credit to the non-resident sector is primarily due to banks in South American countries which are highly dependent on commodity exports and are subject to price volatility and could present some vulnerability. Concurrently, these exposures are funded by deposits from Parent Banks which also present some vulnerability to the potential for up-streaming of deposits in the event of a stress scenario.

Retail banks – Liquidity Ratios

During 2017, there was a substanstial increase of 42.2% or $1.5 billion in Liquid Assets, increasing the Liquid Assets to Short-term Liabilities ratio to 71.3% (2016: 41.7%). The movement was mainly influenced by the increases in Cash Items during the year[28], while Short-term Liabilities declined by $1.5 billion (Table 23).

The LTD ratio remained stable throughout the five-year period as loans and deposits continued to increase at a steady pace over the period.

Table 23: Liquidity Ratios for Category 'A' Retail Banks

Liquidity Ratios	2013	2014	2015	2016	2017
Liquid Assets (Cash Items) to Short-Term Liabilities (Deposits up to 90 days)	61.5%	37.5%	42.2%	41.7%	71.3%
Liquid Assets (Cash Items) to Total Assets (Liquid Assets Ratio)	36.0%	24.2%	26.7%	25.3%	34.3%
Loans to Deposits Ratio	60.1%	69.1%	59.8%	59.2%	50.8%
Total Assets	13,965	12,830	14,043	14,397	15,129
Loans	7,350	7,788	7,332	7,394	6,636
Liquid Assets	5,025	3,108	3,753	3,648	5,189
Deposits	12,235	11,263	12,271	12,493	13,054
Short-Term Liabilities	8,175	8,297	8,890	8,742	7,281

[28] see: Retail Banks - Assets: Cash Items

Retail Banks - Investments

Total investments declined marginally by $39.0 million, driven largely by reductions in Investments - Held-to-Maturity (HTM) specifically in Non-Central Government Public Sector Entities (PSEs) ($23.0 million) and in Investments - Available-for-Sale (AFS) in Other Banks ($33.0 million).

Table 22: Profile of Investments for Category 'A' Retail Banks

INVESTMENTS	2013		2014		2015		2016		2017	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Held-to-Maturity										
Sovereigns and Central Banks	0	8	0	23	0	5	0	17	0	8
Non Central Government Public Sector Entities (PSEs)	0	171	0	180	0	279	0	554	0	531
Multilateral Development Banks (MDBs)	0	6	0	21	0	26	0	18	0	41
Group Bank - Parent, Branch, Subsidiary or Affiliate	0	0	0	0	0	288	0	298	0	304
Group non-bank entities	0	0	0	0	0	0	0	0	0	0
Other Banks	0	15	0	23	0	10	0	17	0	17
Non-financial Corporations - Commercial Private Sector	0	2	0	6	0	12	0	8	0	5
Other financial Corporations - Financial Intermediaries	0	0	0	0	0	0	0	0	0	0
Total Held-to-Maturity	**0**	**201**	**0**	**252**	**0**	**620**	**0**	**912**	**0**	**906**
Available-for-Sale										
Sovereigns and Central Banks	10	145	9	112	13	493	12	323	10	406
Non Central Government Public Sector Entities (PSEs)	14	262	14	621	0	714	0	848	0	825
Multilateral Development Banks (MDBs)	1	61	1	82	0	23	0	99	0	55
Group Bank - Parent, Branch, Subsidiary or Affiliate	0	0	0	0	0	0	0	0	0	0
Group non-bank entities	0	0	0	0	0	0	0	0	0	0
Other Banks	0	290	0	368	0	573	0	582	0	549
Non-financial Corporations - Commercial Private Sector	0	70	0	88	0	100	0	156	0	142
Other financial Corporations - Financial Intermediaries	0	11	0	12	0	12	0	12	0	12
Total Available-for-Sale	**25**	**839**	**24**	**1,282**	**13**	**1,915**	**12**	**2,020**	**10**	**1,989**
TOTAL INVESTMENTS	**25**	**1,040**	**24**	**1,534**	**13**	**2,535**	**12**	**2,932**	**10**	**2,894**

Retail Banks - Earnings and Profitability

Retail banks reported improved earnings and profitability, recording a $13.0 million increase in Income before Taxes and Dividends; and a $24.0 million increase in Operating Income from $434 million in 2016 to $458.0 million in 2017. The increases in income sources were offset by increases in Operating Expenses ($11.0 million) and in PLL ($3.0 million). The sector reported Net Income Retained of $174.0 million in 2017, a US$3.0 million increase from the $171.0 million recorded in 2016.

Figure 17: Return on Assets for Category 'A' Retail Banks

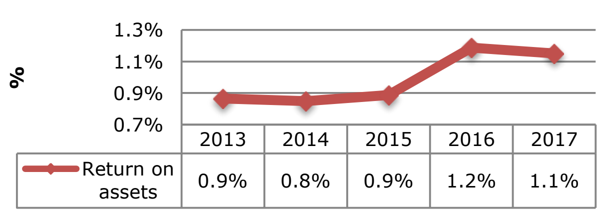


Figure 18: Return on Equity for Category 'A' Retail Banks

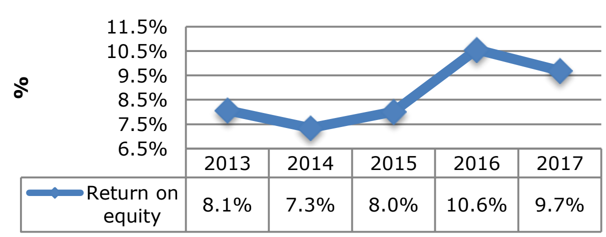


Table 24: Income Statement for Category 'A' Retail Banks

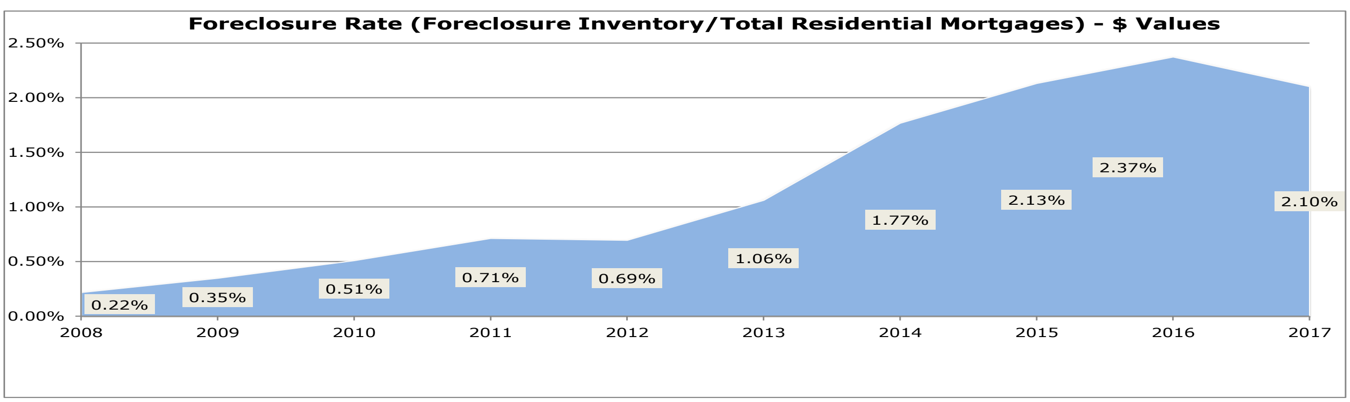
	2013	2014	2015	2016	2017
Net Interest Income	266	264	279	312	328
Net Non-Interest Income	74	72	79	95	104
Provisions For Credit Losses/Recoveries	-26	-29	-9	-8	-11
Trading Income (Gain/Loss On Financial Instruments)	32	24	34	32	35
Other Income	5	4	3	3	3
Operating Income	352	333	386	434	458
Operating Expenses	-215	-206	-210	-218	-229
Income Before Taxes & Dividends	137	126	175	216	229
Net Income Retained	121	109	125	171	174

Retail Banks - Non-Performing Loans

NPLs as a proportion of Total Assets declined from 2.1% in 2016 to 1.8% in 2017 reflecting improvements in asset quality due to continued improvements in macroeconomic conditions including increased employment and an overall improvement in economic activity[29]. Foreclosure rates[30] reflected a marginal decline in 2017 to 2.1%, falling from a peak in 2016 where it stood at 2.4%.

Table 25: NPL Ratio Trends for Category 'A' Retail Banks

	2013	2014	2015	2016	2017
%					
NPLs:Total Loans	3.8%	3.8%	3.8%	3.8%	3.8%
Total Loan Loss Provisions:NPLs	26.6%	26.6%	26.6%	26.6%	26.6%
$					
NPLs	277	209	199	149	124
Total Loan Loss Provisions	74	86	79	71	68
Specific Loan Loss Provisions	*49*	*52*	*48*	*43*	*40*
General Loan Loss Provisions	*25*	*34*	*31*	*28*	*28*
Total Loans	7,350	7,788	7,332	7,394	6,636



NPLs were highly concentrated in the residential mortgage portfolio, which represented 63.0% of total NPLs, followed by Non-Financial Corporations (Industrial and Commercial Private Sector), which represented 11.0% (Figure 19).

[29] Reflected in the 2.4% growth recorded GDP for the first three quarters of 2017
[30] The foreclosure rates captured only represent residential mortgages.

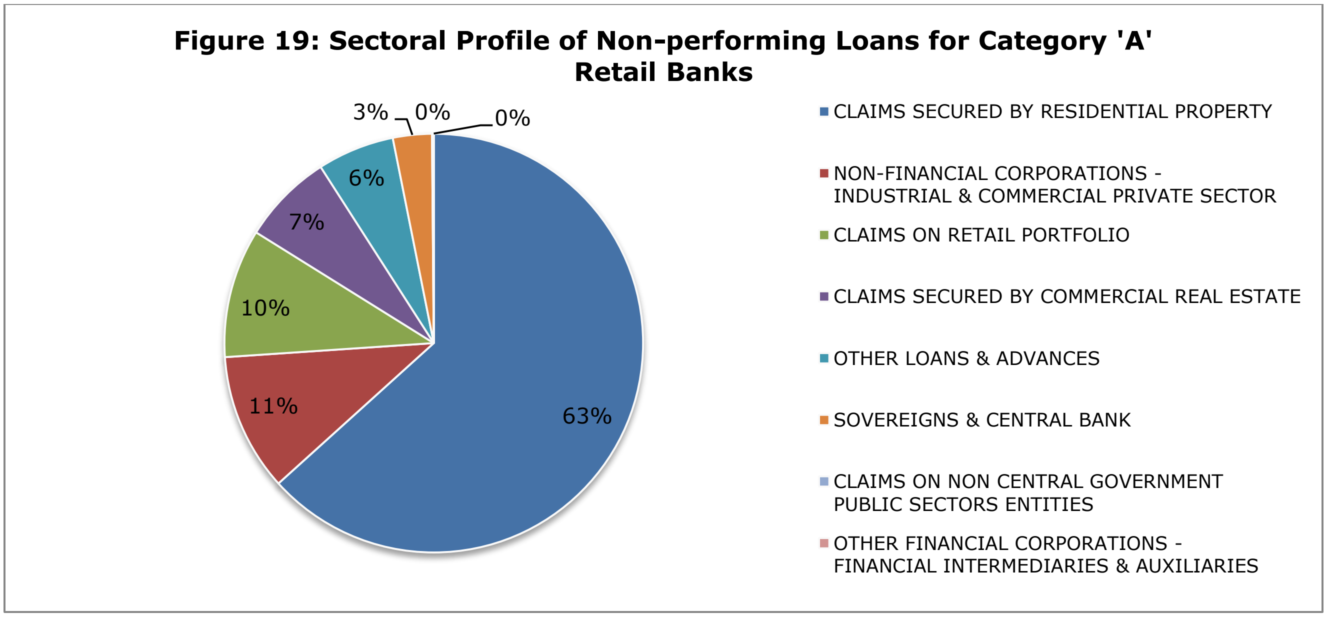


Figure 19: Sectoral Profile of Non-performing Loans for Category 'A' Retail Banks
3%
0%
0%
6%
7%
10%
11%
63%
CLAIMS SECURED BY RESIDENTIAL PROPERTY
NON-FINANCIAL CORPORATIONS - INDUSTRIAL & COMMERCIAL PRIVATE SECTOR
CLAIMS ON RETAIL PORTFOLIO
CLAIMS SECURED BY COMMERCIAL REAL ESTATE
OTHER LOANS & ADVANCES
SOVEREIGNS & CENTRAL BANK
CLAIMS ON NON CENTRAL GOVERNMENT PUBLIC SECTORS ENTITIES
OTHER FINANCIAL CORPORATIONS - FINANCIAL INTERMEDIARIES & AUXILIARIES

Section IV: Category 'B' (International) Banks

Category 'B' - Balance Sheet Profile

Given that Category 'B' banks are the larger component of the banking sector, the movements in the overall banking sector balance sheets are largely reflective of the changes in the balance sheets of these banks. The asset base fell below the trillion-dollar mark for the first time during the five-year period, recording $903.8 billion at the end of 2017, as the number of Category 'B' banks steadily declined during the period. The 11.4% ($111.3 million) contraction in assets was seen in the reduction of Cash Items and Loans and Advances of $92.0 million and $19.2 million, respectively.

On the Liabilities side, there was a smaller decline of 10.6% ($102.8 billion), a direct result of the 10.2% ($80.9 billion) decrease in Deposits; alongside declines in Other Liabilities of $15.0 billion and Other Borrowings of $7.7 billion.

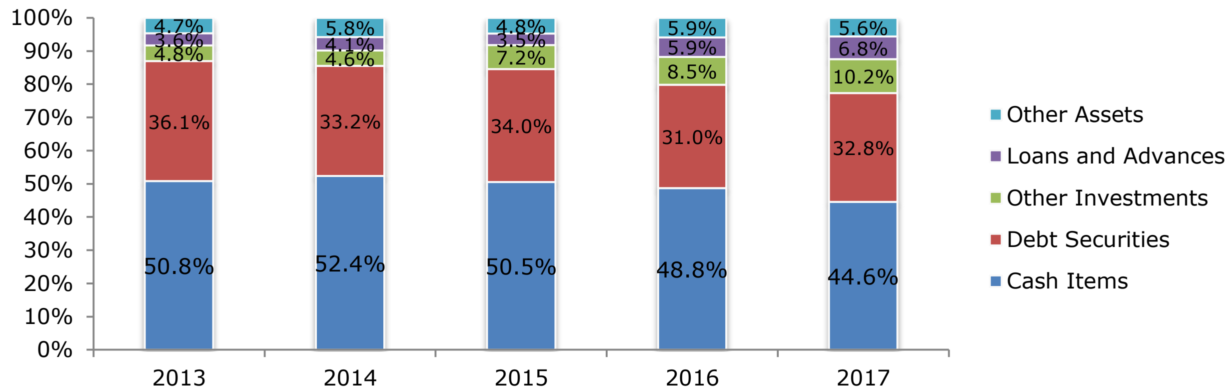
Table 26: Balance Sheet Profile for Category 'B' Banks

	2013	2014	2015	2016	2017
ASSETS					
Cash Items	692,990	738,769	576,465	494,890	402,870
Financial Assets at Fair Value	22,437	23,916	29,786	36,424	36,380
Investments - Held-to-Maturity	4,322	5,005	4,493	4,216	4,701
Investments -Available-for-sale	38,136	36,117	47,983	45,362	51,138
Other Investments	49,589	58,097	39,538	59,633	61,264
Loans and Advances	493,986	470,490	390,147	316,631	297,406
Less Loan Loss Provisions	964	2,638	1,727	1,454	981
Net Loans	493,022	467,852	388,420	315,177	296,425
Other Assets	63,444	81,149	54,353	59,450	51,028
TOTAL ASSETS	**1,363,939**	**1,410,905**	**1,141,037**	**1,015,152**	**903,807**
LIABILITIES					
Deposits	1,195,685	1,221,020	968,041	794,247	713,375
Repurchase Agreements (REPOS)	9,590	18,400	14,821	16,267	17,090
Hybrid Debt and Subordinates Debt	13,330	18,164	16,171	12,407	13,305
Other Notes, Bonds and Commercial Paper	61,662	61,749	49,674	34,950	34,124
Other Borrowings	53,021	47,679	48,822	70,662	62,936
Creditors and Other Liabilities	34,718	42,835	41,448	37,809	22,854
Other Loss Provisions	727	651	705	726	599
TOTAL LIABILITIES	**1,368,733**	**1,410,498**	**1,139,682**	**967,068**	**864,284**
SHAREHOLDERS' EQUITY	-4,794	407	1,355	48,085	39,523
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,363,939**	**1,410,905**	**1,141,037**	**1,015,152**	**903,807**

Category 'B' – Asset Distribution

Assets across Category 'B' banks were concentrated in Cash Items and Loans and Advances, representing 44.6% and 32.8%, respectively (see Figure 20). Over the period 2014 to 2017, there was a downward trend in the percentage holding of Cash Items by Category 'B' banks as a direct result of the closure of branch banks from developed countries.

Figure 20: Asset Distribution for Category 'B' Banks



Category 'B' – Cash Items, Loans and Advances

As a consequence of the decrease in the number of Category 'B' banks, total Cash Items declined by $92.0 billion in 2017, to $402.9 billion. The reduction in total Cash Items was largely reflective of the decline in CDs of $91.5 billion, and more specifically, Group bank CDs which declined by 19.0% ($90.5 billion). CDs booked in the resident sector, which represent a small proportion of total CDs (0.4%), recorded a 42.9% ($540.0 million) increase from $1.3 billion in 2016 to $1.8 billion in 2017, due to the activities of banks originating from the USA, Canada, Switzerland and Brazil.

Table 27: Cash Items Distribution per Residents and Non-Residents for Category 'B' Banks

CASH ITEMS	2013		2014		2015		2016		2017	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Cash	0	1,450	0	459	0	6	0	5	0	3
Gold and bullion	0	0	0	0	0	0	0	0	2	0
Cash items in process of collection	0	45	0	39	0	72	0	0	0	0
Balances and CDs:	5,338	677,098	3,932	729,757	7,294	567,262	1,258	492,351	1,798	400,281
Group Bank: Parent, Branch, Subsidiary or Affiliate	5,240	649,195	3,736	712,457	6,721	551,208	1,111	475,329	1,273	384,712
Group non - banking entities	0	15,101	73	7,787	0	5,230	11	6,561	15	6,221
Other banks	98	12,802	123	9,514	572	10,823	136	10,461	510	9,348
Due from financial institutions	18	9,040	4	4,577	1	1,830	0	1,276	4	782
Total	**5,356**	**687,633**	**3,936**	**734,833**	**7,295**	**569,170**	**1,258**	**493,632**	**1,804**	**401,066**

Total Loans and Advances of Category 'B' banks showed notable decreases since 2013, recording an overall reduction of a 39.8% ($196.6 billion) over the five year period.

During 2017, Category 'B' banks recorded a 6.1% ($19.2 billion) decline in non-resident Loans and Advances which was due to a reduction in intragroup and non-financial corporation activities of European, American and Canadian banks.

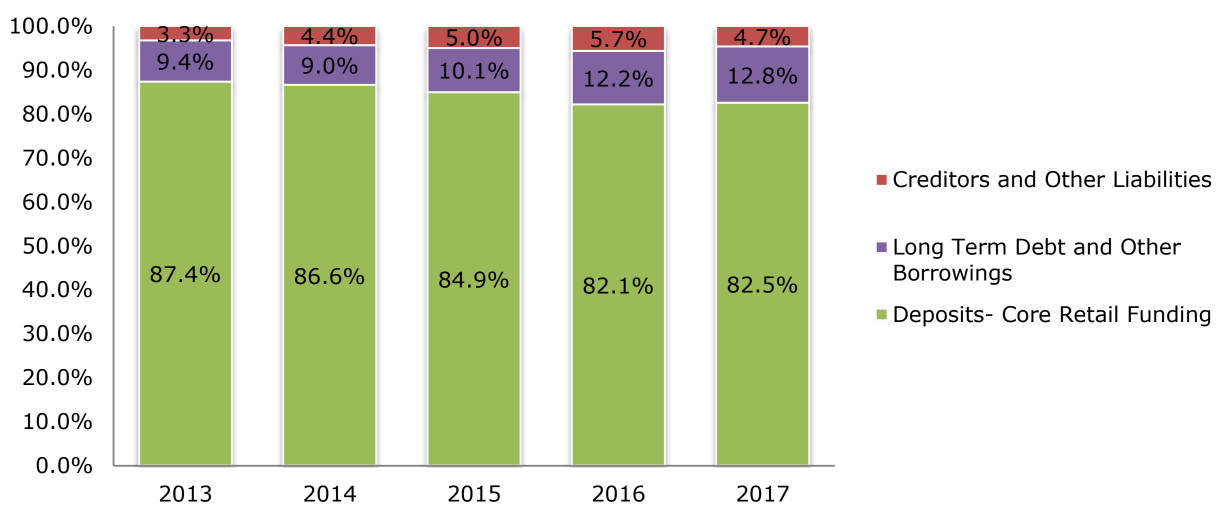
Table 28: Loans & Advances for Residents and Non-Residents (Category 'B' Banks)

LOANS & ADVANCES	2013		2014		2015		2016		2017	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Sovereigns and Central Banks	0	666	0	827	0	857	0	905	0	756
Non Central Government Public Sector Entities (PSEs)	0	483	0	474	0	465	0	228	0	163
Multilateral Development Banks (MDBs)	0	49	0	0	0	0	0	0	0	0
Group Bank - Parent, Branch, Subsidiary or Affiliate	867	263,646	1,842	217,319	4,620	164,448	1	157,145	115	153,064
Group non - Banking Entities	4,472	147,975	161	164,285	432	140,076	1,924	88,240	1,862	78,079
Other banks	25	1,573	158	2,257	323	7,453	173	3,510	80	3,565
Non-financial Corporations - Commercial private sector	590	43,935	807	43,591	1,083	40,086	927	32,222	902	26,783
Non-Financial Corporations - Commercial Mortgages	6	1,757	6	1,616	0	1,333	0	1,531	0	3,720
Other financial Corporations - Financial Intermediaries	689	8,963	641	16,955	752	12,502	698	15,675	284	15,145
Retail Lending/Consumer Loans - Households	1	1,160	0	1,307	2	1,284	0	1,241	0	650
Residential Mortgages - Households	0	697	0	534	0	319	0	249	0	249
Other loans and advances	108	16,324	94	17,614	106	14,008	54	11,907	36	11,952
Total	**6,758**	**487,228**	**3,710**	**466,781**	**7,317**	**382,830**	**3,778**	**312,853**	**3,279**	**294,127**

Category 'B' – Liability Distribution

Category 'B' banks' funding was 82.5% ($794 billion) from core retail funding and 12.8% ($134 billion) from borrowings.

Figure 21: Distribution of Liabilities for Category 'B' Banks



Total deposits of Category 'B' banks declined by 10.2% ($80.9 billion) to $713.4 billion. Since 2014, core retail deposits have declined from $1.2 trillion, a notable 41.6% ($507.6 billion) decline in four years. 79.0% of Category 'B' retail banks' funding was sourced from core retail deposits.

Category 'B' – Earnings and Profitability

Category 'B' banks reported improved earnings and profitability, recording positive retained earnings for 2017. The sector recorded a $1.2 billion increase in Income before Taxes and Dividends; and a $268.0 million increase in Operating Income. Trading Income recorded gains ($481.0 million) in 2017 compared to $2.2 billion in losses in 2017; while Net Interest and Non-interest Income declined by 67.0% ($2.6 billion) and 37.5% ($723.0 million), respectively.

Table 29: Income Statement for Category 'B' Banks

	2013	2014	2015	2016	2017
Net Interest Income	2,407	2,161	2,780	3,946	1,301
Provisions For Credit Losses/Recoveries	192	1,851	295	1,451	362
Net Non-Interest Income	1,494	1,116	909	1,930	1,207
Trading Income (Gain/Loss on Financial Instruments)	1,298	1,215	1,915	-2,188	481
Other Income/(Losses)	1,963	2,049	1,732	-491	-1,513
Operating Income	6,552	4,447	6,615	134	402
Net Income Before Taxes & Dividends	**5,732**	**3,449**	**4,767**	**-2,018**	**-860**

Other Losses of $1.5 billion were primarily due to losses from subsidiaries and associated companies of Developed European banks during 2017.