



# CELEBRATING BANKING SERVICES IN THE CAYMAN ISLANDS

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

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## Preface

The Cayman Islands Monetary Authority (“CIMA” or “the Authority”) is pleased to provide our annual Banking Digest. As the primary financial services regulator in the Cayman Islands, CIMA provides an annual summary on banking, money services, mutual funds, on-site inspections, survey results and the Annual Report and Audited Financial Statements.

The 2018 Banking Digest contains a summary of the Cayman Islands’ banking sector and the analysis of local and global economic and regulatory developments affecting the industry. It provides a comparative analysis of changes over the prior year and an assessment of the entire banking sector, including details on Category ‘A’ Retail, Category ‘A’ Non-Retail and Category ‘B’ (International) banks.

All balances in this document are presented in millions of United States Dollars (USD) unless otherwise stated.



## Macro-financial Environment

The International Monetary Fund (IMF) was bullish on their 2018 outlook as the global economic expansion from 2017 gained momentum in 2018. Global growth, however, which was close to 4% in 2017 softened to 3.6% in 2018 and is projected to decline further to 3.2% in 2019 as a result of threats such as the escalating trade conflict between the US and China, growing deficits, high private debt, stock market volatility and fragile geopolitics between the US, Russia, China and North Korea.

In 2018, the Federal Reserve Bank (the Fed) increased US prime interest rates in March, June and September. In response to rising global risks, interest rate increases were paused, and the Fed signalled that there would be no further increases for the rest of the year. At year end 2018 the US prime rate was 5.5%. The balancing act of monetary policy adjustments — between impacting US economic growth negatively by raising interest rates too quickly and adjusting too late which can result in overheated financial markets — is important not just for the health of the US economy but the global economic environment as well. An average of three rate hikes are forecasted for 2019.

During 2018, The European Central Bank kept its main refinancing rate at zero where it has been for the past three years in a bid to revive the eurozone's weakening economy. The marginal lending rate was held at 0.25% and the rate on deposits was -0.5%. The eurozone continues to be affected by uncertainty over Brexit, the US China trade war and the threats by Washington to impose tariffs on European auto imports. In 2018, euro area gross domestic product (GDP) rose by 1.8% compared to 2.5% in 2017. The European Central Bank forecasts economic growth of 1.1% in 2019 down from initial estimates of 1.7%.

Despite significant political and economic uncertainty in the United Kingdom, the Bank of England shifted to a more tightening stance and increased interest rates from 0.5% to 0.75% in 2018. This was only the second rise in over a decade. The economy grew by 1.4% in 2018 down from 1.8% in 2017. According to the IMF, the GDP of the United Kingdom is expected to grow between 1.2% and 1.5% in 2019. In the event of a no-deal Brexit, which is defined as the UK leaving the European Union without any sort of agreement, the GDP of the UK could decline by as much as 8%.

The Bank of Japan maintained its short-term interest rate at -0.1% and expects to keep the currently extremely low levels for an extended period, at least through the Spring of 2020, due to economic uncertainties, developments in overseas economies and the effects of the scheduled October 2019 consumption tax hike.

Unlike the US, which controls interest rates through the monetary policy of the Fed by setting its "federal funds rate", the Peoples' Bank of China uses multiple tools to control interest rates and the amount of money in the Chinese economy. Interest rates have remained unchanged at 4.35% since 2015 and in 2018 China ramped up its fiscal and monetary stimulus to counter the negative effect of trade tariffs including cutting reserve requirements for banks. GDP growth is expected to slow to 6.6% in 2018 from 6.9% in 2017.





## Global Economic Outlook - 2019 and Beyond

According to the Organization of Economic Cooperation and Development (OECD), global economic activity is projected to expand at 2.9% in 2019 and 3.0% in 2020, largely arising from an expected pickup in growth among emerging markets and developing economies. This rate of growth, however, is under pressure from an escalation of trade disputes, tightening global financial conditions and intensifying climate risks.

Growth in the US is expected to slow to 2.4% and 2.0% in 2019 and 2020, respectively, as the impact of the 2018 fiscal stimulus diminishes. Global trade, investment, and output remain under threat from ongoing US trade tensions. Failure to resolve differences and a resulting increase in tariff barriers above what is incorporated into the forecast would lead to higher costs of imported intermediate and capital goods and higher final goods prices for consumers.

Economic growth in the Euro Area decelerated in 2018 and is expected to moderate further in 2019 to 1.1% and 1% in 2020 as uncertainties related to geopolitical factors, the threat of protectionism and vulnerabilities in emerging markets appear to impact economic sentiment and industrial output.

Growth in the UK is expected to remain subdued in 2019 as Brexit-related uncertainty, global trade tensions and higher interest rates weigh on the economy. Projected GDP growth in 2019 is 1.5% and 1.6% in 2020 and 2021.

GDP growth in Japan is set to be around 0.6% in 2019 and 0.3% in 2020. Investments continue to be driven by high corporate profits despite labour shortages, lower consumer confidence and a decline in industrial production and exports.

Generally, emerging markets and developing economies are expected to grow at an average pace of 4.4% for the period 2019 to 2020. The decline in growth relative to 7.3% reported in 2018 reflects lower projected growth of 6.6% in China (down from 6.9% in 2017) and the recession in Turkey, with an important carryover from weaker activity in late 2018, as well as a deepening contraction in Iran. The end of recessions in Argentina and Brazil, higher commodity prices and a moderation of inflation are expected to contribute to economic growth in these countries.

## Regional Review and Outlook

Economic performance was mixed in the Latin America and Caribbean (LAC) region. Growth was stymied by lower private investment arising from uncertainty as the North America Free Trade Agreement (NAFTA) was being renegotiated, the currency crisis in Argentina, the 2018 truckers' strike in Brazil and worsening socio-political conditions in Venezuela. According to the IMF, LAC (excluding Argentina and Venezuela) reported an increase in economic growth in the region from 1.8% in 2017 to 2.3% in 2018 and forecasted growth of 2.8% in 2019. In addition to the uptick in tourism owing to higher US growth and improvement in private consumption, business investment is on the rise and will become the main driver of economic activity after a three-year contraction. Political uncertainty stemming from upcoming elections in several countries, geopolitical tensions, extreme weather events and relatively low investment levels are expected to limit the growth potential for 2019 and beyond.



## Domestic Economic and Financial Environment

Robust demand in the international markets supported the continued expansion of the Cayman Islands' economy, with GDP estimated to have grown by 3.3 % in 2018. This economic expansion brings the average growth over the last five years to 3%.

Broad liquidity or money supply expanded by 2.2% as both local and foreign currency deposits held by residents expanded. The weighted average lending rate for KYD increased by 77 basis points to 7.95% while the prime lending rate increased by 83 basis points to 5.08%. Domestic credit expanded by 8.3% as a 10% increase in credit to the private sector outweighed a 14% decline in credit to the central government.

The central government's overall fiscal surplus improved to \$151.2 million compared to \$114.6 million in 2017. The total outstanding debt of the central government declined to \$428.9 million from \$464.0 million a year ago.

In November 2018, shareholders of Cayman National Corporation lifted a restriction that prevented a single entity from owning more than 10 percent of the company. The move paved the way for Republic Group of Trinidad and Tobago to acquire 74.99% of Cayman National through its wholly owned subsidiary Republic Bank Trinidad and Tobago (Barbados) Ltd. This transaction required regulatory approval in several jurisdictions including the Cayman Islands, Isle of Man and Dubai – where Cayman National operates. CIMA granted conditional approval on 7 February 2019 subject to certain conditions. A final approval is expected by the end of 2019.



## Introduction to the 2018 Banking Sector Digest

The 2018 Banking Digest provides the financial overview of the industry for the year with comparatives for the past 4 years. The Digest is organised as follows:

- Section I Overview of the banking sector
- Section II Cross-border Assets and Liabilities
- Section III Category 'A' (Domestic) Banks
- Section IV Category 'B' (International) Banks

The performance data and trends in this Digest are derived from the following forms and surveys submitted to the Banking Supervision Division and Financial Stability & Statistics Division of CIMA.

### Locational Banking Statistics (LBS) Survey

The Bank for International Settlements (BIS) collects data on international banking activity from 48 reporting countries including the Cayman Islands on a quarterly basis. The data collected by CIMA through the LBS Survey is aggregated for international claims and liabilities, broken down by instrument, currency, sector (including bank intragroup), country of residence of counterparty and nationality of reporting banks. These statistics cover the balance sheets of internationally active banks.

### Domestic Banking Activities (DBA) Survey

The DBA is a quarterly survey on the domestic banking activities covering Category 'A' Retail and Category 'A' Non-Retail banks. DBA provides information about the geographical, industry and currency composition of banks' assets and liabilities, including intragroup business. The interest rates are also included in the survey.

### Coordinated Portfolio Investment Survey (CPIS)

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



## Financial Soundness Indicators for 2018

In 2018, the overall financial position for all sectors of the banking industry was healthy. The core financial soundness indicators for capital adequacy, asset quality, earnings and profitability and liquid assets met the regulatory standards as determined by CIMA.

### Capital Adequacy Ratio

The capital adequacy ratio, which is the amount of capital a bank must hold relative to its asset base, as required by the financial regulator, improved to 46.8% for the retail banking sector in 2018 compared to 40.6% in 2017. In 2018, while total risk weighted assets were lower for Category 'A' Retail banks, when compared to 2017, regulatory capital held increased. All retail banks maintained capital adequacy ratios well above their minimum required ratios.

### Asset Quality

Asset quality which is one of the critical areas in determining the overall condition of a bank, is dependent on the quality of the loan portfolio and how well the bank administers its loan program. In 2018, the ratio of non-performing loans to the total loan portfolio improved from 0.4% to 0.2% and the value of specific provisions to non-performing loans was 132.1% compared to 87.5% in 2017. This change was primarily attributed to a Brazilian branch in which the specific provision was 2,350% of the impaired loan balances. For Category 'A' Retail Banks both total non-performing loans and total gross loans declined in 2018 resulting in a lower ratio than in 2017.

### Earnings and Profitability

Earnings and profitability determine a bank's ability to pay dividends to its shareholders. In 2018, the return on net assets of 0.2% was positive for the entire sector compared to an overall negative rate of return of 0.1% in 2017. In 2018, the annualised gross income for Category 'A' Retail banks grew by 15% and average shareholders' equity was 9% higher than 2017, which contributed to a positive return on equity in 2018. Overall, all banks reported an improvement in the net income position when compared to the prior year comparative period.

### Liquidity

Levels of liquid assets, which is defined as the ability and ease with which assets can be converted to cash to meet short term obligations, decreased in 2018. Across all institutions, liquid assets to total assets were 32.6% compared to 44.4% in 2017 and liquid assets to short term liabilities were 62.1% down from 82.7% in 2017. The liquid asset ratio for Category 'A' Retail, Category 'A' Non-Retail and Category 'B' Privates and Affiliates has been relatively unchanged from 2017. The main decrease is attributable to Category 'B' branches, for which the liquid asset ratio changed from 45.3% to 32.8%. The Banking Supervision had no concerns with liquidity and capital levels in 2018 and continues to closely monitor its banks to ensure that the financial industry remains sound.

**Table 1: Core Financial Soundness Indicators for the Banking Sector**

| Core Financial Soundness Indicators  | Category 'A' Retail Banks |      | Category 'A' Non-Retail Banks |      | Category 'B' (Subsidiary, Private, & Affiliate) |      | Category 'B' Branch |       | All Sectors <sup>1</sup> |       |
|--|---------------------------|------|-------------------------------|------|---|------|---------------------|-------|--------------------------|-------|
|  | 2018                      | 2017 | 2018                          | 2017 | 2018  | 2017 | 2018                | 2017  | 2018                     | 2017  |
| Indicator %  |                           |      |                               |      |   |      |                     |       |                          |       |
| <b>Capital Adequacy</b>  |                           |      |                               |      |   |      |                     |       |                          |       |
| Regulatory capital to risk-weighted assets   | 25.5                      | 22.2 | 39.1                          | 36.0 | 68.7  | 54.2 | n/a                 | n/a   | 46.8                     | 40.6  |
| Regulatory Tier 1 capital to risk-weighted assets  | 22.4                      | 19.8 | 34.9                          | 33.9 | 63.3  | 51.1 | n/a                 | n/a   | 42.5                     | 37.9  |
| Regulatory Tier 2 capital to risk-weighted assets  | 3.1                       | 2.4  | 4.2                           | 2.0  | 5.4   | 3.0  | n/a                 | n/a   | 4.3                      | 2.7   |
| Regulatory capital to total assets   | 12.9                      | 11.5 | 11.0                          | 8.5  | 28.9  | 22.7 | n/a                 | n/a   | 20.1                     | 17.0  |
| Nonperforming loans net of provisions to capital (equity)                                      | 2.6                       | 3.8  | 0.0                           | 0.0  | 0.0   | 0.3  | n/a                 | n/a   | 0.7                      | 1.0   |
| <b>Asset Quality</b>   |                           |      |                               |      |   |      |                     |       |                          |       |
| Non-performing loans to total gross loans  | 1.6                       | 1.8  | 0.0                           | 0.0  | 0.3   | 1.6  | 0.2                 | 0.3   | 0.2                      | 0.4   |
| Total loan loss provisions to non-performing loans   | 87.8                      | 54.8 | 0.0                           | 0.0  | 123.9   | 75.8 | 277.3               | 133.5 | 238.6                    | 122.3 |
| Specific provisions to non-performing loans  | 50.0                      | 32.2 | 0.0                           | 0.0  | 67.0  | 69.8 | 153.3               | 94.2  | 132.1                    | 82.3  |
| <b>Earnings and Profitability</b>  |                           |      |                               |      |   |      |                     |       |                          |       |
| Return on equity (net income before extraordinary items and taxes to average capital (equity)) | 15.3                      | 13.0 | 11.1                          | 7.9  | 8.1   | 7.5  | n/a                 | n/a   | 10.0                     | 8.7   |
| Return on assets (net income to average total assets)  | 2.0                       | 1.6  | 1.1                           | 0.6  | 1.9   | 1.6  | 0.1                 | (0.2) | 0.2                      | (0.1) |
| Interest margin (net interest income) to gross income  | 73.1                      | 70.0 | 44.9                          | 39.1 | 65.0  | 55.9 | (10.7)              | 116.6 | 11.2                     | 79.4  |
| Non-interest expenses to gross income  | 43.9                      | 48.7 | 52.3                          | 56.5 | 14.7  | 30.6 | 70.9                | 225.1 | 59.8                     | 107.4 |
| <b>Liquid Assets</b>   |                           |      |                               |      |   |      |                     |       |                          |       |
| Liquid assets to total assets (liquid asset ratio)   | 32.7                      | 33.5 | 48.8                          | 47.3 | 21.5  | 19.1 | 32.8                | 45.3  | 32.6                     | 44.4  |
| Liquid assets to short-term liabilities  | 53.8                      | 53.4 | 58.4                          | 55.8 | 124.5   | 97.8 | 61.8                | 83.6  | 62.1                     | 82.7  |

<sup>1</sup> 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. Amounts in table 1 are calculated on a consolidated basis. However, all other information in the Banking Digest is calculated on a solo basis.



## Section I: Overview of Cayman Islands Banking Sector

The Banks and Trust Companies Law (2018 Revision) authorises CIMA to issue two categories of banking licenses, namely Category 'A' and Category 'B'. A Category 'A' licence permits banks to operate both in the domestic and international markets and a Category 'B' licence permits the conduct of international banking business primarily and limited domestic activity. [Box 1](#) presents additional details on the unique nature and landscape of the Cayman Islands banking sector.

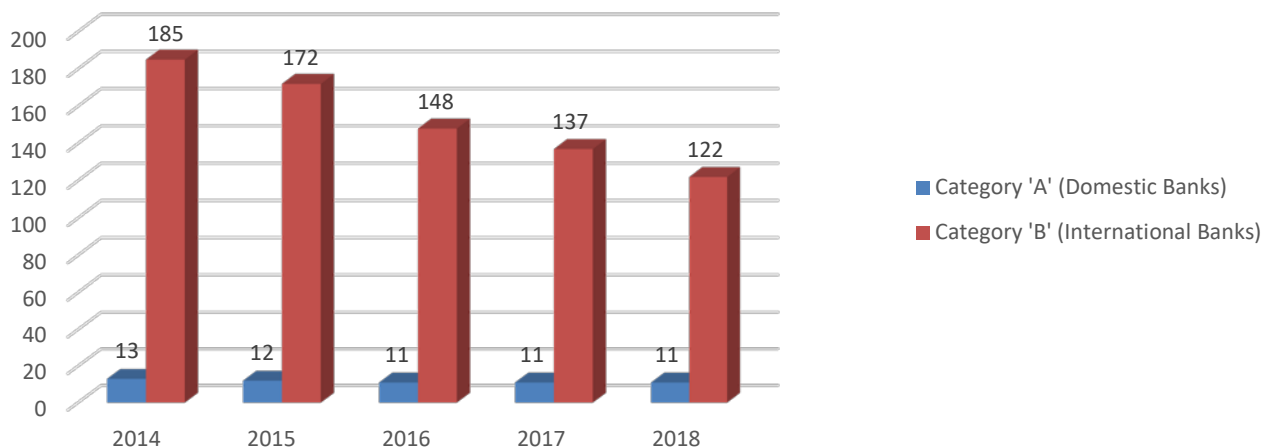
As at December 31, 2018, there were 133 (2017: 148) licenses:

- Category 'A' retail bank & trust 8
- Category 'A' non-retail banks 3
- Category 'B' banks and trust 46
- Category 'B' banks 76

Category 'A' banks consist of nine subsidiaries and two private & affiliate entities. Category 'B' banks consist of 81 branches, 28 subsidiaries and 13 private & affiliates of international banks from North and South America, Europe, Asia, Middle East and Africa. Due to global changes in regulations and economic environment, the number of banks licensed in the Cayman Islands has decreased over the last six years, as banks seek to consolidate and restructure in order to reduce cost, improve operational efficiencies, risk management and corporate governance.

The number of Category 'A' banks of eleven remained unchanged from 2017. However, the number of Category 'B' branches and subsidiaries declined by thirteen and two, respectively. Nine of these entities ceased business, four reported a change in business strategy, one was subject to administrative termination and one bank was subject to acquisition. Among the reasons for the decline in the number of banks was restructuring of the banks' global operations, eliminating offshore presence in an effort to reduce regulatory and operational costs and reductions in the activity of the Cayman Branch, as a result of the repeal of Regulation Q of the Dodd Frank Act and the discontinuation of trust business.

**Figure 1: Number of Category 'A' and Category 'B' Banks**

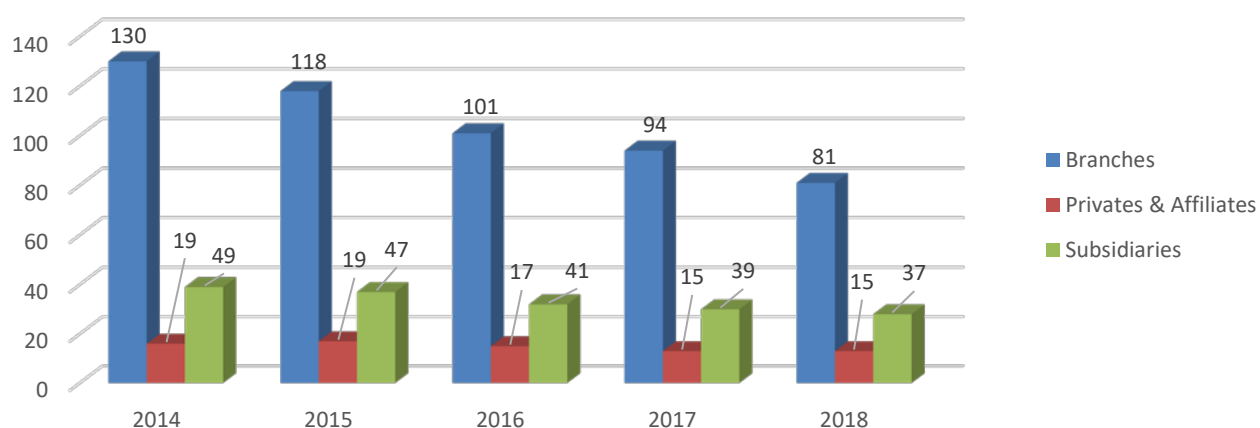


## Banking Digest 2018

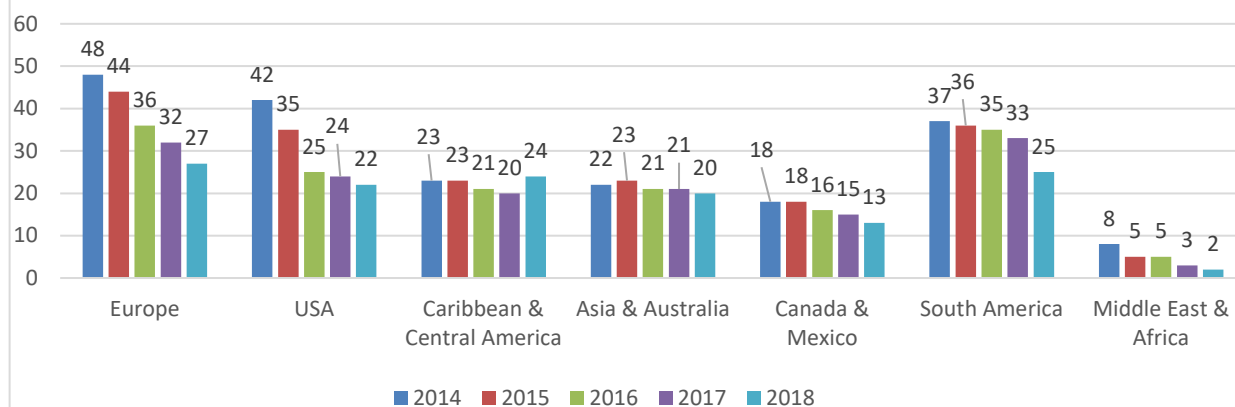
During 2018, there was a decline in the number of banks from every region except the Caribbean and Central America where the number of banks increased by four. There was a noticeable decline of nine banks from the South America region, primarily Brazil. The approval was granted, subject to the receipt of certain information, for the issuance of one Category “B” license and one further application for a Category ‘B’ bank was received.

As at December 2018, total international assets and liabilities were reported at US\$674 billion (2017: US\$928 billion) and US\$635 billion (2017: US\$885 billion), respectively. The jurisdiction is now ranked 12<sup>th</sup> internationally based on the value of cross-border assets and liabilities.

### Figure 2: Number of Banks by License Type



### Figure 3: Regional Composition of Licensed Banks





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

### ***Category 'A' (Domestic) Banks***

There are two subcategories of Category 'A' banks: banks that provide services to non-retail clients and those that provide services to both retail and non-retail clients. Category 'A' banks may conduct 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. At the end of the year, Merrill Lynch Bank and Trust Company (Cayman) Limited surrendered its Category 'A' license and became a Category 'B' bank.

### ***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 122 banks holding Category 'B' licences.

These international banks shall not accept deposits, invest in any assets or grant loans to any Cayman Islands' resident, other than another licensee or an 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 liaise with its regulatory counterpart to ensure comprehensive consolidated supervision is applied.

Category 'A' banks employ 1,740 resident staff and 278 non-resident staff while the 'B' banks employ 278 staff in the Cayman Islands as well as 1,240 employees working from outside the Cayman Islands. Banks that are neither branches nor subsidiaries of a foreign bank must demonstrate that they have enough offices, staff and resources in the Cayman Islands 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

At the end of 2018, total assets for the Banking Sector of US\$674 billion were down US\$254 billion or 27.4% when compared to 2017. This follows a decline of US\$110 billion or 10.6% between 2016 and 2017. The decline in total assets reflects both a decline in offshore business because of changes in regulation in the European Union and the United States as well as a decline in the number of banks from 150 in 2017 to 133 in 2018.

Total liabilities of US\$635 billion were down by US\$250 billion or 28.3% primarily due to the decline in total deposits of US\$212 billion and other borrowings of US\$33 billion. Total shareholders' equity of US\$39 billion was 8.4% lower than in 2017 compared to a decline of 16.3% between 2016 and 2017.

**Table 2: Balance Sheet Profile for the Banking Sector by Instrument (USD millions)**

|  | 2014             | 2015             | 2016             | 2017           | 2018           |
|--|------------------|------------------|------------------|----------------|----------------|
| <b>ASSETS</b>                                      |                  |                  |                  |                |                |
| Cash Items   | 745,829          | 584,104          | 501,311          | 412,137        | 219,856        |
| Financial Assets at Fair Value                     | 24,646           | 31,511           | 36,432           | 36,384         | 48,778         |
| Investments - Held-to-Maturity                     | 5,392            | 5,842            | 6,128            | 5,606          | 21,864         |
| Investments - Available-for-Sale                   | 37,733           | 48,673           | 47,400           | 53,142         | 2,525          |
| Other Investments                                  | 57,368           | 43,128           | 59,921           | 61,470         | 69,797         |
| Loans and Advances (Gross)                         | 498,990          | 413,209          | 328,337          | 308,321        | 259,472        |
| Net Loans  | 496,290          | 411,414          | 326,829          | 307,289        | 258,763        |
| Other Assets                                       | 81,999           | 54,975           | 59,962           | 51,532         | 52,130         |
| <b>TOTAL ASSETS</b>                                | <b>1,449,257</b> | <b>1,179,647</b> | <b>1,037,983</b> | <b>927,560</b> | <b>673,713</b> |
| <b>LIABILITIES</b>                                 |                  |                  |                  |                |                |
| Deposits   | 1,254,628        | 958,833          | 812,490          | 732,340        | 520,407        |
| Repurchase Agreements (REPOS)                      | 18,399           | 14,903           | 16,267           | 17,090         | 14,898         |
| Hybrid Debt and Subordinated Debt                  | 18,062           | 16,171           | 12,407           | 13,305         | 12,365         |
| Other Notes, Bonds and Commercial Paper            | 62,518           | 51,399           | 34,950           | 34,124         | 34,518         |
| Other Borrowings                                   | 48,071           | 91,080           | 72,362           | 64,539         | 31,103         |
| Creditors and Other Liabilities                    | 43,978           | 42,524           | 38,492           | 23,461         | 21,205         |
| Other Loss Provisions                              | 711              | 769              | 754              | 627            | 689            |
| <b>TOTAL LIABILITIES</b>                           | <b>1,446,367</b> | <b>1,175,679</b> | <b>987,722</b>   | <b>885,486</b> | <b>635,185</b> |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                  | <b>2,890</b>     | <b>3,968</b>     | <b>50,261</b>    | <b>42,074</b>  | <b>38,528</b>  |
| <b>TOTAL LIABILITIES &amp; SHAREHOLDERS EQUITY</b> | <b>1,449,257</b> | <b>1,179,647</b> | <b>1,037,983</b> | <b>927,560</b> | <b>673,713</b> |

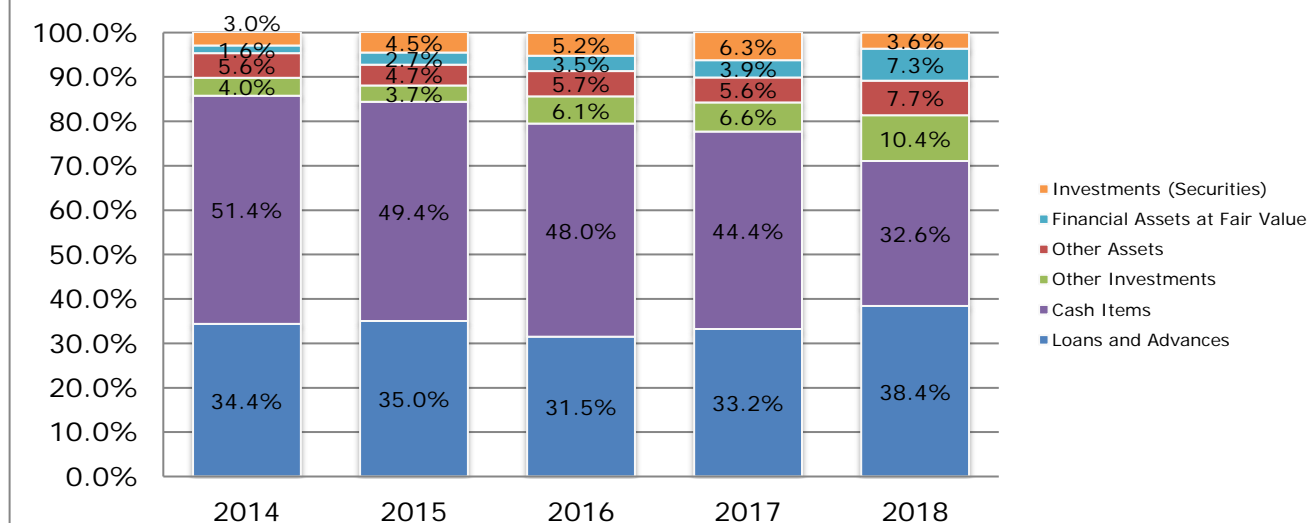
## Banking Sector – Allocation of Total Assets

There was a shift in the asset composition between 2017 and 2018. At the end of 2018, 38.5% (2017: 33.2%) of total assets were reported as Loans and Advances while 32.6% (2017: 44.4%) was Cash Items. The 2018 composition of total assets is a reversal from the prior four years, when cash items was the majority of total assets. Within the Banking Sector, Category 'B' Banks account for 96.8% of total assets as several banks use their branches to provide funding to their group bank entities.

**Table 3: Banking Sector - Allocation of Total Assets by Instrument (USD millions)**

| Assets                             | Category 'A' Banks | Category 'B' Banks | Total          |
|------------------------------------|--------------------|--------------------|----------------|
| Cash Items                         | 8,247              | 211,609            | 219,856        |
| Financial Assets at Fair Value     | 1,538              | 47,240             | 48,778         |
| Investments - Held-to-Maturity     | 1,455              | 20,409             | 21,864         |
| Investments - Available-for-Sale   | 0                  | 2,525              | 2,525          |
| Other Investments                  | 596                | 69,201             | 69,797         |
| Gross Loans and Advances           | 9,235              | 250,237            | 259,472        |
| <i>Less Loan Loss Provisions</i>   |                    |                    |                |
| <i>Specific Loan Loss Reserves</i> | 38                 | 626                | 664            |
| <i>Unearned Interest</i>           | 12                 | 33                 | 45             |
| Net Loans and Advances             | 9,185              | 249,578            | 258,763        |
| Other Assets                       | 511                | 51,619             | 52,130         |
| <b>TOTAL ASSETS</b>                | <b>21,532</b>      | <b>652,181</b>     | <b>673,713</b> |

**Figure 4: Banking Sector - Allocation of Total Assets by Instrument**



## Banking Sector - Cash Items

Total cash of US\$220 billion at year-end 2018 was down US\$192 billion or 46.7% when compared to 2017. This was due to the decline in resident and non-resident Certificate of Deposits (CDs) of US\$2 billion and US\$191 billion, respectively and is consistent with the closure of several major US branches as well as banks from Brazil, the Middle East and Europe during the year.

Within the non-resident CDs, Group bank cash was down US\$184 billion or 47.1% as banks downsize and remit funds to their onshore parent companies.

**Table 4: Banking Sector - Cash Items by Resident vs Non-Resident (USD millions)**

| Cash Items   | 2014         |                | 2015         |                | 2016         |                | 2017         |                | 2018       |                |
|--|--------------|----------------|--------------|----------------|--------------|----------------|--------------|----------------|------------|----------------|
|  | Resident     | Non-Resident   | Resident     | Non-Resident   | Resident     | Non-Resident   | Resident     | Non-Resident   | Resident   | Non-Resident   |
| Cash   | 49           | 467            | 50           | 745            | 46           | 12             | 52           | 11             | 43         | 41             |
| Gold and bullion   | 0            | 0              | 0            | 0              | 0            | 0              | 2            | 0              | 0          | 0              |
| Cash items in process of collection                            | 10           | 39             | 15           | 72             | 33           | 0              | 13           | 2              | 12         | 0              |
| Certificates of Deposits (CDs):                                | 4,186        | 736,503        | 7,399        | 573,961        | 1,316        | 498,630        | 2,031        | 409,240        | 330        | 218,428        |
| <i>Group Bank - Parent, Branch, Subsidiary &amp; Affiliate</i> | 3,823        | 717,135        | 6,797        | 556,184        | 1,129        | 480,584        | 1,421        | 392,322        | 124        | 207,496        |
| <i>Group Non-Bank entities</i>                                 | 73           | 7,887          | 5            | 5,324          | 11           | 6,561          | 15           | 6,221          | 14         | 2,934          |
| <i>Other Banks</i>   | 290          | 11,481         | 597          | 12,453         | 176          | 11,485         | 595          | 10,697         | 192        | 7,998          |
| Due from financial institutions                                | 4            | 4,571          | 1            | 1,861          | 0            | 1,274          | 4            | 782            | 6          | 996            |
| <b>TOTAL</b>   | <b>4,249</b> | <b>741,580</b> | <b>7,465</b> | <b>576,639</b> | <b>1,395</b> | <b>499,916</b> | <b>2,102</b> | <b>410,035</b> | <b>391</b> | <b>219,465</b> |



## Banking Sector - Loans and Advances

Loans and Advances which represent the majority of total assets of the Banking Sector, decreased by US\$49 billion or 15.8% when compared to 2017. Non-resident group bank loans decreased by US\$36 billion or 23.5% due to the closure of banks of European, US and Middle Eastern parent nationality and the downsizing of various branches.

However, there was an increase in non-resident Sovereign and Central Bank loans by a bank to several Latin American and Caribbean countries, namely Argentina, Aruba, Bahamas, Ecuador and Trinidad and Tobago.

Resident loans to non-financial corporations — industrial and commercial private sector — almost doubled in 2018 to US\$2.9 billion from US\$1.5 billion and resident loans to other financial corporations – financial intermediaries - increased three fold from US\$563 million to US\$1.8 billion. The increase can be attributed to new and increased loan amounts from Brazilian, European and two Category 'A' Retail banks.

**Table 5: Loans and Advances by Resident vs Non-Resident and Sector (USD millions)**

| Loans and Advances  | 2014         |                | 2015          |                | 2016         |                | 2017         |                | 2018         |                |
|---|--------------|----------------|---------------|----------------|--------------|----------------|--------------|----------------|--------------|----------------|
|   | Resident     | Non-Resident   | Resident      | Non-Resident   | Resident     | Non-Resident   | Resident     | Non-Resident   | Resident     | Non-Resident   |
| Sovereigns and Central Banks  | 591          | 890            | 591           | 928            | 429          | 976            | 348          | 793            | 309          | 1,640          |
| Non-Central Government Public Sector Entities                       | 90           | 562            | 84            | 517            | 99           | 281            | 63           | 212            | 64           | 213            |
| Multilateral Development Banks (MDBs)                               | 0            | 0              | 0             | 0              | 0            | 0              | 0            | 0              | 0            | 0              |
| Group Bank - Parent, Branch, Subsidiary or Affiliate                | 1,844        | 234,394        | 4,627         | 173,804        | 1            | 157,187        | 115          | 153,065        | 105          | 117,082        |
| Group non-bank entities   | 321          | 164,717        | 432           | 139,428        | 1,930        | 88,240         | 1,870        | 78,079         | 1,633        | 62,805         |
| Other banks   | 158          | 2,249          | 323           | 7,455          | 173          | 3,510          | 80           | 3,565          | 44           | 1,617          |
| Non-financial Corporations - Industrial & Commercial Private Sector | 1,676        | 47,944         | 1,733         | 45,821         | 1,540        | 37,286         | 1,505        | 31,325         | 2,896        | 27,211         |
| Non-Financial Corporations - Commercial Mortgages                   | 88           | 1,834          | 175           | 1,953          | 255          | 1,752          | 238          | 3,944          | 277          | 6,832          |
| Other Financial Corporations - Financial Intermediaries             | 929          | 17,362         | 841           | 13,769         | 941          | 15,818         | 563          | 15,343         | 1,762        | 20,632         |
| Retail Lending/Consumer Loans - Households                          | 355          | 2,547          | 351           | 3,154          | 353          | 2,925          | 346          | 2,290          | 345          | 1,152          |
| Residential Mortgages - Households                                  | 1,823        | 767            | 1,869         | 829            | 1,925        | 608            | 1,972        | 436            | 2,008        | 518            |
| Other loans and advances  | 143          | 17,706         | 177           | 14,348         | 140          | 11,968         | 131          | 12,038         | 156          | 10,171         |
| <b>TOTAL</b>  | <b>8,018</b> | <b>490,972</b> | <b>11,203</b> | <b>402,006</b> | <b>7,786</b> | <b>320,551</b> | <b>7,231</b> | <b>301,090</b> | <b>9,599</b> | <b>249,873</b> |



## Banking Sector - Loans to Funding and Liquidity Ratios

The Loans-to-Deposit ratio (LTD), a measure of funding profile and liquidity, continued to improve in 2018. As in the prior year, the reduction in loans was smaller than the reduction in total deposits resulting in an increase of loan to deposit ratio to 49.9% from 42.1%. Liquid asset ratios to short term liabilities and total assets were both down compared to 2017.

**Table 6: Banking Sector - Liquidity Ratios**

|   | 2014      | 2015      | 2016      | 2017    | 2018    |
|---|-----------|-----------|-----------|---------|---------|
| Liquid Assets (Cash Items) to Short-Term Liabilities (Deposits up to 90 days) | 77.2%     | 78.6%     | 97.7%     | 82.7%   | 62.1%   |
| Liquid Assets Ratio:<br>Liquid Assets (Cash Items) to Total Assets            | 51.5%     | 49.5%     | 48.3%     | 44.4%   | 32.6%   |
| Loans to Deposits Ratio   | 39.8%     | 43.1%     | 40.4%     | 42.1%   | 49.9%   |
| Total Assets  | 1,449,257 | 1,179,647 | 1,037,983 | 927,560 | 673,713 |
| Loans   | 498,990   | 413,209   | 328,337   | 308,321 | 259,472 |
| Liquid Assets   | 745,829   | 584,104   | 501,311   | 412,137 | 219,856 |
| Deposits  | 1,254,628 | 958,833   | 812,490   | 732,340 | 520,407 |
| Short-Term Liabilities  | 966,595   | 743,425   | 513,131   | 498,158 | 354,035 |

## Banking Sector - Non-Performing Loans (NPLs) and Provisioning

Total NPLs decreased in 2018 to US\$531 million from US\$1.2 billion in 2017. The largest decrease was reported by Category 'B' branches and subsidiaries where NPLs decreased from US\$999 million in 2017 to US\$427 million in 2018.

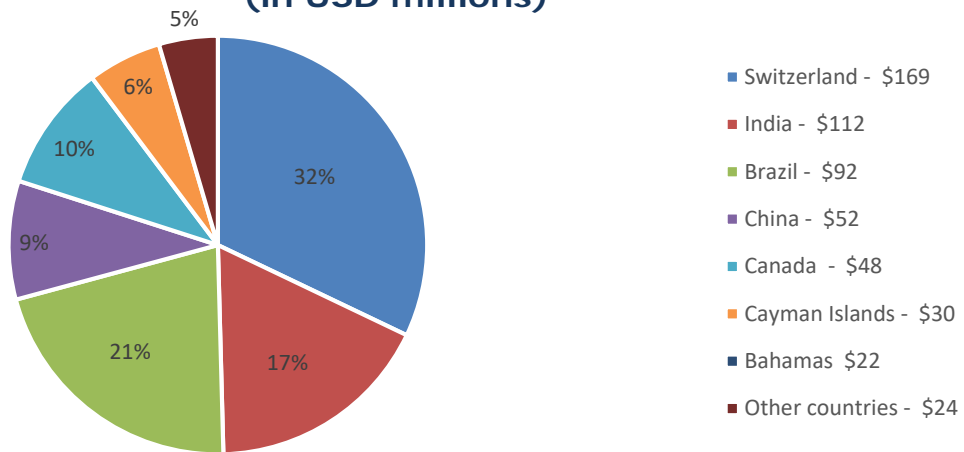
The NPL ratio for 2018 declined to 0.2% from 0.4% in 2017. As a result of lower loan loss provisions and lower NPLs in 2018, the total loan provisions to NPLs increased from 122.3% in 2017 to 238.6% in 2018. Figure 5 provides details of jurisdictions of non-performing loans with the largest share of NPLs reported against counterparties located in Switzerland.

**Table 7: Banking Sector - Non-Performing Loan Ratios**

|                                       | 2014           | 2015           | 2016           | 2017           | 2018           |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| NPLs to Total Loans                   | 0.6%           | 0.6%           | 0.8%           | 0.4%           | 0.2%           |
| Total Loan Loss Provisions to NPLs    | 100.4%         | 75.1%          | 68.9%          | 122.3%         | 238.6%         |
| Specific Loan Loss Provisions to NPLs | 89.6%          | 63.4%          | 54.4%          | 82.3%          | 129.1%         |
| General Loan Loss Provisions to NPLs  | 10.7%          | 11.7%          | 14.5%          | 40.0%          | 109.5%         |
| NPLs                                  | 2,949          | 2,615          | 2,670          | 1,181          | 549            |
| Total Loan Loss Provisions            | 2,960          | 1,964          | 1,840          | 1,444          | 1,310          |
| <i>Specific Loan Loss Provisions</i>  | 2,643          | 1,659          | 1,453          | 972            | 709            |
| <i>General Loan Loss Provisions</i>   | 317            | 305            | 387            | 472            | 601            |
| <b>Total Loans</b>                    | <b>498,990</b> | <b>413,209</b> | <b>328,337</b> | <b>308,321</b> | <b>259,472</b> |



**Figure 5: Banking Sector -  
Non-Performing Loans by Counterparty Country  
(in USD millions)**



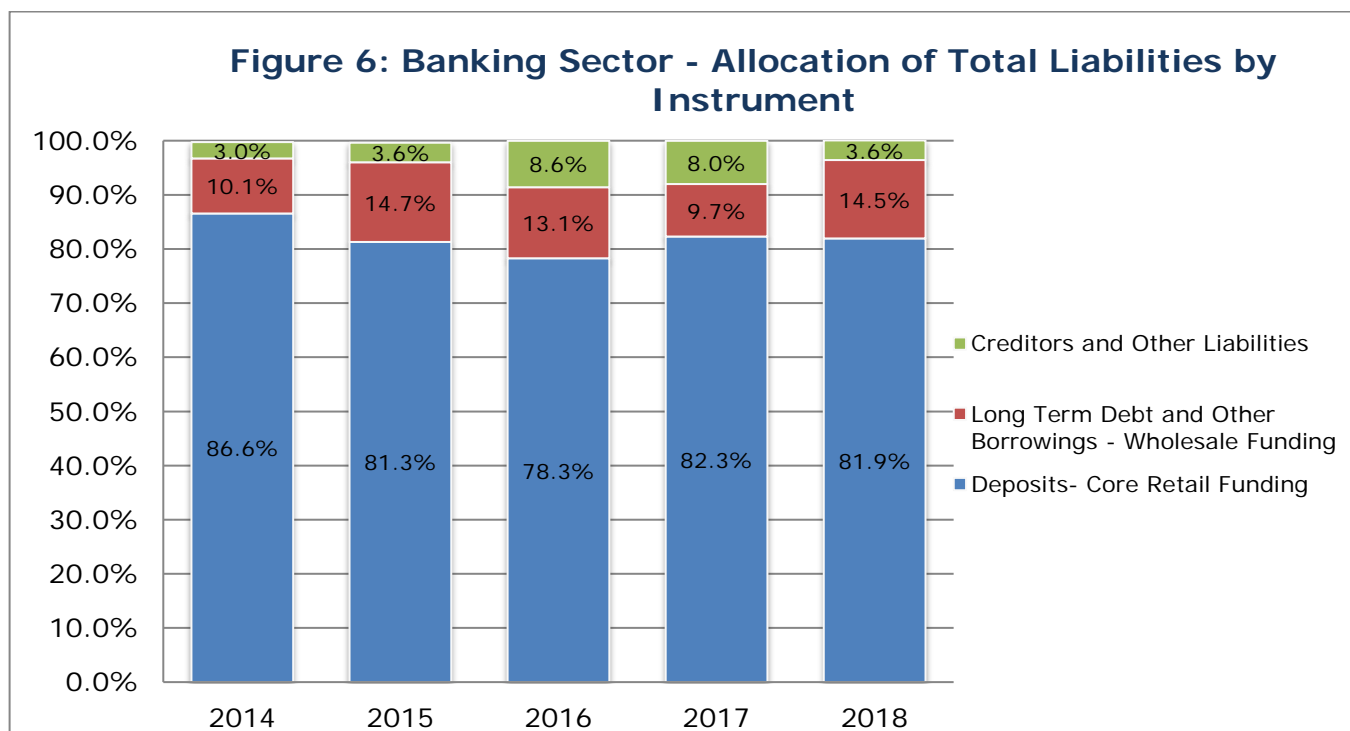
## Banking Sector – Allocation of Total Liabilities

Total deposits declined by US\$212 billion or 28.9% from US\$732 billion to US\$520 billion in 2018. The contraction in banking business and the decline in the number of licensed banks contributed to the decline in core deposits over the last five years. These factors also affected total borrowings which were US\$65 billion in 2017 but declined to US\$31 billion in 2018. Total shareholders' equity decreased by 8.42% from US\$42 billion to US\$39 billion.

**Table 8: Banking Sector - Allocation of Total Liabilities by Instrument (USD millions)**

|   | Category 'A' Banks | Category 'B' Banks | Total          |
|---|--------------------|--------------------|----------------|
| Deposits  | 17,302             | 503,105            | 520,407        |
| Repurchase Agreements (REPOS)                     | 0                  | 14,898             | 14,898         |
| Hybrid Debt and Subordinated Debt                 | 0                  | 12,365             | 12,365         |
| Other Notes, Bonds and Commercial Paper           | 0                  | 34,518             | 34,518         |
| Other Borrowings                                  | 588                | 30,515             | 31,103         |
| Creditors and Other Liabilities                   | 829                | 20,376             | 21,205         |
| Other Loss Provisions                             | 38                 | 651                | 689            |
| <b>TOTAL LIABILITIES</b>                          | <b>18,757</b>      | <b>616,428</b>     | <b>635,185</b> |
| TOTAL SHAREHOLDERS EQUITY                         | 2,775              | 35,753             | 38,528         |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <b>21,532</b>      | <b>652,181</b>     | <b>673,713</b> |

**Figure 6: Banking Sector - Allocation of Total Liabilities by Instrument**



## Banking Sector – Allocation of Total Deposits

Non-resident deposits account for 93.4% (2017: 94.8%) of the total deposits and the decrease of 28.9% over the prior year is consistent with the decline in banking business of Category ‘B’ branches and subsidiaries. Group bank non-resident deposits which make up 63% of total deposits were down US\$118 billion or 26.7% when compared to 2017.

In addition to resident deposits by Sovereigns and Central Banks which increased by 47%, deposits by resident other financial corporations – financial intermediaries and auxiliaries (up 13.8%) and individuals - households (up 22.7%) were higher in 2018 when compared to 2017 while resident other deposits were down 83.6%.

**Table 9: Banking Sector – Allocation of Total Deposits by Sector (USD millions)**

| Deposits   | 2014          |                  | 2015          |                | 2016          |                | 2017          |                | 2018          |                |
|--|---------------|------------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|
|  | Resident      | Non-Resident     | Resident      | Non-Resident   | Resident      | Non-Resident   | Resident      | Non-Resident   | Resident      | Non-Resident   |
| Sovereigns and Central Banks   | 552           | 4,444            | 767           | 2,777          | 700           | 2,306          | 716           | 953            | 1,053         | 965            |
| Non-Central Government Public Sector Entities (PSEs)                 | 156           | 1,651            | 230           | 1,035          | 247           | 1,080          | 387           | 822            | 212           | 223            |
| Multilateral Development Banks (MDBs)                                | 0             | 165              | 0             | 60             | 0             | 200            | 0             | 220            | 0             | 20             |
| Group Bank: Parent, Branch, Subsidiary or Affiliate                  | 8,717         | 668,353          | 10,033        | 498,053        | 4,672         | 471,402        | 5,063         | 444,099        | 4,646         | 325,498        |
| Group non-bank entities  | 7,629         | 160,321          | 5,276         | 103,599        | 4,676         | 57,802         | 5,433         | 49,520         | 718           | 33,651         |
| Other Banks  | 5,973         | 56,825           | 8,020         | 28,137         | 5,270         | 14,561         | 786           | 14,990         | 840           | 12,220         |
| Non-financial Corporations: Commercial Private Sector                | 8,868         | 143,910          | 4,848         | 117,042        | 5,931         | 109,120        | 6,746         | 101,755        | 7,588         | 57,543         |
| Other Financial Corporations: Financial Intermediaries & Auxiliaries | 13,813        | 147,076          | 14,717        | 110,043        | 14,420        | 91,988         | 14,384        | 59,263         | 16,376        | 52,320         |
| Individuals - Households   | 1,925         | 4,625            | 2,094         | 4,848          | 1,921         | 3,834          | 1,827         | 2,982          | 2,241         | 2,400          |
| Other Deposits   | 2,669         | 16,956           | 3,466         | 43,788         | 3,008         | 19,352         | 2,616         | 19,778         | 430           | 1,463          |
| <b>Total</b>   | <b>50,302</b> | <b>1,204,326</b> | <b>49,451</b> | <b>909,382</b> | <b>40,845</b> | <b>771,645</b> | <b>37,958</b> | <b>694,382</b> | <b>34,104</b> | <b>486,303</b> |



## Banking Sector – Term Debt and Other Borrowings

Non-deposit funding of US\$93 billion (2017: US\$129 billion) consisting of REPOS, hybrid debt, notes, bonds and other borrowings decreased by 28% in 2018 when compared to 2017.

Non-resident term debt and other borrowings which account for 83.1% of the total was down 28% as borrowing activity contracted within the banking sector with the closure of branches and a general decline in business. The decline was concentrated in other borrowings (loans, overdrafts, credit facilities etc) which decreased by US\$33 billion or 52%, due to a decrease in the non-resident loan balance of a European bank by US\$18 billion and US\$8 billion decrease in non-resident loans held by a Canadian bank.

Resident borrowings balances were mixed during 2018. There was an overall decrease of 24% in total borrowings with other borrowings down 38.6%, but resident other notes, bonds and commercial paper were up by US\$1.6 billion due to business activity of two Brazilian banks.

**Table 10: Banking Sector – Allocation of Term Debt and Other Borrowings by Sector (USD millions)**

| TOTAL TERM DEBT AND OTHER BORROWINGS                                    | 2014         |                | 2015          |                | 2016          |                | 2017          |                | 2018          |               |
|---|--------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|---------------|
|   | Resident     | Non-Resident   | Resident      | Non-Resident   | Resident      | Non-Resident   | Resident      | Non-Resident   | Resident      | Non-Resident  |
| <b>Repurchase Agreements (REPOS)</b>                                    | <b>1,817</b> | <b>16,582</b>  | <b>5,076</b>  | <b>9,827</b>   | <b>5,849</b>  | <b>10,418</b>  | <b>8,609</b>  | <b>8,481</b>   | <b>6,669</b>  | <b>8,229</b>  |
| Group Bank - Parent, Branch, Subsidiary or Affiliate                    | 1,817        | 3,532          | 4,502         | 3,146          | 1             | 6,010          | 0             | 4,776          | 123           | 4,377         |
| Other Banks   | 0            | 8,065          | 574           | 5,166          | 624           | 866            | 819           | 1,859          | 826           | 3,784         |
| Group non-bank entities   | 0            | 3,689          | 0             | 1,011          | 5,224         | 39             | 7,185         | 39             | 5,720         | 48            |
| Other   | 0            | 1,296          | 0             | 504            | 0             | 3,503          | 605           | 1,807          | 0             | 20            |
| <b>Hybrid Debt and Subordinated Debt</b>                                | <b>153</b>   | <b>17,909</b>  | <b>88</b>     | <b>16,083</b>  | <b>0</b>      | <b>12,407</b>  | <b>0</b>      | <b>13,305</b>  | <b>0</b>      | <b>12,365</b> |
| Unsecured subordinated debt (over 5 years original term maturity)       | 153          | 9,663          | 88            | 8,648          | 0             | 5,259          | 0             | 6,155          | 0             | 5,925         |
| Hybrid debt/equity instruments (over 5 years original term to maturity) | 0            | 8,246          | 0             | 7,435          | 0             | 7,148          | 0             | 7,150          | 0             | 6,440         |
| <b>Other Notes, Bonds and Commercial Paper</b>                          | <b>1,241</b> | <b>61,277</b>  | <b>270</b>    | <b>51,129</b>  | <b>94</b>     | <b>34,856</b>  | <b>61</b>     | <b>34,063</b>  | <b>1,664</b>  | <b>32,854</b> |
| Group Bank - Parent, Branch, Subsidiary or Affiliate                    | 155          | 6,693          | 52            | 6,153          | 0             | 4,908          | 0             | 2,803          | 750           | 4,538         |
| Group non-bank entities   | 146          | 17,240         | 60            | 12,465         | 0             | 301            | 0             | 1,046          | 0             | 2,561         |
| Other Banks   | 911          | 23,402         | 158           | 18,806         | 94            | 17,345         | 44            | 15,270         | 914           | 13,563        |
| Other   | 29           | 13,942         | 0             | 13,705         | 0             | 12,302         | 17            | 14,944         | 0             | 12,192        |
| <b>Other Borrowings (loans, overdrafts, credit facilities, etc.)</b>    | <b>700</b>   | <b>47,371</b>  | <b>9,109</b>  | <b>81,971</b>  | <b>10,299</b> | <b>62,063</b>  | <b>12,008</b> | <b>52,531</b>  | <b>7,369</b>  | <b>23,734</b> |
| Group Bank - Parent, Branch, Subsidiary or Affiliate                    | 300          | 18,106         | 300           | 54,925         | 1             | 44,240         | 45            | 38,191         | 233           | 11,125        |
| Group non-bank entities   | 12           | 11,997         | 8,706         | 12,692         | 9,765         | 856            | 11,722        | 1,473          | 7,127         | 468           |
| Other Banks   | 98           | 17,034         | 0             | 13,491         | 500           | 16,601         | 221           | 12,670         | 0             | 11,676        |
| Other   | 290          | 234            | 103           | 863            | 33            | 366            | 20            | 197            | 9             | 465           |
| <b>Total Term Debt and Other Borrowings</b>                             | <b>3,911</b> | <b>143,139</b> | <b>14,543</b> | <b>159,010</b> | <b>16,242</b> | <b>119,744</b> | <b>20,678</b> | <b>108,380</b> | <b>15,702</b> | <b>77,182</b> |

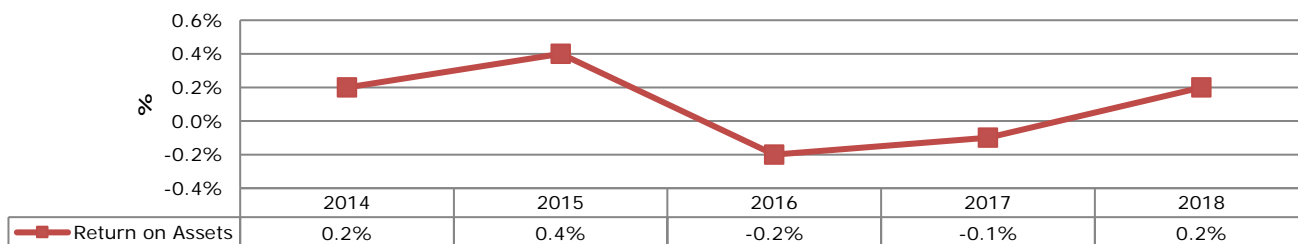
## Banking Sector - Earnings and Profitability

Following losses of US\$1.9 billion in 2016 and US\$984 million in 2017, net income in 2018 was positive. Other income of US\$8.3 billion, compared to a loss of US\$1.6 billion in 2017, more than offset the trading losses of US\$5.6 billion in 2018. The resulting operating income was US\$4.1 billion compared to US\$965 million in 2017 and with lower taxes, net income for 2018 was US\$1.3 billion (net loss of US\$984 million in 2017). Return on asset was 0.2% in 2018 compared to -0.1% in 2017 and return on equity also improved to 10% (2017: 8.7%).

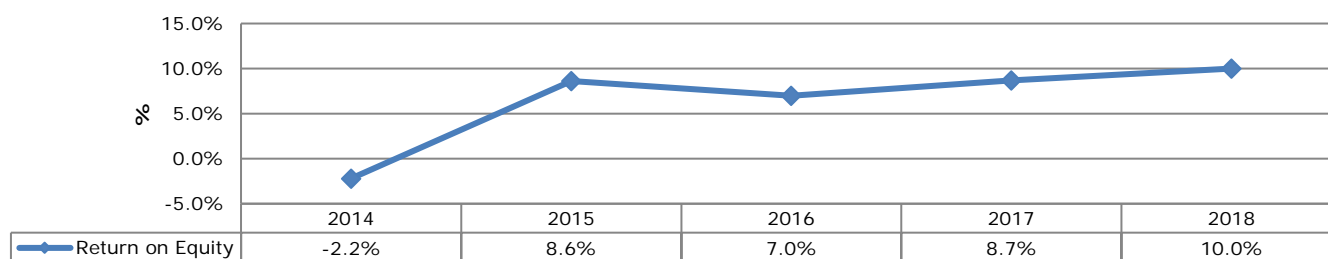
**Table 11: Banking Sector - Statement of Earnings (USD millions)**

|  | 2014         | 2015         | 2016           | 2017         | 2018         |
|--|--------------|--------------|----------------|--------------|--------------|
| Net Interest Income                                  | 2,568        | 3,120        | 4,344          | 1,735        | 518          |
| Net Non-Interest Income                              | 1,059        | 683          | 508            | 691          | 1,240        |
| Provisions for Credit Losses /Recoveries             | -1,881       | -302         | -1,459         | -355         | -315         |
| Other Income/(Losses)                                | 1,865        | 1,644        | -585           | -1,621       | 8,356        |
| Trading Income Gain/(Loss) on Financial Instruments) | 1,252        | 1,957        | -2,145         | 515          | -5,691       |
| Operating Income                                     | 4,863        | 7,102        | 663            | 965          | 4,108        |
| Operating Expense                                    | 1,238        | 2,127        | 2,413          | 1,532        | 2,540        |
| Applicable Taxes & Dividends                         | 98           | 106          | 213            | 417          | 210          |
| <b>Net Income (Loss) After Taxes</b>                 | <b>3,527</b> | <b>4,869</b> | <b>(1,963)</b> | <b>(984)</b> | <b>1,358</b> |

**Figure 7: Return on Assets for the Banking Sector**



**Figure 8: Return on Equity for the Banking Sector**



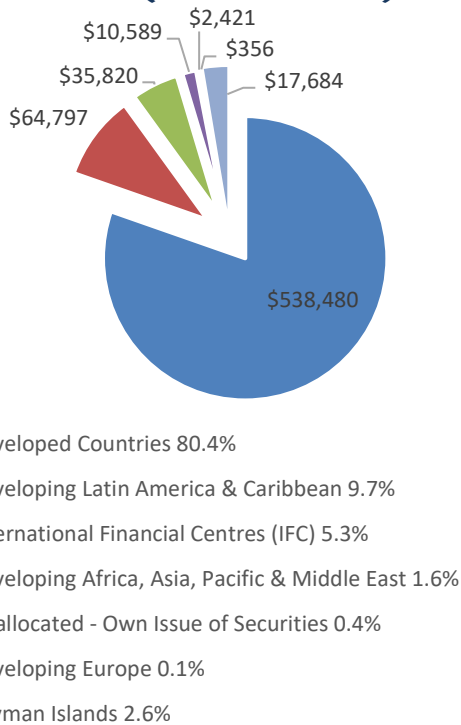
## Section II: Cross-border Assets & Liabilities

### International & Domestic Positions

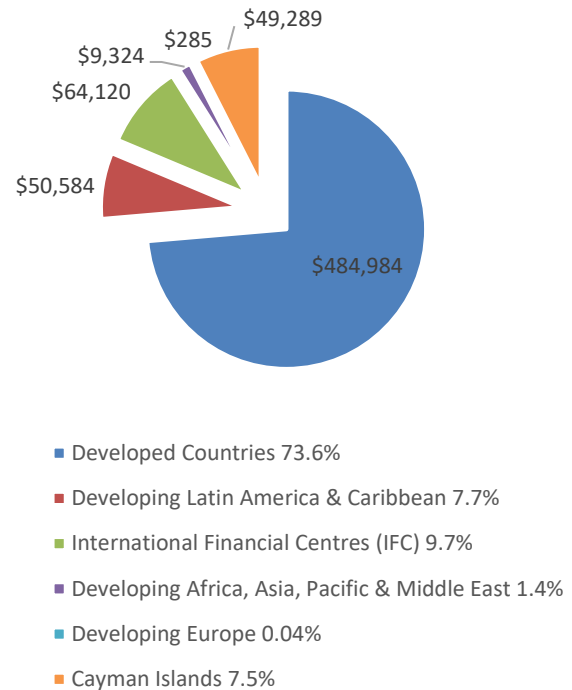
The total positions booked by Cayman-based banks in 2018 declined to US\$672 billion (2017: US\$934 billion) and US\$661 billion (2017: US\$934.1 billion) in assets and liabilities, respectively. These movements followed the negative trend from 2017 and represented 28% (US\$262 billion) and 29.2% (US\$273 billion) declines in assets and liabilities year on year, respectively. This contraction resulted in the decline in ranking of the Cayman Islands international banking position to 12th for both cross-border assets and liabilities. However, the Cayman Islands continues to be recognised as one of the top 10 international financial centres in the world, with over 40 of the top 50 banks holding licences here.

In 2018, US\$18 billion (2017: US\$18 billion) and US\$50 billion (2017: US\$58 billion) of assets and liabilities, respectively, were booked in the domestic economy with other legally domiciled licensed entities considered as resident entities. Although total assets remained largely unchanged, total liabilities were down 13.8%.

**Figure 9: Regional Cross-Border & Domestic Assets (USD millions)**



**Figure 10: Regional Cross-Border & Domestic Liabilities (USD millions)**



### ***Domestic Positions - Foreign and Local Currency***

During 2018, Category 'A' banks accounted for US\$3.8 billion in domestic assets and US\$10.3 billion in domestic liabilities. Category 'B' banks which exist primarily to facilitate interbank and intergroup positions, reported US\$14.4 billion in domestic assets and US\$39.8 billion in domestic liabilities.

**Table 12: Banking Sector - Domestic Asset & Liabilities by Instrument (USD millions)**

|                                      | Category 'A' |              | Category 'B'  | Total         |
|--------------------------------------|--------------|--------------|---------------|---------------|
|                                      | Retail       | Non-Retail   |               |               |
| <b>Domestic Assets</b>               |              |              |               |               |
| Cash Items                           | 92           | 114          | 166           | 372           |
| Financial Assets at Fair Value       | 3            | 0            | 3,233         | 3,236         |
| Investments: Held-to-Maturity        | 0            | 0            | 163           | 163           |
| Investments: Available-for-Sale      | 0            | 0            | 174           | 174           |
| Other Investments                    | 10           | 68           | 542           | 620           |
| Loans and Advances                   | 3,201        | 65           | 5,461         | 8,727         |
| <i>Less Loan Loss Provisions</i>     | 22           | 0            | 17            | 39            |
| Net Loans and Advances               | 3,179        | 65           | 5,444         | 8,688         |
| Other Assets                         | 257          | 81           | 4,749         | 5,087         |
| <b>TOTAL ASSETS</b>                  | <b>3,541</b> | <b>328</b>   | <b>14,471</b> | <b>18,340</b> |
| <b>Domestic Liabilities</b>          |              |              |               |               |
| Deposits                             | 7,206        | 2,635        | 23,102        | 32,943        |
| Repurchase Agreements (REPOS)        | 0            | 0            | 6,669         | 6,669         |
| Hybrid Debt & Subordinated Debt      | 0            | 0            | 0             | 0             |
| Other Notes, Bond & Commercial Paper | 0            | 0            | 1,664         | 1,664         |
| Other Borrowings                     | 0            | 0            | 7,369         | 7,369         |
| Creditors & Other Liabilities        | 168          | 328          | 1,081         | 1,577         |
| Other Loss Provisions                | 20           | 0            | 5             | 25            |
| <b>TOTAL LIABILITIES</b>             | <b>7,394</b> | <b>2,963</b> | <b>39,890</b> | <b>50,247</b> |



## Box 2: Banking Sector Developments

It has been 10 years since the 2008 global financial crisis and after amalgamation and downsizing, banks are now better capitalised and more liquid than before the crisis. In March 2018, the Authority submitted a draft paper to the Ministry of Financial Services and Home Affairs proposing amendments to the Banks and Trust Companies Law (2018 Revision) (“BTCL”) that would require public disclosure of certain information that supports the Basel II capital accord. The proposed amendments to BTCL will be heard by the Legislative Assembly in the first sitting of 2019. Focus has now turned to the implementation of the final Basel III reforms and improvements in corporate governance and technology to mitigate ongoing economic, market and operational risks.

One area of compliance risk for Cayman banks has been the stringent anti-money laundering/counter financing of terrorism (“AML/CFT”) legislation on correspondent banks imposed by US regulators. In turn, US banks are protecting themselves from non-compliance by discontinuing services to overseas financial organisations and businesses. Through the de-risking process, correspondent banks are reducing the number of financial institutions they process transactions for, and this has adversely affected the ability of the remittance service companies to send funds overseas.

Due to the loss of some US correspondent banking relationships, a number of retail banks terminated their services to remittance service providers and this forced the remittance service providers to either exit the market or sell their rights to overseas entities who were able to maintain or establish relationships with banks that were not impacted by the termination of the correspondent banking. The impact of the consolidation in the industry led to increased costs for the number of foreign workers remitting funds to their home countries and in some cases the US dollar was sold at par with the CI dollar. Disrupting the inflow of funds to/from some countries has serious implications for poverty as these countries rely on remittances as a major source of GDP.

The decline in the number of correspondent banking relationships globally will not only impact the ability to send and receive international payments, but increase risk by driving payments underground, causing adverse consequences on international trade, growth, financial institutions as well as lowering the stability and integrity of the financial system. In May 2019, the Financial Stability Board (FSB), published two reports, one on the progress on the implementation of its action plan to assess and address the decline in correspondent banking relationships and the other on the progress on implementing the FSB’s recommendations on remittance service providers’ access to banking services. Included in the FSB measures to improve the situation were the use of Legal Entity Identifier and a KYC utility program which stores customer due diligence data in a single repository. These measures are to give correspondent banks more transparency and the ability to identify and mitigate the risks associated with respondent banks and their underlying clients.

Between September and December 2018, BSD carried out a Thematic Review of the 2017 Internal Capital Adequacy Assessment Process (“ICAAP”) Reports of the six Retail Banks licensed by the Authority. The Authority will continue to work with the Licensees to ensure that the Authority’s Supervisory Review and Evaluation Process (SREP) and Stress Testing Guidelines are appropriately considered by the Licensees in their risk management framework and ICAAP and will continue to provide training to the Licensees.

## Section III: Category 'A' (Domestic) Banks

### Financial Soundness Indicators

#### Capital Adequacy Ratio ("CAR")

The CAR for the six retail banks remained well above the 8.0% threshold prescribed by the Basel II Accord and the 10.0% requirement of the Cayman Islands Banks and Trust Companies Law.

#### Asset Quality

The NPL to total Gross Loans ratio of 1.6% was marginally lower than 1.8% reported in 2017 due to lower non-performing loans as a result of improvements in the economic environment over the review period.

#### Earnings and Profitability

Return on equity showed an improvement to 15.3% in 2018 up from 13% in 2017 as a result of higher net income and higher shareholders' equity.

#### Liquidity

The Liquid assets (core) to total assets amongst the retail banks was 32.7% (2017: 33.5%) due to lower cash balance and total assets in 2018. The liquid assets (core) to short-term liabilities ratio improved from 53.4% to 53.8%.

**Table 13: Core Financial Soundness Indicators for Category 'A' Retail Banks**

| <b>Core Financial Soundness Indicators</b>          |             |             |             |             |             |
|---|-------------|-------------|-------------|-------------|-------------|
| <b>Indicator (%)</b>                                | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> |
| <b>Capital Adequacy</b>                             |             |             |             |             |             |
| Regulatory Capital to risk-weighted assets          | 17.6        | 18.9        | 19.0        | 22.2        | 25.5        |
| Regulatory Tier 1 Capital to risk-weighted assets   | 16.0        | 17.1        | 16.8        | 19.8        | 22.4        |
| Regulatory Tier II Capital to risk-weighted assets  | 1.6         | 1.8         | 2.2         | 2.4         | 3.1         |
| Total Regulatory Capital to Total assets            | 10.7        | 10.5        | 10.8        | 11.5        | 12.9        |
| Non-performing loans (net of provisions) to capital | 9.8         | 7.5         | 6.1         | 3.8         | 2.6         |
| <b>Asset Quality</b>                                |             |             |             |             |             |
| Non-performing loans to total Gross Loans           | 2.7         | 2.5         | 2.1         | 1.8         | 1.6         |
| Total loan loss provisions to non-performing loans  | 41.6        | 46.2        | 47.5        | 54.4        | 87.8        |
| Specific provisions to non-performing loans         | 29.9        | 33.5        | 34.7        | 42.1        | 50.0        |
| <b>Earnings and Profitability</b>                   |             |             |             |             |             |
| Return on equity                                    | 8.1         | 11.2        | 13.3        | 13.0        | 15.3        |
| Return on assets                                    | 0.8         | 1.3         | 1.5         | 1.6         | 2.0         |
| Interest margin to gross income                     | 71.9        | 69.7        | 69.9        | 70.0        | 73.1        |
| Non-interest expenses to gross income               | 58.3        | 54.0        | 50.2        | 48.7        | 43.9        |
| <b>Liquidity</b>                                    |             |             |             |             |             |
| Liquid assets (core) to total assets                | 24.2        | 25.7        | 24.5        | 33.5        | 32.7        |
| Liquid assets (core) to short-term liabilities      | 35.6        | 39.2        | 38.2        | 53.4        | 53.8        |



### Category 'A' Retail Banks - Balance Sheet Profile

Total assets for the retail sector declined by US\$367 million or 2.4% in 2018 following increases in the prior four years mainly due to lower cash balances. During 2018, there was a reallocation of investments from Available-for-Sale to Financial Assets at Fair Value for all the banks due to the adoption of International Financial Reporting Standard ("IFRS") 9. This new standard was in response to the financial crisis and aims to improve the accounting and reporting of financial assets and liabilities and became effective for annual periods beginning on or after January 1, 2018. Total Investments increased by US\$83 million or 2.85% and Loans and Advances decreased by US\$357 million or 5.3% following a decline of 10.3% in 2017.

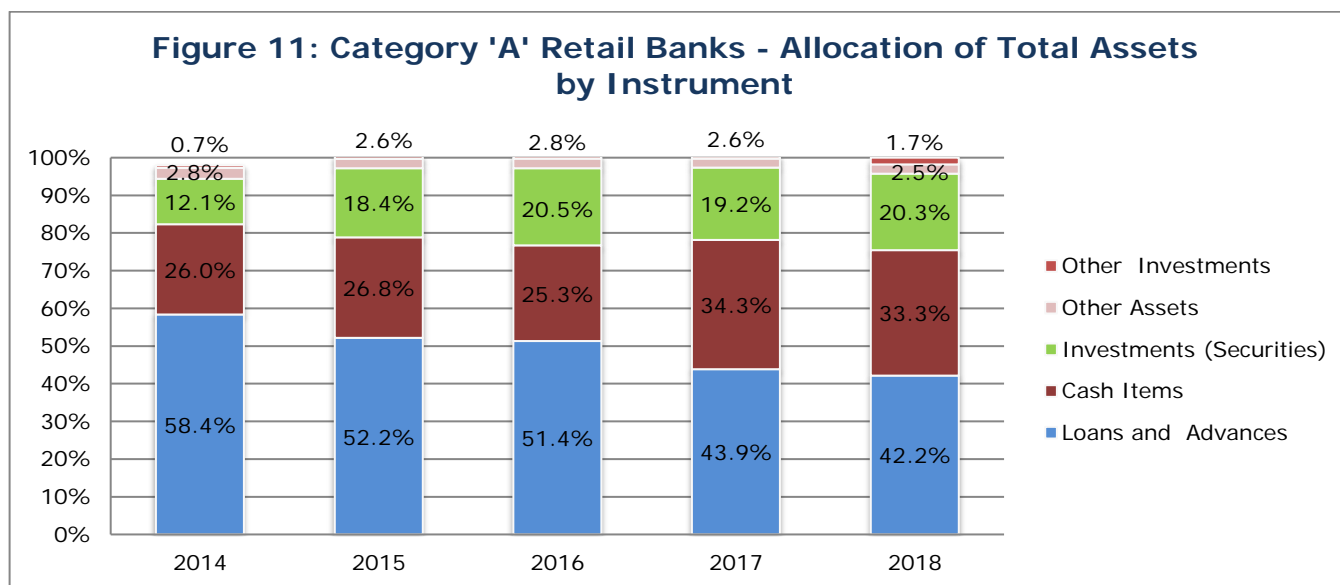
Total Liabilities were down US\$530 million or 3.9% as a result of a decrease in core deposits. Shareholders' equity grew by US\$163 million as a result of improved financial performance and income retained for the year.

**Table 14: Balance Sheet Profile for Category 'A' Retail Banks by Instrument (USD millions)**

|   | 2014          | 2015          | 2016          | 2017          | 2018          |
|---|---------------|---------------|---------------|---------------|---------------|
| <b>ASSETS</b>                                     |               |               |               |               |               |
| Cash Items  | 3,108         | 3,753         | 3,648         | 5,189         | 4,909         |
| Financial Assets at Fair Value                    | 12            | 14            | 8             | 4             | 1,537         |
| Investments - Held-to-Maturity                    | 253           | 641           | 912           | 906           | 1,455         |
| Investments - Available-for-Sale                  | 1,304         | 1,931         | 2,032         | 1,999         | 0             |
| Other Investments                                 | 89            | 88            | 88            | 88            | 259           |
| Loans and Advances                                | 7,788         | 7,332         | 7,394         | 6,636         | 6,279         |
| Net Loans   | 7,727         | 7,273         | 7,340         | 6,585         | 6,229         |
| Other Assets                                      | 337           | 342           | 369           | 358           | 373           |
| <b>TOTAL ASSETS</b>                               | <b>12,830</b> | <b>14,042</b> | <b>14,397</b> | <b>15,129</b> | <b>14,762</b> |
| <b>LIABILITIES</b>                                |               |               |               |               |               |
| Deposits  | 11,263        | 12,271        | 12,493        | 13,054        | 12,511        |
| 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             | 55            | 50            | 26            |
| Creditors and Other Liabilities                   | 52            | 186           | 202           | 202           | 228           |
| Other Loss Provisions                             | 34            | 31            | 28            | 27            | 38            |
| <b>TOTAL LIABILITIES</b>                          | <b>11,349</b> | <b>12,488</b> | <b>12,778</b> | <b>13,333</b> | <b>12,803</b> |
| <b>SHAREHOLDERS' EQUITY</b>                       | <b>1,481</b>  | <b>1,554</b>  | <b>1,619</b>  | <b>1,796</b>  | <b>1,959</b>  |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <b>12,830</b> | <b>14,042</b> | <b>14,397</b> | <b>15,129</b> | <b>14,762</b> |

## Retail 'A' Banks – Allocation of Total Assets

As in the prior years, the majority or 42.2% (2017: 43.9%) of total assets held by the Retail 'A' banks are Loans and Advances followed by Cash at 33.3% (2017: 34.3%) and Investments at 20.3% (2017: 19.2%).



## Retail 'A' Banks - Cash Items

Table 15 shows that 59.6% of total cash was held in non-resident Group Bank CDs. There was a decrease of US\$714 million or 19.6% in non-resident Group bank CDs while non-resident cash at Other banks increased by US\$564 million or 43.5% at year-end 2018.

**Table 15: Category 'A' Retail Banks - Cash by Resident vs Non-Resident (USD millions)**

| Cash Items   | 2014       |              | 2015      |              | 2016       |              | 2017       |              | 2018       |              |
|--|------------|--------------|-----------|--------------|------------|--------------|------------|--------------|------------|--------------|
|  | Resident   | Non-Resident | Resident  | Non-Resident | Resident   | Non-Resident | Resident   | Non-Resident | Resident   | Non-Resident |
| Cash   | 47         | 8            | 46        | 6            | 46         | 7            | 52         | 8            | 42         | 12           |
| Cash items in process of collection                | 9          | 2            | 15        | 1            | 33         | -3           | 13         | 2            | 12         | 0            |
| Balances & CDs:                                    |            |              |           |              |            |              |            |              |            |              |
| Group Bank - Parent, Branch, Subsidiary, Affiliate | 141        | 2,861        | 28        | 3,657        | 28         | 3,537        | 177        | 4,937        | 56         | 4,787        |
| Other Banks  | 0          | 1,546        | 7         | 2,229        | 4          | 2,531        | 100        | 3,639        | 0          | 2,925        |
| Due from financial institutions                    | 141        | 1,315        | 21        | 1,428        | 24         | 1,006        | 77         | 1,298        | 56         | 1,862        |
| Due from financial institutions                    | 0          | 40           | 0         | 0            | 0          | 0            | 0          | 0            | 0          | 0            |
| <b>TOTAL</b>                                       | <b>197</b> | <b>2,911</b> | <b>89</b> | <b>3,664</b> | <b>107</b> | <b>3,541</b> | <b>242</b> | <b>4,947</b> | <b>110</b> | <b>4,799</b> |



### Retail 'A' Banks – Investments

Total investments increased from US\$2.91 billion to US\$2.99 billion in 2018 an increase of 2.8%. There was a reclassification of investments from Available-for-sale to Financial Assets at Fair Value by all the retail banks due to a change in accounting policy and the adoption of IFRS 9.

**Table 16: Category 'A' Retail Banks - Investments by Resident vs Non-Resident and Sector (USD millions)**

| INVESTMENTS   | 2014      |              | 2015     |              | 2016      |              | 2017      |              | 2018      |              |
|---|-----------|--------------|----------|--------------|-----------|--------------|-----------|--------------|-----------|--------------|
|   | Resident  | Non-Resident | Resident | Non-Resident | Resident  | Non-Resident | Resident  | Non-Resident | Resident  | Non-Resident |
| <b>Financial Assets at Fair Value</b>                   |           |              |          |              |           |              |           |              |           |              |
| Sovereigns and Central Banks                            | 0         | 0            | 0        | 0            | 0         | 0            | 0         | 0            | 11        | 172          |
| Non-Central Government Public Sector Entities (PSEs)    | 0         | 0            | 0        | 0            | 0         | 0            | 0         | 0            | 0         | 762          |
| Multilateral Development Banks (MDBs)                   | 0         | 0            | 0        | 0            | 0         | 0            | 0         | 0            | 0         | 115          |
| Group non-banking entities                              | 10        | 0            | 0        | 0            | 0         | 0            | 0         | 0            | 0         | 0            |
| Other Banks   | 0         | 0            | 0        | 0            | 0         | 0            | 0         | 0            | 0         | 320          |
| Non-financial Corporations - Commercial Private Sector  | 0         | 2            | 9        | 5            | 8         | 0            | 0         | 4            | 0         | 98           |
| Other Financial Corporations                            | 0         | 0            | 0        | 0            | 0         | 0            | 0         | 0            | 1         | 58           |
| <b>TOTAL</b>  | <b>10</b> | <b>2</b>     | <b>9</b> | <b>5</b>     | <b>8</b>  | <b>0</b>     | <b>0</b>  | <b>4</b>     | <b>12</b> | <b>1,525</b> |
| <b>Held-to-Maturity</b>                                 |           |              |          |              |           |              |           |              |           |              |
| Sovereigns and Central Banks                            | 0         | 23           | 0        | 6            | 0         | 17           | 0         | 8            | 0         | 0            |
| Non-Central Government Public Sector Entities (PSEs)    | 0         | 180          | 0        | 279          | 0         | 554          | 0         | 531          | 0         | 818          |
| Multilateral Development Banks (MDBs)                   | 0         | 21           | 0        | 26           | 0         | 18           | 0         | 41           | 0         | 0            |
| Group Bank - Parent, Branch, Subsidiary or Affiliate    | 0         | 0            | 0        | 306          | 0         | 298          | 0         | 304          | 0         | 637          |
| Other Banks   | 0         | 23           | 0        | 11           | 0         | 17           | 0         | 17           | 0         | 0            |
| Non-financial Corporations - Commercial Private Sector  | 0         | 6            | 0        | 13           | 0         | 8            | 0         | 5            | 0         | 0            |
| <b>TOTAL</b>  | <b>0</b>  | <b>253</b>   | <b>0</b> | <b>641</b>   | <b>0</b>  | <b>912</b>   | <b>0</b>  | <b>906</b>   | <b>0</b>  | <b>1,455</b> |
| <b>Available-for-Sale</b>                               |           |              |          |              |           |              |           |              |           |              |
| Sovereigns and Central Banks                            | 22        | 100          | 9        | 552          | 12        | 323          | 10        | 406          | 0         | 0            |
| Non-Central Government Public Sector Entities (PSEs)    | 14        | 623          | 0        | 753          | 0         | 848          | 0         | 825          | 0         | 0            |
| Multilateral Development Banks (MDBs)                   | 1         | 67           | 0        | 78           | 0         | 99           | 0         | 55           | 0         | 0            |
| Other Banks   | 0         | 377          | 0        | 418          | 0         | 582          | 0         | 549          | 0         | 0            |
| Non-financial Corporations - Commercial Private Sector  | 0         | 88           | 0        | 109          | 0         | 156          | 0         | 142          | 0         | 0            |
| Other financial Corporations - Financial Intermediaries | 0         | 12           | 0        | 12           | 0         | 12           | 0         | 12           | 0         | 0            |
| <b>TOTAL</b>  | <b>37</b> | <b>1,267</b> | <b>9</b> | <b>1,922</b> | <b>12</b> | <b>2,020</b> | <b>10</b> | <b>1,989</b> | <b>0</b>  | <b>0</b>     |

## Retail 'A' Banks – Loans and Advances

Of the US\$6.2 billion in Loans and Advances, 64.8% (US\$4 billion) were resident loans, as expected in domestic commercial retail banks and 35.2% (US\$2 billion) were non-resident loans. During 2018, Loans and Advances increased by US\$314 million in the resident domestic market but decreased by US\$672 million in the non-resident market.

There was an overall decrease of US\$54 million in loans to Sovereigns & Central Banks but an increase of US\$65 million in loans to Non-Central Government Public Sector Entities (PSE) from a Canadian bank.

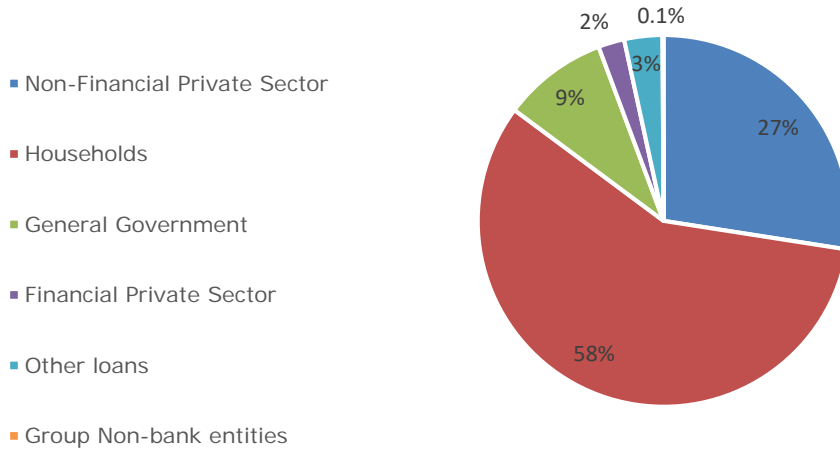
Loans to resident retail consumers and residential mortgages of US\$2.3 billion accounted for 58% (2017: 62%) of residential and consumer loans, indicating the high exposure to this sector (Figure 12) and grew by US\$33 million or 1.4% in 2018. Credit to the private sector which accounted for 29% of total resident loans or US\$1.2 billion reported an increase of US\$284 million or 30.6% in 2018. The largest increase was US\$198.9 million in loans to resident Non-Financial Corporations (Commercial Private Sector) from a Canadian bank.

The non-resident Loans and Advances were primarily comprised of facilities to non-financial private sector corporations, representing 72% (2017: 82%) of total non-residential loans (Figure 13). There was a decrease of US\$791 million in loans to Non-Financial Corporations – Commercial Private Sector but an increase of US\$19 million in loans to Non-Financial Corporations – Commercial Mortgages.

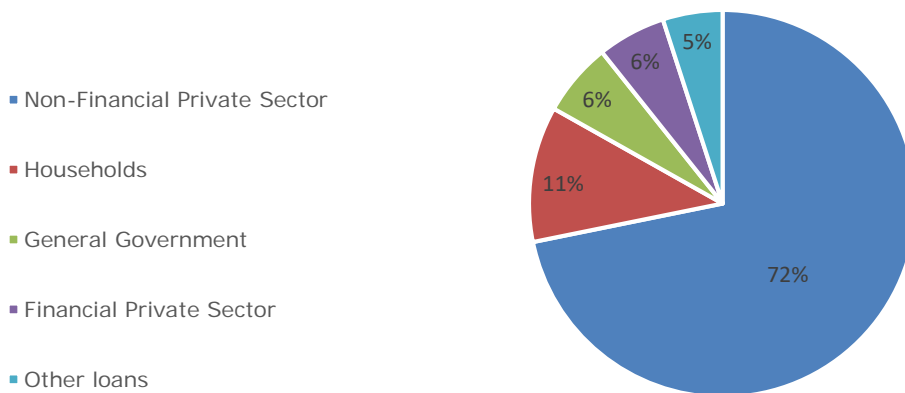
**Table 17: Category 'A' Retail Banks - Loans and Advances by Resident vs Non-Resident and Sector (USD millions)**

| Loans and Advances                                      | 2014         |              | 2015         |              | 2016         |              | 2017         |              | 2018         |              |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|   | Resident     | Non-Resident | Resident     | Non-Resident | Resident     | Non-Resident | Resident     | Non-Resident | Resident     | Non-Resident |
| Sovereigns & Central Banks                              | 481          | 15           | 476          | 74           | 430          | 71           | 348          | 37           | 309          | 22           |
| Non-Central Government Public Sector Entities (PSEs)    | 87           | 37           | 90           | 58           | 99           | 53           | 63           | 49           | 64           | 113          |
| Multilateral Development Banks (MDBs)                   | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| Group Bank - Parent, Branch, Subsidiary or Affiliate    | 0            | 42           | 7            | 40           | 0            | 40           | 0            | 0            | 0            | 1            |
| Group non-bank entities                                 | 10           | 0            | 8            | 0            | 6            | 0            | 8            | 0            | 4            | 0            |
| Non-Financial Corporations - Commercial Private Sector  | 795          | 3,257        | 684          | 2,625        | 613          | 2,537        | 603          | 2,132        | 841          | 1,341        |
| Non-Financial Corporations - Commercial Mortgages       | 156          | 217          | 181          | 238          | 255          | 221          | 238          | 224          | 277          | 243          |
| Other Financial Corporations - Financial Intermediaries | 19           | 104          | 103          | 76           | 120          | 124          | 86           | 120          | 93           | 126          |
| Retail Lending/Consumer Loans – Households              | 378          | 71           | 346          | 36           | 352          | 46           | 346          | 53           | 343          | 72           |
| Residential Mortgages – Households                      | 1,728        | 228          | 1,865        | 277          | 1,925        | 359          | 1,972        | 187          | 2,008        | 178          |
| Other Loans and Advances                                | 95           | 68           | 86           | 62           | 86           | 57           | 95           | 75           | 134          | 110          |
| <b>TOTAL</b>  | <b>3,749</b> | <b>4,039</b> | <b>3,846</b> | <b>3,486</b> | <b>3,886</b> | <b>3,508</b> | <b>3,759</b> | <b>2,877</b> | <b>4,073</b> | <b>2,206</b> |

**Figure 12: Category 'A' Retail Banks Resident Loans by Sector**



**Figure 13: Category 'A' Retail Banks Non-Resident Loans by Sector**





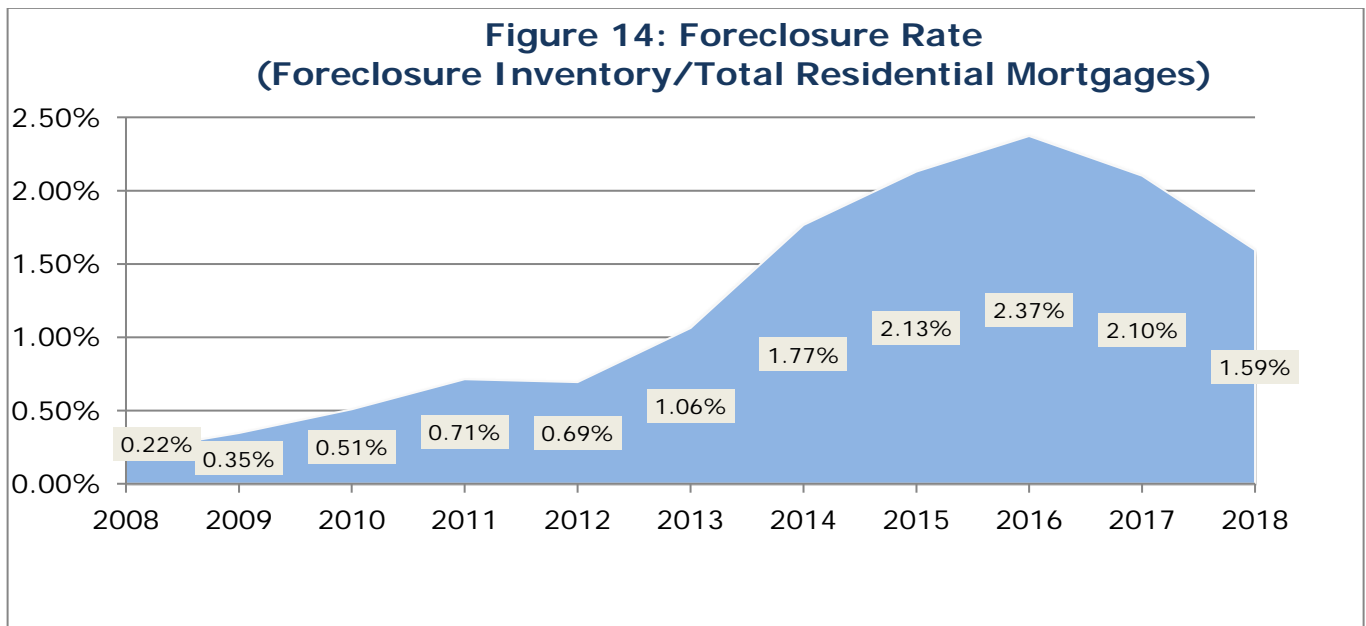
### Retail 'A' Banks - Non-Performing Loans (NPLs)

NPLs as a proportion of Total Assets declined from 1.9% in 2017 to 1.6% in 2018 reflecting improvements in asset quality due to continued improvements in macroeconomic conditions including increased employment and an overall improvement in economic activity in the Cayman Islands. Foreclosure rates on residential mortgages, which includes data from the Retail 'A' banks, Cayman Islands Development Bank and JN Cayman, declined to 1.59% from 2.1% in 2017. During each quarter of 2018, the foreclosure rate decreased as the number and value of foreclosed loans decreased. During the quarter ended December 31, 2018, there were nine completed foreclosures and 127 in process.

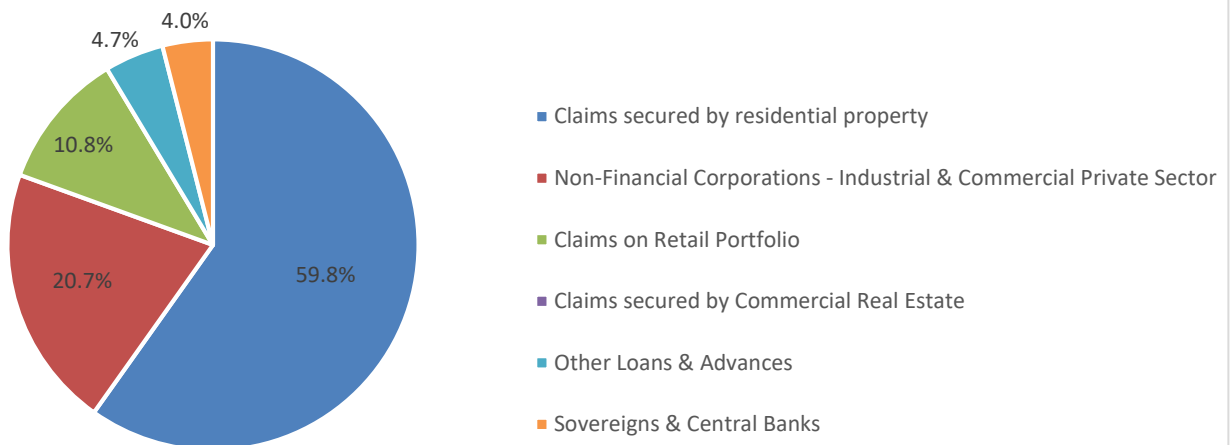
NPLs were highly concentrated in the residential mortgage portfolio, which represented 59.8% (2017: 63%) of total NPLs, followed by Non-Financial Corporations (Industrial & Commercial Private Sector), which represented 20.7% (2017: 11%). See Figure 15.

**Table 18: Category 'A' Retail Banks - Non-Performing Loan Ratios**

|                                      | 2014  | 2015  | 2016  | 2017  | 2018  |
|--------------------------------------|-------|-------|-------|-------|-------|
| %                                    |       |       |       |       |       |
| NPLs to Total Loans                  | 2.7%  | 2.7%  | 2.0%  | 1.9%  | 1.6%  |
| Total Loan Loss Provisions to NPLs   | 41.1% | 39.7% | 47.6% | 54.8% | 87.8% |
| \$                                   |       |       |       |       |       |
| NPLs                                 | 209   | 199   | 149   | 124   | 98    |
| Total Loan Loss Provisions           | 86    | 79    | 71    | 68    | 86    |
| <i>Specific Loan Loss Provisions</i> | 52    | 48    | 43    | 40    | 49    |
| <i>General Loan Loss Provisions</i>  | 34    | 31    | 28    | 28    | 37    |
| Total Loans                          | 7,788 | 7,332 | 7,394 | 6,636 | 6,279 |



**Figure 15: Category 'A' Retail Banks  
Sectoral Profile of Non-Performing Loans**



## Retail 'A' Banks – Allocation of Total Deposits

### Resident

Core deposits continued to account for over 90% of total funding for the retail banks. Resident deposits which represented 66.9% (2017: 60.2%) of total deposits of US\$12.5 billion increased by 6.6% or US\$516 million in 2018. Resident deposits were comprised mainly of deposits from Other Financial Corporations (US\$2.6 billion), Non-Financial Corporations – Commercial Private Sector (US\$2.0 billion) and Households (US\$1.9 billion).

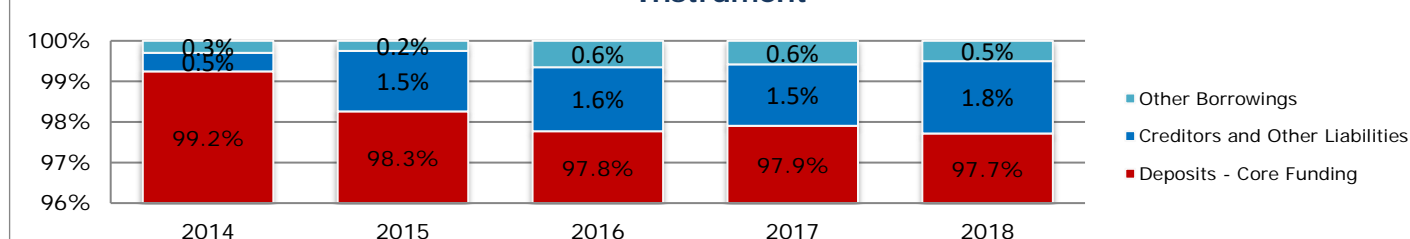
### Non-Resident

Non-resident deposits accounted for 33.1% (2017: 39.8%) or US\$4.1 billion of total deposits, a contraction of 20% (US\$1 billion) from 2017. Deposits by Group Banks of US\$2.2 billion continued to account for most of the non-resident deposits at 54.2% (2017: 59.2%); followed by deposits from Non-Financial Corporations of US\$820 million, which represented 19.8% (2017: 18.2%) of the non-resident deposits.

**Table 19: Category 'A' Retail Banks - Deposits by Resident vs Non-Resident and Sector (USD millions)**

| Deposits  | 2014         |              | 2015         |              | 2016         |              | 2017         |              | 2018         |              |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|   | Resident     | Non-Resident | Resident     | Non-Resident | Resident     | Non-Resident | Resident     | Non-Resident | Resident     | Non-Resident |
| Sovereigns & Central Banks                              | 388          | 32           | 544          | 28           | 701          | 12           | 716          | 11           | 1,053        | 49           |
| Non-Central Government Public Sector Entities (PSEs)    | 172          | 14           | 175          | 16           | 247          | 14           | 387          | 9            | 212          | 36           |
| Multilateral Development Banks (MDBs)                   | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| Group Bank - Parent, Branch, Subsidiary or Affiliate    | 36           | 3,184        | 77           | 3,364        | 45           | 3,310        | 64           | 3,078        | 93           | 2,246        |
| Group non-bank entities                                 | 90           | 0            | 31           | 0            | 10           | 6            | 1            | 0            | 3            | 0            |
| Other entities  | 144          | 3            | 105          | 1            | 132          | 6            | 83           | 10           | 103          | 18           |
| Non-Financial Corporations – Commercial Private Sector  | 1,949        | 1,450        | 2,016        | 1,106        | 2,195        | 981          | 2,328        | 947          | 2,063        | 820          |
| Other Financial Corporations - Financial Intermediaries | 1,060        | 133          | 1,874        | 345          | 1,741        | 367          | 2,161        | 463          | 2,645        | 294          |
| Individual – Households                                 | 1,747        | 567          | 1,738        | 555          | 1,913        | 531          | 1,791        | 427          | 1,903        | 407          |
| Other Deposits  | 230          | 64           | 228          | 68           | 221          | 61           | 321          | 257          | 293          | 273          |
| <b>TOTAL</b>  | <b>5,816</b> | <b>5,447</b> | <b>6,788</b> | <b>5,483</b> | <b>7,205</b> | <b>5,288</b> | <b>7,852</b> | <b>5,202</b> | <b>8,368</b> | <b>4,143</b> |

**Figure 16: Category 'A' Retail Banks - Allocation of Total Liabilities by Instrument**



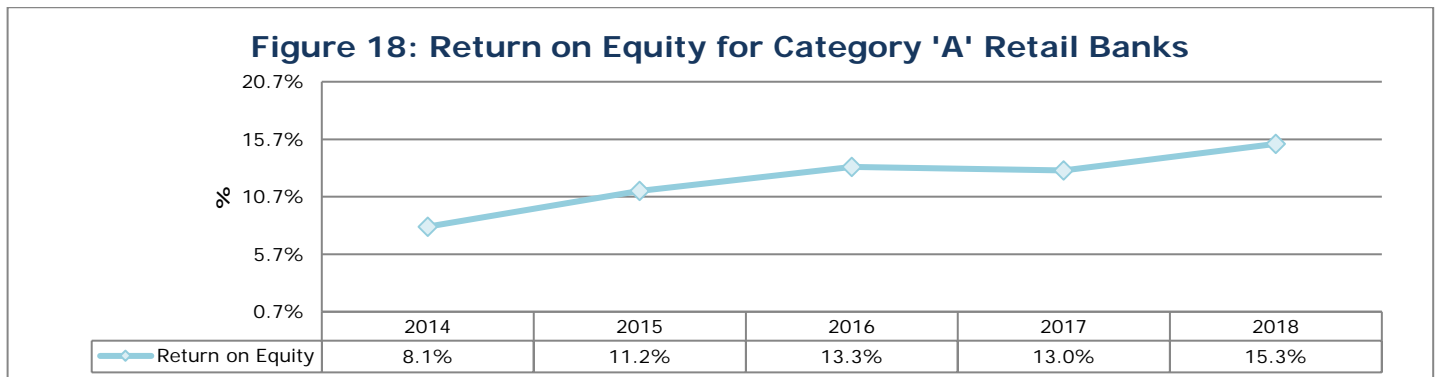
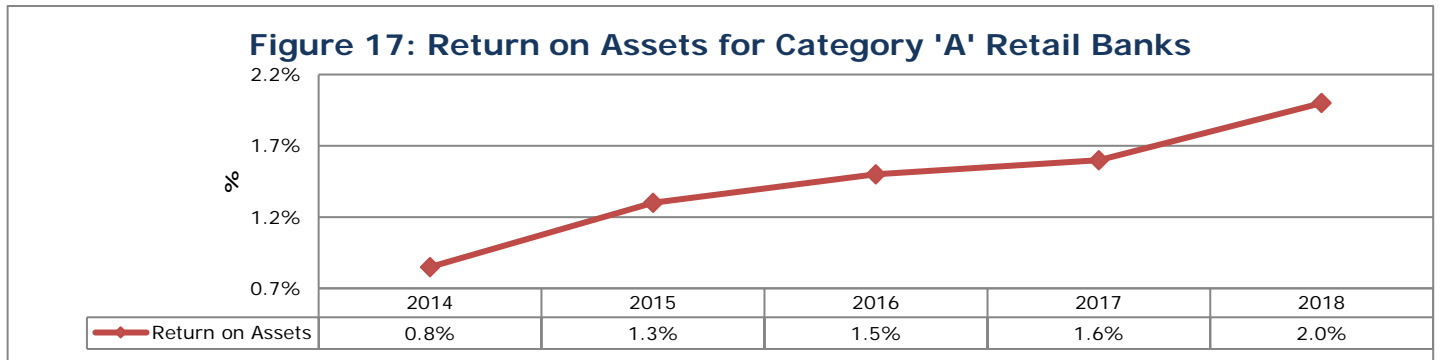


### Retail 'A' Banks - Earnings and Profitability

Retail banks reported a US\$69 million increase in Operating Income from US\$459 million in 2017 to US\$527 million in 2018. The increase in operating income were offset by higher operating expenses of US\$8 million but overall income retained increased by US\$47 million. The 2018 return on assets of 2% and return on equity of 15.3% improved on the results of 2017.

**Table 20: Category 'A' Retail Banks - Statement of Earnings (USD millions)**

|  | 2014       | 2015       | 2016       | 2017       | 2018       |
|--|------------|------------|------------|------------|------------|
| Net Interest Income                                  | 264        | 279        | 312        | 328        | 394        |
| Net Non-Interest Income                              | 72         | 79         | 95         | 104        | 103        |
| Provisions for Credit Losses/Recoveries              | -30        | -9         | -8         | -11        | -9         |
| Other Income/(Losses)                                | 4          | 3          | 3          | 3          | 4          |
| Trading Income Gain/(Loss) on Financial Instruments) | 23         | 34         | 32         | 35         | 35         |
| Operating Income                                     | 333        | 386        | 434        | 459        | 527        |
| Operating Expense                                    | 207        | 211        | 218        | 229        | 237        |
| Applicable taxes & Dividends                         | 17         | 50         | 45         | 56         | 69         |
| <b>Net Income After Taxes</b>                        | <b>109</b> | <b>125</b> | <b>171</b> | <b>174</b> | <b>221</b> |



### ***Retail 'A' Banks – Liquidity Ratios***

During 2018, liquid assets to short-term liabilities were 53.8% compared to 71.3% in 2017. This rate was more in line with the results of 2014 to 2016 while the results for 2017 were influenced by an increase in cash and a decline in short-term liabilities.

Cash to total assets of 33.2% and loans to deposits ratio of 50.2% were largely unchanged from 2017.

**Table 21: Category 'A' Retail Banks - Liquidity Ratios**

| <b>Liquidity Ratios</b>   | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> |
|---|-------------|-------------|-------------|-------------|-------------|
| Liquid Assets (Cash Items) to Short-Term Liabilities (Deposits up to 90 days) | 37.5%       | 42.2%       | 41.7%       | 71.3%       | 53.8%       |
| Liquid Assets Ratio:<br>Liquid Assets (Cash Items) to Total Assets            | 24.2%       | 26.7%       | 25.3%       | 34.3%       | 33.2%       |
| Loans to Deposits Ratio   | 69.1%       | 59.8%       | 59.2%       | 50.8%       | 50.2%       |
| Total Assets  | 12,830      | 14,042      | 14,397      | 15,129      | 14,762      |
| Loans   | 7,788       | 7,332       | 7,394       | 6,636       | 6,279       |
| Liquid Assets   | 3,108       | 3,753       | 3,648       | 5,189       | 4,909       |
| Deposits  | 11,263      | 12,271      | 12,493      | 13,054      | 12,511      |
| Short-Term Liabilities  | 8,297       | 8,890       | 8,742       | 7,281       | 9,124       |





## Category 'A' Non-Retail Banks

### *Non-Retail 'A' Banks - Balance Sheet Profile*

Total assets of Category 'A' Non-Retail banks decreased by US\$1.8 billion or 21.5%; while liabilities were down US\$1.9 billion or 24.3%. The decline in assets was largely the result of decreases in Cash Items of 18.1% or US\$740 million and Loans and Advances which were down 30.9% or US\$1.3 billion. One major German non-retail bank significantly downsized in 2018 with plans to close in 2019 and one American bank downgraded to a Category 'B' license.

The decrease in liabilities was due to the decline in core deposits by US\$1 billion and Other Borrowings by US\$992 million. However, Creditors and Other Liabilities increased by US\$197 million in 2018. Shareholders' equity increased by US\$60 million due to an increase in retained income.

**Table 22: Balance Sheet Profile for Category 'A' Non-Retail Banks by Instrument (USD millions)**

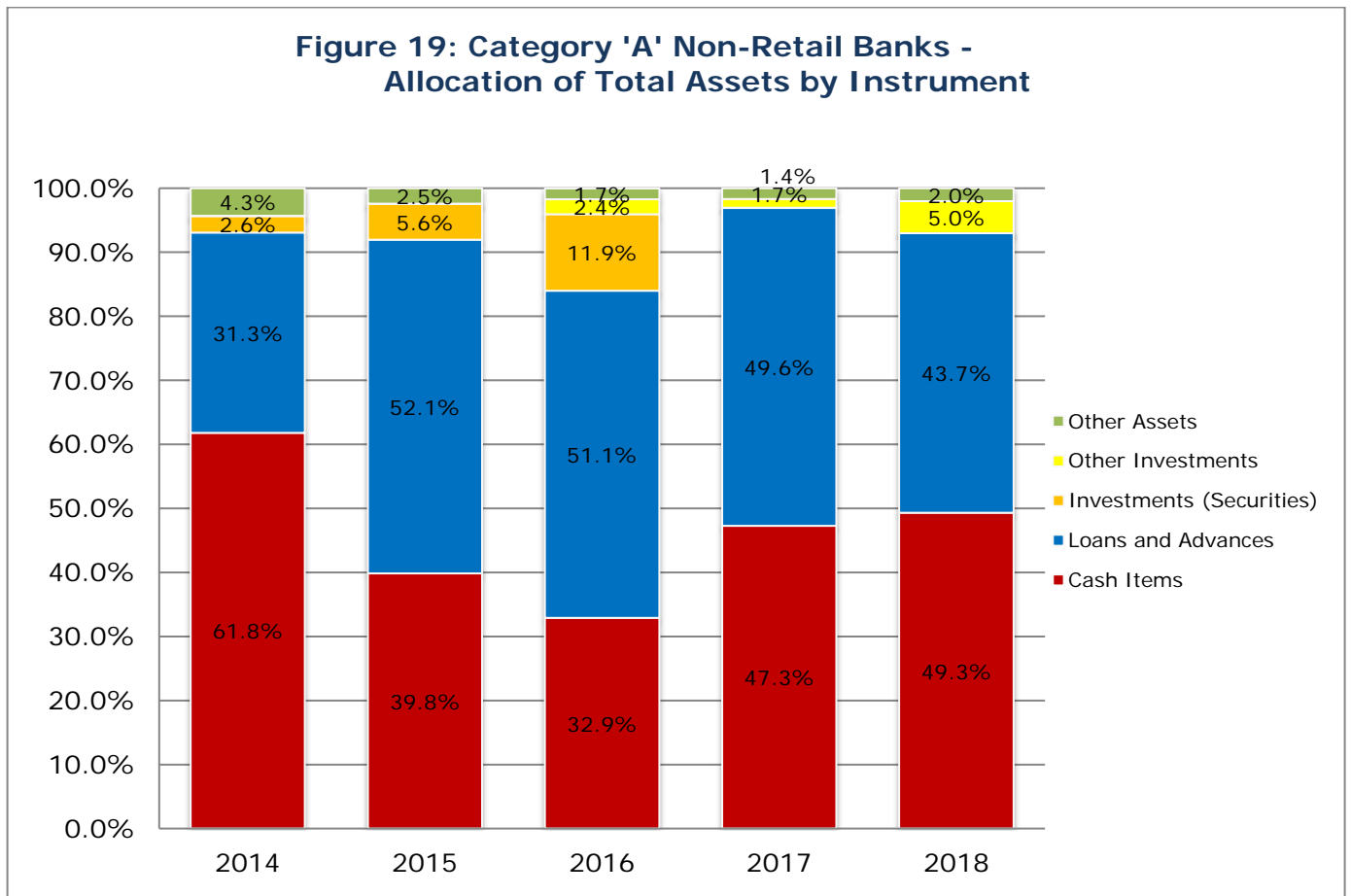
|   | 2014         | 2015         | 2016         | 2017         | 2018         |
|---|--------------|--------------|--------------|--------------|--------------|
| <b>ASSETS</b>                                     |              |              |              |              |              |
| Cash Items  | 5,282        | 3,630        | 2,773        | 4,078        | 3,338        |
| Financial Assets at Fair Value                    | 38           | 0            | 1            | 0            | 1            |
| Investments - Held-to-Maturity                    | 135          | 500          | 999          | 0            | 0            |
| Investments -Available-for-sale                   | 50           | 6            | 6            | 5            | 0            |
| Other Investments                                 | 4            | 4            | 199          | 117          | 337          |
| Loans and Advances                                | 2,673        | 4,749        | 4,312        | 4,279        | 2,956        |
| Net Loans   | 2,673        | 4,749        | 4,312        | 4,279        | 2,956        |
| Other Assets                                      | 366          | 221          | 144          | 145          | 138          |
| <b>TOTAL ASSETS</b>                               | <b>8,548</b> | <b>9,110</b> | <b>8,434</b> | <b>8,624</b> | <b>6,770</b> |
| <b>LIABILITIES</b>                                |              |              |              |              |              |
| Deposits  | 6,666        | 6,271        | 5,750        | 5,910        | 4,791        |
| 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                                  | 321          | 1,707        | 1,645        | 1,554        | 562          |
| Creditors and Other Liabilities                   | 538          | 425          | 482          | 404          | 601          |
| Other Loss Provisions                             | 2            | 0            | 0            | 0            | 0            |
| <b>TOTAL LIABILITIES</b>                          | <b>7,527</b> | <b>8,403</b> | <b>7,877</b> | <b>7,868</b> | <b>5,954</b> |
| SHAREHOLDERS' EQUITY                              | 1,021        | 707          | 557          | 756          | 816          |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <b>8,548</b> | <b>9,110</b> | <b>8,434</b> | <b>8,624</b> | <b>6,770</b> |



**Non-Retail 'A' Banks – Allocation of Total Assets**

Asset distribution for the Non-Retail 'A' banks changed during 2018 with the majority of assets held in Cash, whereas in the prior years, the majority of total assets was in Loans and Advances.

In 2018, Cash represented 49.3% (2017: 47.3%) and Loans and Advances represented 43.7% (2017: 49.6%) of total assets.



### Non-Retail 'A' Banks - Cash Items

Of the total assets of US\$6.7 billion of Category 'A' Non-Retail banks, Cash Items account for US\$3.3 billion or 49.3%. Cash placement with non-resident group bank represents 95.2% of total cash held; this category decreased by US\$792 million year on year.

**Table 23: Category 'A' Non-Retail Banks - Cash by Resident vs Non-Resident (USD millions)**

| Cash Items  | 2014      |              | 2015      |              | 2016      |              | 2017      |              | 2018       |              |
|---|-----------|--------------|-----------|--------------|-----------|--------------|-----------|--------------|------------|--------------|
|   | Resident  | Non-Resident | Resident  | Non-Resident | Resident  | Non-Resident | Resident  | Non-Resident | Resident   | Non-Resident |
| Balances & CDs:<br>Group Bank - Parent,<br>Branch, Subsidiary,<br>Affiliate | 18        | 5,262        | 20        | 3,564        | 29        | 2,744        | 56        | 4,022        | 114        | 3,224        |
| Other Banks   | 6         | 4,899        | 10        | 3,470        | 13        | 2,724        | 49        | 3,972        | 100        | 3,180        |
| Due from financial<br>institutions  | 12        | 363          | 10        | 94           | 16        | 20           | 7         | 50           | 14         | 44           |
|   | 0         | 2            | 0         | 46           | 0         | 0            | 0         | 0            | 0          | 0            |
| <b>TOTAL</b>  | <b>18</b> | <b>5,264</b> | <b>20</b> | <b>3,610</b> | <b>29</b> | <b>2,744</b> | <b>56</b> | <b>4,022</b> | <b>114</b> | <b>3,224</b> |

### Non-Retail 'A' Banks – Loans and Advances

Loans and Advances which account for 43.7% (2017: 49.6%) of total assets declined by US\$1.3 billion in 2018 due to the repayment of US\$919 million on the non-resident Retail Lending/Consumer loans - Households and US\$220 million on the non-resident Non-Financial Corporation – Industrial and Commercial Private Sector loans to a retail bank which surrendered its 'A' license at the end of 2018.

**Table 24: Category 'A' Non-Retail Banks - Loans and Advances by Resident vs Non-Resident and Sector (USD millions)**

| Loans and Advances  | 2014       |              | 2015       |              | 2016       |              | 2017       |              | 2018      |              |
|---|------------|--------------|------------|--------------|------------|--------------|------------|--------------|-----------|--------------|
|   | Resident   | Non-Resident | Resident   | Non-Resident | Resident   | Non-Resident | Resident   | Non-Resident | Resident  | Non-Resident |
| Group Bank - Parent,<br>Branch, Subsidiary or<br>Affiliate      | 0          | 0            | 0          | 0            | 0          | 1            | 0          | 0            | 0         | 0            |
| Group non-bank entities   | 146        | 0            | 0          | 0            | 0          | 0            | 0          | 0            | 0         | 0            |
| Non-Financial<br>Corporations -<br>Commercial Private<br>Sector | 13         | 952          | 0          | 2,761        | 0          | 2,527        | 0          | 2,410        | 0         | 2,191        |
| Other Financial<br>Corporations - Financial<br>Intermediaries   | 277        | 54           | 132        | 46           | 123        | 19           | 193        | 78           | 65        | 26           |
| Retail<br>Lending/Consumer<br>Loans - Households                | 0          | 1,175        | 0          | 1,791        | 0          | 1,637        | 0          | 1,587        | 0         | 667          |
| Residential Mortgages -<br>Households                           | 24         | 4            | 0          | 0            | 0          | 0            | 0          | 0            | 0         | 0            |
| Other Loans and<br>Advances                                     | 1          | 27           | 0          | 19           | 0          | 5            | 0          | 11           | 0         | 7            |
| <b>TOTAL</b>  | <b>461</b> | <b>2,212</b> | <b>132</b> | <b>4,617</b> | <b>123</b> | <b>4,189</b> | <b>193</b> | <b>4,086</b> | <b>65</b> | <b>2,891</b> |

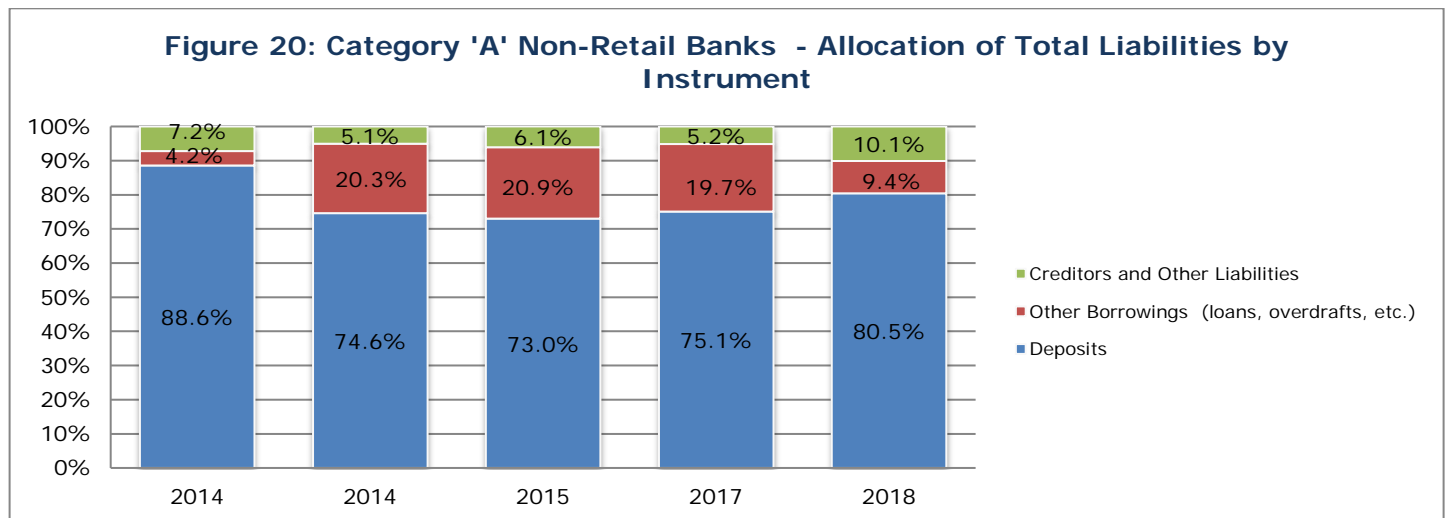
### Non-Retail 'A' Banks – Allocation of Total Deposits

Category 'A' Non-Retail banks' funding was 80.5% or US\$4.8 billion from core deposits and 19.5% from other borrowings, creditors and other liabilities. The decrease in total deposits of US\$1.1 billion was due to a decrease of US\$782 million in resident and non-resident Other Financial Corporations: Financial Intermediaries deposits and a decrease of US\$78 million in resident Group Bank deposits by a German bank which has downsized its operations pending a full withdrawal from the Cayman market in 2019. Most of the bank and trust business was sold to a Category 'A' retail bank.

**Table 25: Category 'A' Non-Retail Banks - Deposits by Resident vs Non-Resident and Sector (USD millions)**

| DEPOSITS   | 2014         |              | 2015         |              | 2016         |              | 2017         |              | 2018         |              |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|  | 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   | 14           | 1            | 0            | 0            | 93           | 0            | 78           | 0            | 0            | 0            |
| Group non-bank entities                                | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| Other Banks  | 3            | 13           | 0            | 7            | 0            | 0            | 0            | 1            | 0            | 2            |
| Non-Financial Corporations: Commercial Private Sector  | 258          | 742          | 0            | 646          | 0            | 886          | 0            | 949          | 0            | 981          |
| Other Financial Corporations: Financial Intermediaries | 4,234        | 1,035        | 3,505        | 516          | 3,155        | 481          | 3,291        | 608          | 2,634        | 482          |
| Individuals - Households                               | 32           | 302          | 16           | 956          | 7            | 1,098        | 11           | 946          | 0            | 580          |
| Other Deposits   | 0            | 32           | 0            | 625          | 0            | 30           | 0            | 26           | 0            | 112          |
| <b>TOTAL</b>   | <b>4,541</b> | <b>2,125</b> | <b>3,521</b> | <b>2,750</b> | <b>3,255</b> | <b>2,495</b> | <b>3,380</b> | <b>2,530</b> | <b>2,634</b> | <b>2,157</b> |

**Figure 20: Category 'A' Non-Retail Banks - Allocation of Total Liabilities by Instrument**



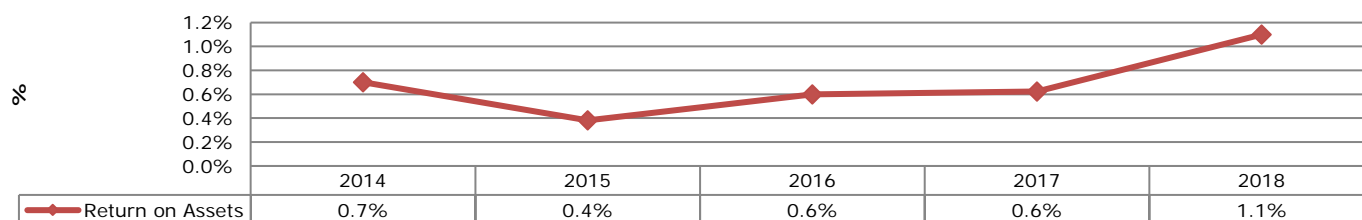
## Non-Retail 'A' Banks - Earnings and Profitability

Non-Retail 'A' banks reported improved earnings and profitability, recording a US\$13 million increase in Income before Taxes & Dividends; and a US\$16 million increase in Operating Income from US\$205 million in 2017 to US\$221 million in 2018. With only a marginal increase in Operating Expenses of US\$3 million, the sector reported Net Income Retained of US\$87 million in 2018, a US\$33 million increase from 2017. Return on assets in 2018 of 1.1% and return on equity of 11.1% were both improvements over 2017.

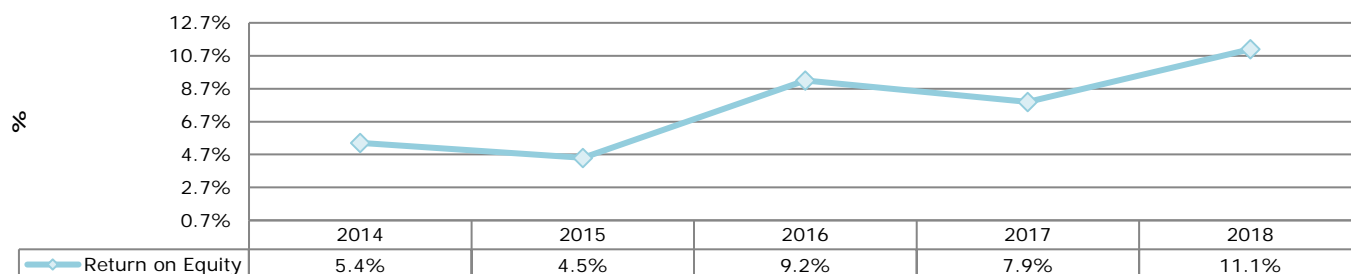
**Table 26: Category 'A' Non-Retail Banks - Statement of Earnings (USD millions)**

|   | 2014      | 2015      | 2016      | 2017      | 2018      |
|---|-----------|-----------|-----------|-----------|-----------|
| Net Interest Income                     | 28        | 41        | 67        | 81        | 99        |
| Net Non-Interest Income                 | 163       | 136       | 107       | 106       | 97        |
| Provisions for Credit Losses/Recoveries | -1        | 0         | 0         | 0         | 0         |
| Other Income/(Losses)                   | -2        | 4         | 5         | 7         | 8         |
| Trading Income on Financial Instruments | 13        | 8         | 12        | 11        | 17        |
| Operating Income                        | 201       | 189       | 191       | 205       | 221       |
| Operating Expense                       | 131       | 131       | 113       | 114       | 117       |
| Applicable Taxes & Dividends            | 14        | 23        | 19        | 37        | 17        |
| <b>Net Income After Taxes</b>           | <b>56</b> | <b>35</b> | <b>59</b> | <b>54</b> | <b>87</b> |

**Figure 21: Return on Assets for Category 'A' Non-Retail Banks**



**Figure 22: Return on Equity for Category 'A' Non-Retail Banks**



## Section IV: Category 'B' (International) Banks

### Category 'B' Banks - Balance Sheet Profile

Category 'B' Banks which are used to provide services to group related entities accounted for 96.8% of total assets of the banking sector in 2018. Total assets of US\$652.1 billion were down from US\$903.8 billion in 2017 as the number of Category 'B' banks has declined over the years – 13 branches and 2 subsidiaries closed in 2018 – as several European and American banks downsized their operations as a means of cost savings and adjusting to the economic environment.

The US\$251.6 billion or 27.8% (2017: 11.4%) contraction in assets was driven by a reduction in Cash Items including amounts held in gold, bullion and CDs of US\$191.3 billion, Loans and Advances of US\$47.2 billion and Investments of US\$22 billion. Only Other Investments and Other Assets increased by US\$7.9 billion and US\$590 million, respectively. On the liabilities side, there was a decline of US\$247.9 billion or 28.7% (2017: 10.6%) as a result of decreases in all categories except Other Notes, Bonds and Commercial Paper and Other Loss Provisions.

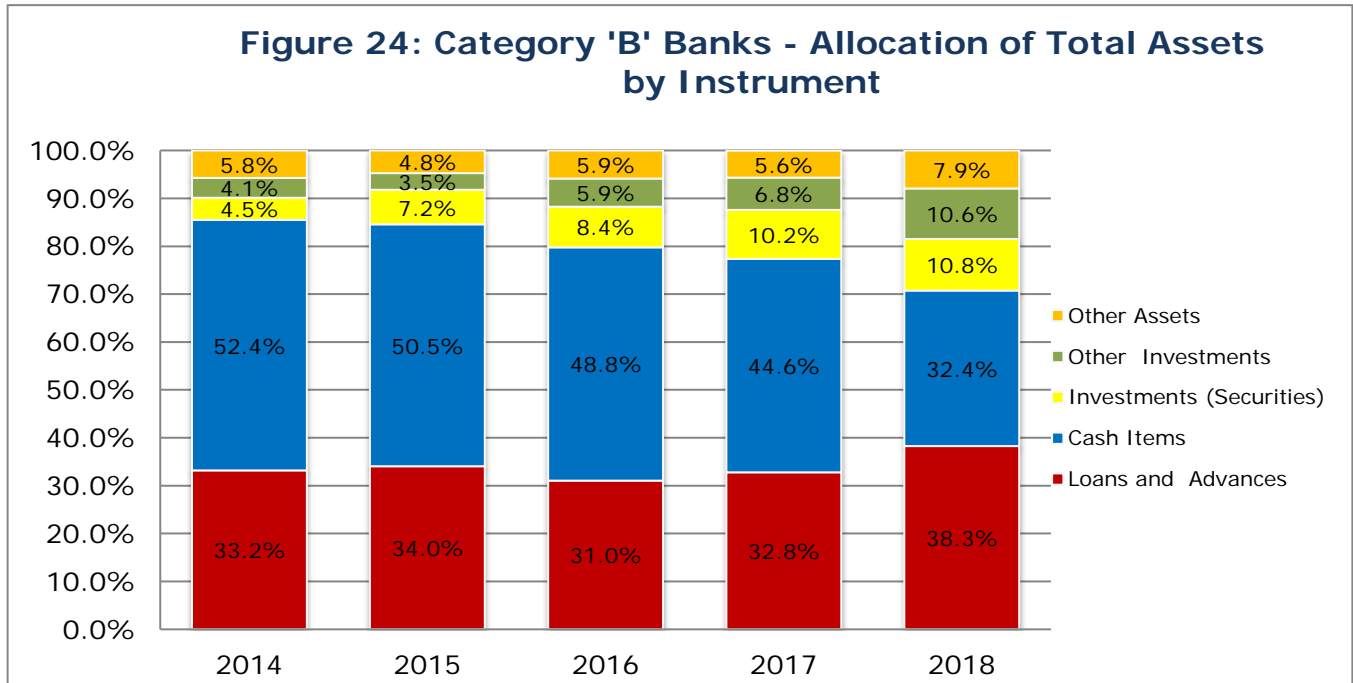
**Table 27: Balance Sheet Profile for Category 'B' Banks by Instrument (USD millions)**

|   | 2014             | 2015             | 2016             | 2017           | 2018           |
|---|------------------|------------------|------------------|----------------|----------------|
| <b>ASSETS</b>                                     |                  |                  |                  |                |                |
| Cash Items  | 738,769          | 576,465          | 494,890          | 402,870        | 211,609        |
| Financial Assets at Fair Value                    | 23,916           | 29,786           | 36,424           | 36,380         | 47,240         |
| Investments - Held-to-Maturity                    | 5,005            | 4,493            | 4,216            | 4,701          | 20,409         |
| Investments - Available-for-sale                  | 36,117           | 47,983           | 45,362           | 51,138         | 2,525          |
| Other Investments                                 | 58,097           | 39,538           | 59,633           | 61,264         | 69,201         |
| Loans and Advances                                | 470,490          | 390,147          | 316,631          | 297,406        | 250,237        |
| Net Loans   | 467,852          | 388,420          | 315,177          | 296,425        | 249,578        |
| Other Assets                                      | 81,149           | 54,352           | 59,450           | 51,029         | 51,619         |
| <b>TOTAL ASSETS</b>                               | <b>1,410,905</b> | <b>1,141,037</b> | <b>1,015,152</b> | <b>903,807</b> | <b>652,181</b> |
| <b>LIABILITIES</b>                                |                  |                  |                  |                |                |
| Deposits  | 1,221,020        | 968,041          | 794,247          | 713,375        | 503,105        |
| Repurchase Agreements (REPOS)                     | 18,400           | 14,821           | 16,267           | 17,090         | 14,898         |
| Hybrid Debt and Subordinates Debt                 | 18,164           | 16,171           | 12,407           | 13,305         | 12,365         |
| Other Notes, Bonds and Commercial Paper           | 61,749           | 49,674           | 34,950           | 34,124         | 34,518         |
| Other Borrowings                                  | 47,679           | 48,822           | 70,662           | 62,936         | 30,515         |
| Creditors and Other Liabilities                   | 42,835           | 41,448           | 37,809           | 22,855         | 20,376         |
| Other Loss Provisions                             | 651              | 705              | 725              | 599            | 651            |
| <b>TOTAL LIABILITIES</b>                          | <b>1,410,498</b> | <b>1,139,682</b> | <b>967,067</b>   | <b>864,284</b> | <b>616,428</b> |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                 | <b>407</b>       | <b>1,355</b>     | <b>48,085</b>    | <b>39,523</b>  | <b>35,753</b>  |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <b>1,410,905</b> | <b>1,141,037</b> | <b>1,015,152</b> | <b>903,807</b> | <b>652,181</b> |



### Category 'B' Banks – Allocation of Total Assets

Assets across Category 'B' banks were concentrated in Loans and Advances and Cash Items, representing 38.3% and 32.4%, of total assets, respectively. In 2018, there was a shift away from Cash as the major asset item to Loans and Advances, as new loans were issued to Sovereigns and Central Banks, Non-financial Corporations and Other Financial Corporations. In addition, total specific loan provisions were lower by 32.8% in 2018.



### Category 'B' Banks – Cash Items

Total Cash Items declined by US\$191 billion in 2018 to US\$211.6 billion. This was largely attributable to a decline in Certificate of Deposits, and more specifically, Group Bank CDs which declined by 47.8% or US\$185 billion.

CDs booked in the resident sector, which represent a small proportion of total Cash (0.08%), recorded a 90.7% decrease from US\$1.8 billion in 2017 to US\$166 million in 2018, due to the downsizing of American, Canadian, Swiss and Brazilian branches.

**Table 28: Category 'B' Banks - Cash Items by Resident vs Non-Resident (USD millions)**

| CASH ITEMS   | 2014         |                | 2015         |                | 2016         |                | 2017         |                | 2018       |                |
|--|--------------|----------------|--------------|----------------|--------------|----------------|--------------|----------------|------------|----------------|
|  | Resident     | Non-Resident   | Resident     | Non-Resident   | Resident     | Non-Resident   | Resident     | Non-Resident   | Resident   | Non-Resident   |
| Cash   | 0            | 459            | 0            | 6              | 0            | 5              | 0            | 3              | 0          | 29             |
| Gold and bullion   | 0            | 0              | 0            | 0              | 0            | 0              | 2            | 0              | 0          | 0              |
| Cash items in process of collection                                      | 0            | 39             | 0            | 72             | 0            | 0              | 0            | 0              | 0          | 0              |
| Balances and CDs:<br>Group Bank: Parent, Branch, Subsidiary or Affiliate | 3,932        | 729,758        | 7,294        | 567,262        | 1,258        | 492,351        | 1,798        | 400,281        | 160        | 210,417        |
| Group non - banking entities   | 3,736        | 712,457        | 6,722        | 551,208        | 1,111        | 475,329        | 1,273        | 384,712        | 24         | 201,391        |
| Other banks  | 73           | 7,787          | 0            | 5,230          | 11           | 6,561          | 15           | 6,221          | 14         | 2,934          |
| Due from financial institutions  | 123          | 9,514          | 572          | 10,824         | 136          | 10,461         | 510          | 9,348          | 122        | 6,092          |
|  | 4            | 4,577          | 1            | 1,830          | 0            | 1,276          | 4            | 782            | 6          | 997            |
| <b>Total</b>   | <b>3,936</b> | <b>734,833</b> | <b>7,295</b> | <b>569,170</b> | <b>1,258</b> | <b>493,632</b> | <b>1,804</b> | <b>401,066</b> | <b>166</b> | <b>211,443</b> |

### Category 'B' Banks – Investments

Total investments in 2018 were US\$70 billion down from US\$92 billion in 2017. The decrease in total investments was primarily due to less investments held by Swiss and Canadian banks. During 2018, with the implementation of IFRS 9 investments were reclassified from Investments Available-for-Sale to Financial Assets at Fair Value and Investments Held-to-Maturity.

IFRS 9 replaced IAS 39 Financial Assets: Recognition and Measurement and is effective for financial years beginning on or after January 1, 2018. The main difference between the two accounting standards is that the new standard requires recognition of credit loss allowance on initial recognition of financial assets, whereas previously under IAS 39, impairment was recognised at a later stage once a credit loss event has occurred.



**Table 29: Category 'B' Banks - Investments by Resident vs Non-Resident and Sector (USD millions)**

| INVESTMENTS  | 2014         |               | 2015         |               | 2016         |               | 2017         |               | 2018         |               |
|--|--------------|---------------|--------------|---------------|--------------|---------------|--------------|---------------|--------------|---------------|
|  | Resident     | Non-Resident  | Resident     | Non-Resident  | Resident     | Non-Resident  | Resident     | Non-Resident  | Resident     | Non-Resident  |
| <b>Financial Assets at Fair Value</b>                  |              |               |              |               |              |               |              |               |              |               |
| Sovereigns and Central Banks                           | 0            | 2,210         | 0            | 2,682         | 0            | 1,186         | 0            | 1,193         | 1            | 4,346         |
| Non-Central Government Public Sector Entities (PSEs)   | 0            | 409           | 0            | 336           | 0            | 252           | 0            | 506           | 4            | 3,009         |
| Multilateral Development Banks (MDBs)                  | 0            | 17            | 0            | 12            | 0            | 15            | 0            | 10            | 0            | 1,888         |
| Group Bank - Parent, Branch, Subsidiary or Affiliate   | 65           | 1,480         | 0            | 7,274         | 0            | 3,286         | 0            | 2,503         | 8            | 2,428         |
| Group non-banking entities                             | 0            | 4,432         | 4            | 5,709         | 0            | 734           | 0            | 8             | 0            | 6,451         |
| Other Banks  | 269          | 1,171         | 531          | 206           | 398          | 287           | 58           | 654           | 518          | 1,713         |
| Non-financial Corporations - Commercial Private Sector | 267          | 8,486         | 72           | 8,487         | 48           | 8,344         | 21           | 6,709         | 134          | 2,609         |
| Other Financial Corporations                           | 1,265        | 3,845         | 957          | 3,516         | 3,362        | 18,512        | 4,031        | 20,687        | 2,569        | 21,562        |
| <b>TOTAL</b>   | <b>1,866</b> | <b>22,050</b> | <b>1,564</b> | <b>28,222</b> | <b>3,808</b> | <b>32,616</b> | <b>4,110</b> | <b>32,270</b> | <b>3,234</b> | <b>44,006</b> |
| <b>Held-to-Maturity</b>                                |              |               |              |               |              |               |              |               |              |               |
| Sovereigns and Central Banks                           | 0            | 3,685         | 4            | 3,657         | 4            | 3,431         | 4            | 3,933         | 4            | 8,543         |
| Non-Central Government Public Sector Entities (PSEs)   | 0            | 20            | 0            | 66            | 0            | 68            | 0            | 66            | 0            | 347           |
| Multilateral Development Banks (MDBs)                  | 0            | 22            | 0            | 0             | 0            | 0             | 0            | 0             | 0            | 311           |
| Group Bank - Parent, Branch, Subsidiary or Affiliate   | 0            | 131           | 0            | 130           | 0            | 130           | 0            | 130           | 0            | 7,942         |
| Group non-banking entities                             | 0            | 538           | 0            | 0             | 0            | 0             | 0            | 0             | 0            | 0             |
| Other Banks  | 17           | 248           | 17           | 159           | 22           | 106           | 25           | 70            | 25           | 1,034         |
| Non-financial Corporations - Commercial Private Sector | 74           | 96            | 92           | 322           | 8            | 423           | 9            | 442           | 134          | 2,040         |
| Other Financial Corporations                           | 64           | 110           | 18           | 28            | 3            | 21            | 0            | 22            | 0            | 29            |
| <b>TOTAL</b>   | <b>155</b>   | <b>4,850</b>  | <b>131</b>   | <b>4,362</b>  | <b>37</b>    | <b>4,179</b>  | <b>38</b>    | <b>4,663</b>  | <b>163</b>   | <b>20,246</b> |
| <b>Available-for-Sale</b>                              |              |               |              |               |              |               |              |               |              |               |
| Sovereigns and Central Banks                           | 0            | 7,782         | 0            | 10,338        | 1            | 10,614        | 0            | 12,827        | 0            | 1,209         |
| Non-Central Government Public Sector Entities (PSEs)   | 0            | 1,046         | 0            | 4,596         | 0            | 4,501         | 0            | 6,120         | 0            | 0             |
| Multilateral Development Banks (MDBs)                  | 0            | 4             | 0            | 1,049         | 0            | 1,749         | 0            | 1,882         | 0            | 0             |
| Group Bank - Parent, Branch, Subsidiary or Affiliate   | 99           | 9,875         | 63           | 8,175         | 62           | 9,447         | 34           | 9,347         | 0            | 802           |
| Group non-banking entities                             | 11           | 1,369         | 0            | 4,019         | 0            | 4,009         | 0            | 6,954         | 0            | 0             |
| Other Banks  | 422          | 3,987         | 75           | 4,545         | 367          | 4,475         | 375          | 4,402         | 0            | 84            |
| Non-financial Corporations - Commercial Private Sector | 1,197        | 5,458         | 524          | 5,332         | 392          | 5,400         | 717          | 5,273         | 174          | 256           |
| Other Financial Corporations                           | 179          | 4,688         | 271          | 8,996         | 68           | 4,277         | 76           | 3,131         | 0            | 0             |
| <b>TOTAL</b>   | <b>1,908</b> | <b>34,209</b> | <b>933</b>   | <b>47,050</b> | <b>890</b>   | <b>44,472</b> | <b>1,202</b> | <b>49,936</b> | <b>174</b>   | <b>2,351</b>  |

### Category 'B' Banks – Loans and Advances

Total Loans and Advances of Category 'B' banks showed notable decreases since 2014, recording an overall reduction of 46.8% (US\$220 billion) over the five-year period consistent with the decline in the number of 'B' banks.

During 2018, Category 'B' banks recorded a 16.8% or US\$49.4 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 branches. However, total resident loans increased by US\$2.2 billion with US\$1.1 billion in new loans to Non-financial Corporations from Brazilian banks and US\$1.3 billion in loans to Other Financial Corporations from a Swiss bank but decreases of US\$269 million in loans to group non-bank and other bank loans.

**Table 30: Category 'B' Banks - Loans and Advances by Resident vs Non-Resident and Sector (USD millions)**

| LOANS AND ADVANCES                                      | 2014         |                | 2015         |                | 2016         |                | 2017         |                | 2018         |                |
|---|--------------|----------------|--------------|----------------|--------------|----------------|--------------|----------------|--------------|----------------|
|   | Resident     | Non-Resident   | Resident     | Non-Resident   | Resident     | Non-Resident   | Resident     | Non-Resident   | Resident     | Non-Resident   |
| Sovereigns and Central Banks                            | 0            | 827            | 0            | 857            | 0            | 905            | 0            | 756            | 0            | 1,618          |
| Non-Central Government Public Sector Entities (PSEs)    | 0            | 474            | 0            | 465            | 0            | 228            | 0            | 163            | 0            | 100            |
| Multilateral Development Banks (MDBs)                   | 0            | 0              | 0            | 0              | 0            | 0              | 0            | 0              | 0            | 0              |
| Group Bank - Parent, Branch, Subsidiary or Affiliate    | 1,842        | 217,320        | 4,619        | 164,448        | 1            | 157,145        | 115          | 153,064        | 105          | 117,081        |
| Group non - Banking Entities                            | 161          | 164,285        | 431          | 140,076        | 1,925        | 88,240         | 1,862        | 78,079         | 1,629        | 62,805         |
| Other banks   | 158          | 2,257          | 323          | 7,453          | 173          | 3,510          | 80           | 3,565          | 44           | 1,617          |
| Non-financial Corporations - Commercial private sector  | 807          | 43,591         | 1,083        | 40,086         | 927          | 32,222         | 902          | 26,783         | 2,055        | 23,679         |
| Non-Financial Corporations - Commercial Mortgages       | 6            | 1,617          | 0            | 1,333          | 0            | 1,531          | 0            | 3,720          | 0            | 6,589          |
| Other financial Corporations - Financial Intermediaries | 641          | 16,955         | 752          | 12,502         | 698          | 15,675         | 284          | 15,145         | 1,605        | 20,480         |
| Retail Lending/Consumer                                 |              |                |              |                |              |                |              |                |              |                |
| Loans - Households                                      | 0            | 1,307          | 2            | 1,284          | 0            | 1,241          | 0            | 650            | 2            | 413            |
| Residential Mortgages - Households                      | 0            | 534            | 0            | 319            | 0            | 249            | 0            | 249            | 0            | 340            |
| Other loans and advances                                | 95           | 17,613         | 106          | 14,008         | 54           | 11,907         | 36           | 11,953         | 21           | 10,054         |
| <b>Total</b>  | <b>3,710</b> | <b>466,780</b> | <b>7,316</b> | <b>382,831</b> | <b>3,778</b> | <b>312,853</b> | <b>3,279</b> | <b>294,127</b> | <b>5,461</b> | <b>244,776</b> |

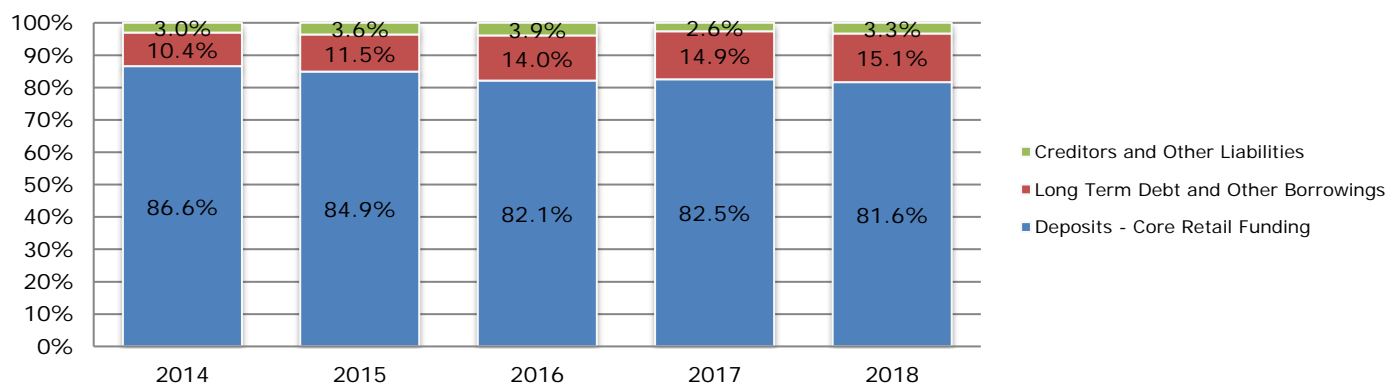
## Category 'B' Banks – Allocation of Total Deposits

Category 'B' Banks' total liabilities of US\$616 billion consist of core deposits of US\$503 billion or 81.6% (2017: 82.5%) and other borrowings of US\$113 billion or 18.4%. Total deposits decreased by US\$210 billion or 29.5% from 2017 due to the decline in the number of banks conducting business in the Cayman Islands and a decrease in group bank deposits of 26.5%.

**Table 31: Category 'B' Banks - Deposits by Resident vs Non-Resident and Sector (USD millions)**

| Deposits   | 2014          |                  | 2015          |                | 2016          |                | 2017          |                | 2018          |                |
|--|---------------|------------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|
|  | Resident      | Non-Resident     | Resident      | Non-Resident   | Resident      | Non-Resident   | Resident      | Non-Resident   | Resident      | Non-Resident   |
| Sovereigns and Central Banks   | 0             | 4,579            | 0             | 2,889          | 0             | 2,294          | 0             | 941            | 0             | 916            |
| Non-Central Government Public Sector Entities (PSEs)                 | 0             | 1,641            | 0             | 1,021          | 0             | 1,066          | 0             | 813            | 0             | 187            |
| Multilateral Development Banks (MDBs)                                | 0             | 115              | 0             | 62             | 0             | 200            | 0             | 220            | 0             | 20             |
| Group Bank: Parent, Branch, Subsidiary or Affiliate                  | 8,675         | 642,854          | 9,991         | 527,125        | 4,535         | 468,092        | 4,920         | 441,021        | 4,553         | 323,252        |
| Group non-bank entities  | 7,573         | 162,670          | 5,074         | 106,334        | 4,666         | 57,795         | 5,432         | 49,520         | 715           | 33,651         |
| Other Banks  | 5,293         | 57,485           | 6,593         | 26,480         | 5,138         | 14,554         | 703           | 14,980         | 737           | 12,200         |
| Non-financial Corporations: Commercial Private Sector                | 6,638         | 144,836          | 3,366         | 110,967        | 3,736         | 107,253        | 4,418         | 99,858         | 5,525         | 55,742         |
| Other Financial Corporations: Financial Intermediaries & Auxiliaries | 8,390         | 147,000          | 9,073         | 110,153        | 9,524         | 91,140         | 8,932         | 58,193         | 11,097        | 51,544         |
| Individuals – Households   | 23            | 3,788            | 0             | 2,724          | 0             | 2,205          | 25            | 1,609          | 338           | 1,413          |
| Other Deposits   | 2,455         | 17,005           | 3,218         | 42,971         | 2,787         | 19,262         | 2,295         | 19,495         | 136           | 1,079          |
| <b>Total</b>   | <b>39,047</b> | <b>1,181,973</b> | <b>37,315</b> | <b>930,726</b> | <b>30,386</b> | <b>763,861</b> | <b>26,725</b> | <b>686,650</b> | <b>23,101</b> | <b>480,004</b> |

**Figure 24: Category 'B' Retail Banks - Allocation of Total Liabilities by Instrument**



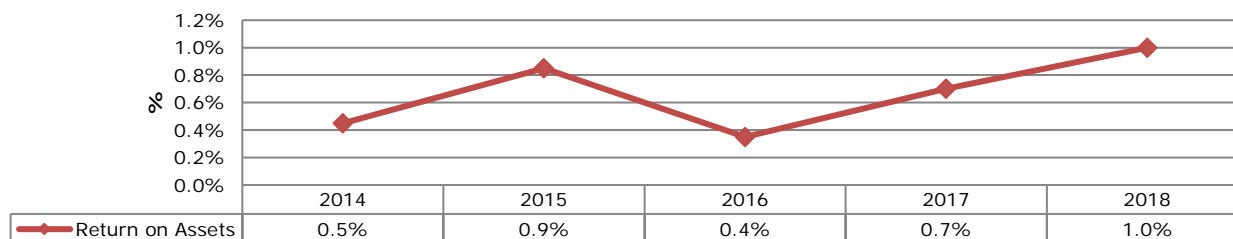
## Category 'B' Banks – Earnings and Profitability

Following two years of losses, Category 'B' banks reported net income before taxes and dividends of US\$1.2 billion. However, Category 'B' banks with no physical presence continued to report losses in 2018. Although losses on financial instruments were in excess of US\$5.7 billion, other income of US\$8.3 billion more than offset this amount. Total operating income in 2018 increased by US\$3 billion and both the return on assets of 1% and return on equity of 8.1% improved over 2017.

**Table 32: Category 'B' Banks - Summary of Earnings (USD millions)**

|   | 2014         | 2015         | 2016           | 2017           | 2018         |
|---|--------------|--------------|----------------|----------------|--------------|
| Net Interest Income                                 | 2,276        | 2,800        | 3,965          | 1,326          | 25           |
| Net Non-Interest Income                             | 824          | 468          | 306            | 481            | 1,040        |
| Provisions for Credit Losses/Recoveries             | -1,850       | -293         | -1,451         | -344           | -306         |
| Other Income/(Losses)                               | 1,863        | 1,637        | -593           | -1,631         | 8,344        |
| Trading Income Gain/(Loss) on Financial Instruments | 1,216        | 1,915        | -2,189         | 469            | -5,743       |
| Operating Income                                    | 4,329        | 6,527        | 38             | 301            | 3,360        |
| Operating Expense                                   | 900          | 1,785        | 2,082          | 1,189          | 2,186        |
| Applicable Taxes & Dividends                        | 67           | 33           | 149            | 324            | 124          |
| <b>Net Income (Loss) After Taxes</b>                | <b>3,362</b> | <b>4,709</b> | <b>(2,193)</b> | <b>(1,212)</b> | <b>1,050</b> |

**Figure 25: Return on Assets for Category 'B' Banks**



**Figure 26: Return on Equity for Category 'B' Banks**

