CAYMAN ISLANDS MONETARY AUTHORITY

2016 BANKING DIGEST

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Preface

The Cayman Islands Monetary Authority (CIMA) is responsible for promoting and maintaining a sound financial system in the Cayman Islands. Its mission being: to promote and enhance the reputation of the Cayman Islands as an International Financial Centre by fully utilising a team of highly skilled professionals and current technology, to carry out appropriate, effective and efficient supervision and regulation in accordance with relevant international standards and by maintaining a stable currency, including prudent management of currency reserves.

The 2016 Banking Sector Digest builds on the information and analysis presented in the second edition of the Banking Sector Digest issued in 2015 and continues to provide a macro-prudential assessment of the health and soundness, and trends and vulnerabilities of the entire banking sector.

Section I of this Digest presents an overview of the banking sector for 2016 by reviewing the balance sheet composition, earnings and profitability and financial soundness indicators on the health and soundness of the sector as at fiscal year-end 2016. The role of the banking sector as a financial intermediary in the global economy through its cross-border transactions is presented in Section II. Section III presents an overview and detailed analysis of the Category 'A' banks, with emphasis on the retail commercial banking sector.

Overview of Banking Sector 2016

The Cayman Islands' banking sector continued to demonstrate its resilience against a challenging global macro-financial environment. Financial Soundness Indicators have remained stable, with notable increases in capital adequacy ratios for the sector. Slight improvements in global economies contributed to notable increases in net interest income, whereas market volatility resulted in negative trading income, and losses from non-resident intra-group investments reduced other income as seen by the slight reduction in the return on equity (RoE) and return on assets (RoA) in Category 'B' Banks. Liquidity ratios remained stable. Asset quality for domestic banks and subsidiaries reflected improvements, whereas branches, which account for the largest share of the banking sector, saw an increase in NPLs which resulted in a slight deterioration for the sector. Credit contracted for the sector as a whole, with marginal expansion seen in the domestic residential mortgages sector which was offset by the continued contraction in general Government loans.

As part of an International Financial Centre (IFC), the Cayman Islands' banking sector is vulnerable to global macroeconomic environments, as well as political uncertainty and regulatory policy changes from advanced and emerging countries. This is evidenced by the reduction in the number of licensees over the period, which resulted in the decline of the Cayman Islands' ranking as an international banking centre to 8th and 7th in terms of cross-border assets and liabilities, respectively, as at end 2016.

Global and Domestic Macro-Financial Environment in 2016

Growth in the Advanced Economies (AEs) declined[1], affected by weaker-than-expected growth in the US, UK and Euro Area. These developments reflect, to a substantial degree, but not exclusively, reduced global demand from China and the spill-over effects to commodity exporting countries. Lower commodity prices, the tightening in monetary policy in the US and global political and policy issues contributed to a contraction in economic growth in Emerging and Developing Economies (EMDEs) and Latin America and the Caribbean (LAC). In the Caribbean, fiscal debt has resulted in the downgrade of some countries, while the region continues to face the issue of the loss of correspondent banking relationships.

Despite the deceleration in economic growth, overall global financial conditions improved in 2016. Market volatility in global financial markets subdued during the latter part of 2016 after bouts of uncertainty in reaction to the "Brexit" vote and the U.S. general election.

The Cayman Islands' banking sector, with significant cross-border flows between the United States and Europe, reported trading losses due to interest rates increases in the United States, which had spill over effects on fixed income investment portfolios in European markets.

Domestic Environment

The Cayman Islands' domestic environment improved in 2016 with a moderate increase in GDP and the continued reduction in the Government's fiscal balances. These improved indicators faced downside winds of a stagnant unemployment rate and increases in interest rates, which contributed to an increase in the foreclosure rate on residential mortgage loans, which is the largest sector within the retail banks' credit portfolio.

In addition, Category 'A' banks, which provide retail commercial and investment banking business to the domestic economy and facilitate international capital transfers for other banks, continue to be vulnerable to the challenges of correspondent banking relationships.

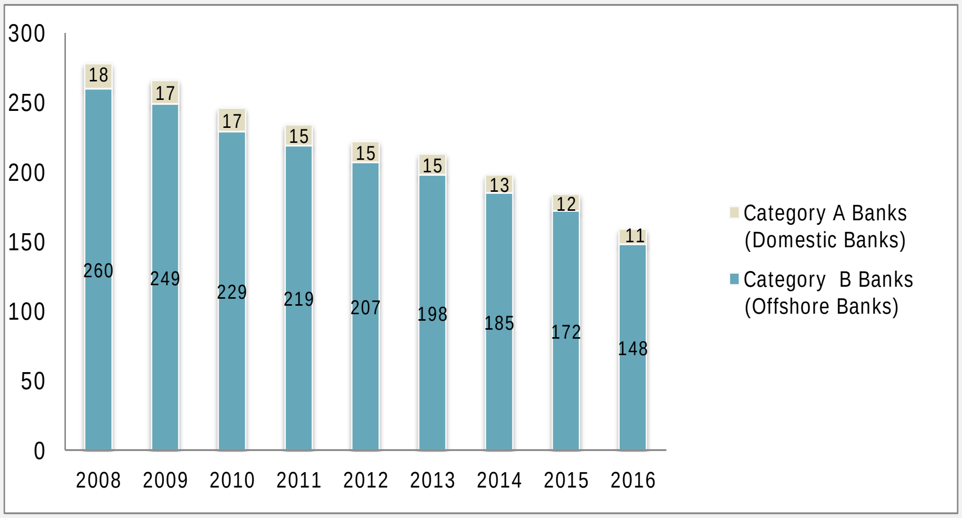
Outlook for 2017

Global economic growth was projected to increase to 3.5 per cent in 2017 with the continued rise in commodity prices, albeit slowly, stimulating growth in oil exporting emerging countries. For advanced economies, particularly the United States, higher growth was projected due to expected fiscal policy easing by means of tax reform, infrastructure spending and financial market deregulations. Likewise, the outlook for Europe, Japan and China has improved based on signs of a recovery in global manufacturing and trade that started in late 2016.

[1] http://www.imf.org/en/Publications/WEO/Issues/2017/04/04/world-economic-outlook-april-2017

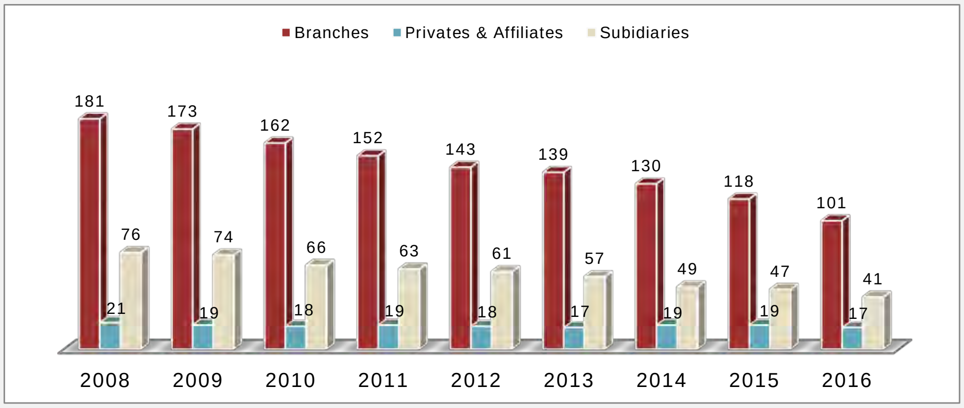
Banking Sector Structure

The Cayman Islands Monetary Authority (CIMA), through its Banking Supervision Division (BSD), regulates and supervises all banking entities operating in and from the Cayman Islands. The Banks and Trust Companies Law (2013 Revision) allows for two categories of banking licence: Category 'A' licence which permits banks to operate both in the domestic and international markets providing services to residents and non-residents and Category 'B' licence which permits international banking business and limited domestic activity, primarily with other financial services licensees and companies incorporated in the Cayman Islands which are not carrying on business in the Islands.



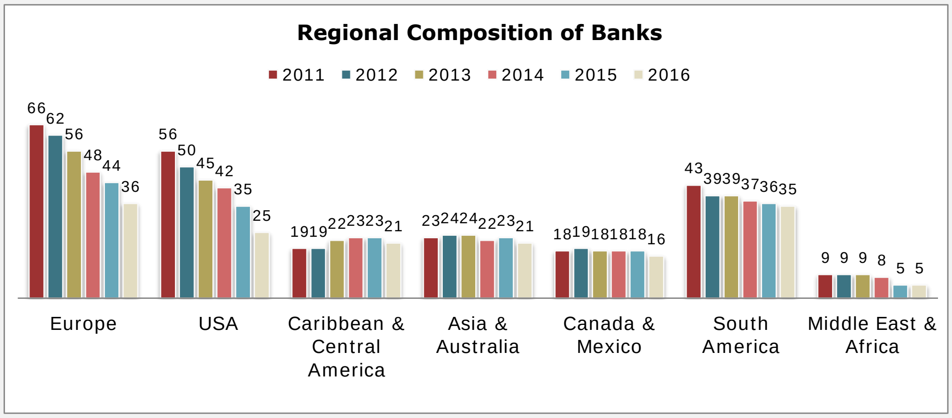
Number of Banks

Bank licences have steadily declined as banks continue to restructure their operations in search of improved profitability. The repeal of Regulation Q by the Dodd-Frank Act in 2010 now allows US financial institutions to pay interest on demand deposits, which has contributed to the termination of licences by US banks and European banks (located in the US with branches in the Cayman Islands). Bank licences declined from 184 (2015) to 159 (2016).



Types of Banks

Of the 159 Category 'A' and 'B' licensees at end 2016, 101 were branches primarily from Europe, the US and Asia, 41 were subsidiaries primarily from Europe and South America and 17 were privately owned Cayman Islands licensed private banks or affiliates of other banks or financial institutions.



Regional Composition of Banks

Notable changes in the number of banks licenced in the Cayman Islands were witnessed in banks from Europe (66 in 2011 to 36 in 2016) and banks from the USA (56 in 2011 to 25 in 2016). Banks from South America and Middle East & Africa experienced a decline from 43 to 35 and from 9 to 5, respectively, over the 2011 to 2016 period.

Banking Sector Balance Sheet Profile - Fiscal Year[2]

Continued Contraction in Banks' Balance Sheets

The Cayman Islands' banking sector continues to contract in response to regulatory changes and political challenges, resulting in a 14% reduction in the number of licensees, primarily from US branches and European branches with Head Offices in the USA.

Total unconsolidated liabilities declined for fiscal year 2016 to US$1.038 trillion as seen by the significant reduction in deposit liabilities of 15% or US$146 billion from US$959 billion (2015) to US$812 billion (2016). Correspondingly, the reduction in deposit liabilities is seen in a decline in Cash Items (mainly certificates of deposit) which decreased by 14% or US$83 billion from US$584 billion (2015) to US$501 billion (2016), while Loans continued the contraction seen from 2014 and decreased by 21% or US$85 billion, from US$413 billion (2015) to US$328 billion (2016).

The reduction in the number in licensees resulted in the contraction of Group bank and non-bank deposit liabilities of US banks which moved funds onshore to Parent Groups. A notable decline in the size of South American banks balance sheets also contributed to the contraction, particularly in intra-group resident positions. Despite the decline in licensees, European banks' balance sheets expanded following the completion of the 2015 stress testing exercise, which marginally offset the contraction in the size of the sector.

CATEGORY 'A' & 'B' BANKS - FISCAL YEAR (Millions U$D)						
ASSETS	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Cash Items	870,513	682,726	701,712	745,829	584,104	501,311
Financial Assets at Fair Value	28,614	26,931	20,210	24,646	31,511	36,432
Investments - Held-to-Maturity	4,425	2,803	4,682	5,392	5,842	6,128
Investments -Available-for-Sale	47,516	52,988	40,078	37,733	48,673	47,400
Other Investments	90,963	66,132	51,009	57,368	43,128	59,921
Loans and Advances	462,332	526,839	528,191	498,990	413,209	328,337
Less Loan Loss Provisions	*1,492*	*1,537*	*1,012*	*2,700*	*1,795*	1,509
o/w Specific Loss Provisions	*1,170*	*1,176*	*959*	*2,645*	*1,659*	*1,453*
o/w Unearned Interest	*323*	*362*	*53*	*54*	*123*	*56*
Net Loans	460,839	525,301	527,179	496,290	411,414	326,829
Other Assets	80,628	82,763	64,120	81,999	54,975	59,961
TOTAL ASSETS	**1,583,498**	**1,439,644**	**1,408,990**	**1,449,257**	**1,179,647**	**1,037,983**
LIABILITIES	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Deposits	1,466,410	1,246,084	1,236,198	1,254,628	958,833	812,490
Repurchase Agreements (REPOS)	8,901	12,911	9,591	18,399	14,903	16,267
Hybrid Debt and Subordinated Debt	10,549	11,273	13,825	18,062	16,171	12,407
Other Notes, Bonds and Commercial Paper	26,228	39,815	62,027	62,518	51,399	34,950
Other Borrowings	61,133	75,414	53,635	48,073	91,080	72,362
Creditors and Other Liabilities	21,776	45,229	35,204	43,978	42,524	38,448
Other Loss Provisions	1,304	1,009	737	711	769	798
TOTAL LIABILITIES	**1,596,301**	**1,431,735**	**1,411,217**	**1,446,369**	**1,175,679**	**987,722**
TOTAL SHAREHOLDERS' EQUITY	**-12,802**	**7,909**	**-2,244**	**2,890**	**3,968**	**50,261**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,583,499**	**1,439,644**	**1,408,973**	**1,449,259**	**1,179,647**	**1,037,983**

The notable increase in Shareholders' Equity to $50.3 billion was due to a change in the reporting methodology where negative shareholders equity reported by branches, which do not hold capital but hold more liabilities than assets, was removed and now reported as Due From Head Office/Parent Bank.

2 The 2016 Digest reflects a change in reporting methodology to the unconsolidated position at fiscal year end, which to a minor extent will reflect slightly larger differences in year-on-year comparatives.

Banking Sector - Asset Distribution

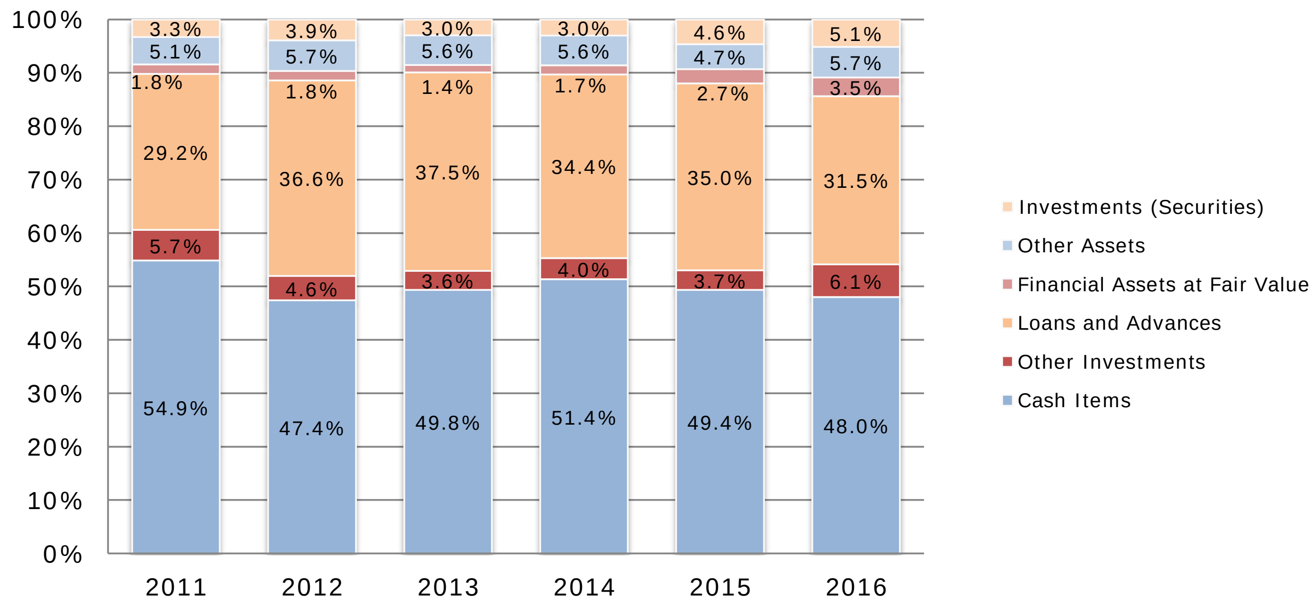
Diversified and Healthy Composition of Assets

Balance Sheets continue to reflect a liquid and healthy composition of Assets, with Cash Items (Certificates of Deposit) accounting for US$501 billion (48%) and Loans & Advances accounting for US$328 billion (31.5%) of Total Assets. A notable change in the composition of Total Assets is seen in the reduction in the ratio of Loans to Total Assets from 35% (2015) to 31.5% (2016).

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

Of the US$501 billion in Cash Items, US$495 billion (99%) is held by Category 'B' banks and US$6 billion (1%) with Category 'A' banks, while of US$328 billion of Loans & Advances, US$317 billion (96%) is held with Category 'B' banks and US$12 billion (4%) with Category 'A' banks.

Banking Sector Assets Distribution



Fiscal Year 2016 *(Millions U$D)*	**Category A Banks**		**Category B Banks**		**Total**
	Retail	**Non- Retail**	**Physical Presence**	**No Physical Presence**	
Cash Items	3,648	2,773	32,362	462,529	501,311
Financial Assets at Fair Value	8	1	1,605	34,819	36,432
Investments - Held-to-Maturity	912	999	1,315	2,901	6,128
Investments - Available-for-Sale	2,032	6	26,784	18,578	47,400
Other Investments	88	4,312	22,875	36,758	64,034
Loans and Advances	7,394	4,312	28,117	288,514	328,337
Less Loan Loss Provisions	55	0	1,136	318	1,509
o/w Specific Loan Loss Reserves	*43*	*0*	*1,136*	*274*	*1,453*
o/w Unearned Interest	*12*	*0*	*1*	*43*	*56*
Net Loans	7,340	4,312	26,981	288,196	326,829
Other Assets	368	143	5,289	54,161	59,961
TOTAL ASSETS	**14,397**	**8,434**	**117,210**	**897,943**	**1,037,983**

Banking Sector - Cash Items, Loans & Advances

Contraction in Cross-Border Liquidity and Credit

Of the US$83 billion decrease in Cash Items in 2016, non-resident Certificates of Deposit (CDs) contributed to a US$75 billion (13%) decrease from US$574 billion (2015) to US$499 billion (2016). This was due mainly to a change in cash management strategy by US banks which moved excess liquidity from the Cayman Islands licensed banks into demand deposit liabilities accounts with non-resident Parent Group Banks and a general reduction in the size of South American banks' balance sheets.

CDs booked in the resident sector contracted by 86% or US$6 billion from US$7 billion in 2015 to US$1 billion due to a reduction of intra-group placements of CDs by South American banks with Cayman Islands licensed related Group Banks, which are considered residents by means of being legally domiciled by licence.

Cash Items (Millions U$D)	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
	2013		2014		2015		2016	
Cash	53	1,477	49	467	50	745	46	12
Gold and bullion	0	0	0	0	0	0	0	0
Cash items in process of collection	10	86	10	39	15	72	30	0
Balances & Certificates of Deposits (CD's):	**5,597**	**685,434**	**4,186**	**736,503**	**7,399**	**573,912**	**1,317**	**498,631**
o/w Group Bank - Parent, Branch, Subsidiary & Affiliate	*5,278*	*656,181*	*3,823*	*717,135*	*6,797*	*556,184*	*1,129*	*480,584*
o/w Group Non-Bank entities	*0*	*14,887*	*73*	*7,887*	*5*	*5,324*	*11*	*6,561*
o/w Other Banks	*319*	*14,366*	*290*	*11,481*	*597*	*12,404*	*176*	*11,485*
Due from financial institutions	21	9,034	4	4,571	1	1,861	0	1,276
TOTAL	**5,681**	**696,031**	**4,249**	**741,580**	**7,465**	**576,590**	**1,396**	**499,916**

Of the US$85 billion decrease in Loans & Advances in 2016, non-resident loans contracted by US$81 billion (21%) from US$402 billion (2015) to US$321 billion (2016), mainly due to the reduction in intragroup activity of European and South American banks.

Resident Loans decreased by US$3 billion in 2016 from US$11 billion (2015) to US$8 billion (2016), which was due mainly to South American banks decreasing credit to their Cayman Islands licensed related Group Banks.

Loans and Advances	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
(Millions U$D)	2013		2014		2015		2016	
Sovereigns and Central Banks	618	678	591	893	591	928	429	976
Non Central Government Public Sector Entities (PSEs)	77	478	90	517	84	517	99	281
Multilateral Development Banks (MDBs)	0	49	0	0	0	0	0	0
Group Bank - Parent, Branch, Subsidiary or Affiliate	866	287,158	1,842	226,108	4,627	173,804	1	157,187
Group non - banking entities	4,648	147,672	318	164,717	432	139,428	1,930	88,240
Other banks	25	1,695	158	2,257	323	7,455	184	3,510
Non-financial Corporations - Commercial Private Sector	1,359	48,551	1,683	47,490	1,733	45,821	1,540	37,286
Non-Financial Corporations - Commercial Mortgages	328	1,993	161	1,833	175	1,953	255	1,752
Other financial Corporations - Financial Intermediaries	927	9,271	936	17,116	841	13,769	941	15,818
Retail Lending/Consumer Loans - Households	325	2,269	355	2,548	351	3,154	352	2,924
Residential Mortgages - Households	1,643	923	1,748	767	1,869	829	1,925	608
Other loans and advances	212	16,427	190	17,705	176	14,348	140	11,968
TOTAL	**11,028**	**517,164**	**8,072**	**481,951**	**11,202**	**402,006**	**7,786**	**320,551**

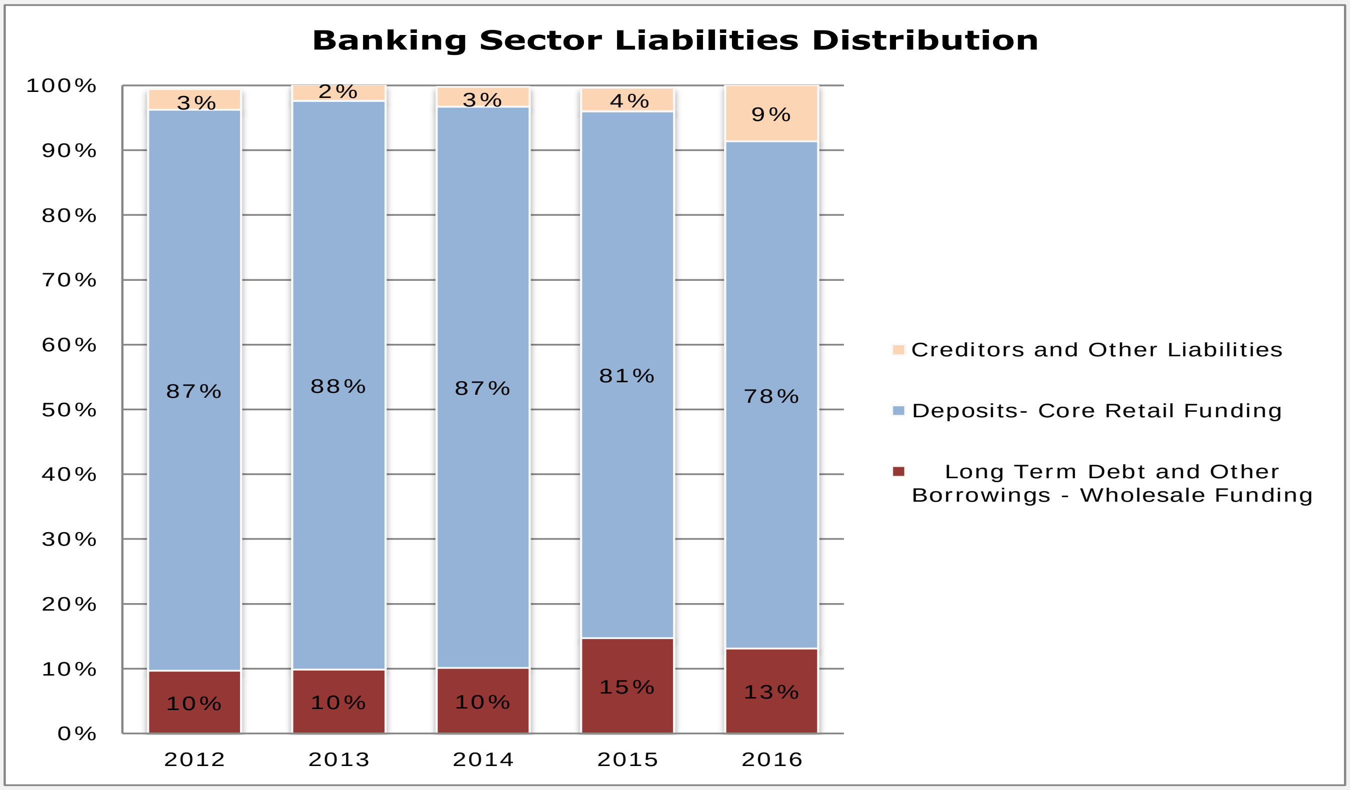
Banking Sector - Liabilities Distribution

Contraction in Retail Deposits and Wholesale Funding

As at the end of 2016, the liability distribution reflected a continuation of the decline in core retail deposits from 81% or US$958 billion (2015) to 78% or US$812 billion (2016). Wholesale funding contracted from 15% or US$174 billion (2015) to 14% or US$136 billion (2016), as a percentage of total liabilities, respectively, for the sector.

From a funding perspective, core retail Deposits decreased by 15% or US$146 million whereas wholesale funding decreased by 22% or US$38 billion, year-on-year 2015 to 2016.

Category 'A' retail banks' funding was 99.6% from core retail deposits (US$12 billion) and 0.4% (US$55 million) in wholesale funding from an intra-group advance. Category 'A' non-retail banks' funding was 78% (US$6 billion) from core retail funding and 22% (US$2 billion) from wholesale funding, whereas Category 'B' banks funding was 86% (US$794 billion) from core retail funding and 13% (US$134 billion) from wholesale funding.



Fiscal Year 2016 *(Millions U$D)*	Category A Banks		Category B Banks		Total
	Retail	Non- Retail	Physical Presence	No Physical Presence	
Deposits	12,493	5,750	35,012	759,235	812,490
Repurchase Agreements (REPOS)	0	0	886	15,381	16,267
Hybrid Debt and Subordinated Debt	0	0	10,115	2,292	12,407
Other Notes, Bonds and Commercial Paper	0	0	12,451	22,499	34,950
Other Borrowings	55	1,645	26,621	44,041	72,362
Creditors and Other Liabilities	202	481	4,289	33,519	38,492
Other Loss Provisions	28	0	212	514	754
TOTAL LIABILITIES	**12,778**	**7,877**	**89,586**	**877,481**	**987,722**
TOTAL SHAREHOLDERS' EQUITY	1,619	557	27,623	20,461	50,261
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**14,397**	**8,434**	**117,210**	**897,943**	**1,037,983**

Banking Sector - Funding Distribution

Contraction in Deposits from US and South American Banks

The decline in core retail deposit funding of US$146 billion in 2016 is seen in the reduction in non-resident deposits of US$137 billion from US$909 billion (2015) to US$772 billion (2016), due mainly to the up-streaming of deposits by US licensed banks to Parent Group bank and non-bank entities onshore. This is evidenced by the reduction of intra-group activity, and a contraction in South America banks' balance sheets.

Resident core retail funding decreased by US$8 billion from US$49 billion (2015) to US$41 billion (2016) which was due mainly to the decrease in intragroup activity of Cayman Islands licensed South American banks.

Deposits (Millions U$D)	2013		2014		2015		2016	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Sovereigns and Central Banks	565	4,394	552	4,444	767	2,777	700	2,306
Non Central Government Public Sector Entities (PSEs)	124	1,337	156	1,651	230	1,035	247	1,080
Multilateral Development Banks (MDBs)	0	78	0	165	0	60	0	200
Group Bank - Parent, Branch, Subsidiary or Affiliate	8,535	635,698	8,717	668,353	10,033	498,053	4,672	471,402
Group non-bank entities	3,273	140,328	7,629	160,321	5,276	103,599	4,676	57,802
Other Banks	4,918	39,681	5,973	56,825	8,020	28,137	5,270	14,561
Non-financial Corporations - Commercial Private Sector	7,215	146,683	8,868	143,910	4,848	117,042	5,931	109,120
Other Financial Corporations - Financial Intermediaries & Auxiliaries	8,846	197,875	13,813	147,076	14,717	110,043	14,420	91,988
Individuals - Households	1,817	4,321	1,925	4,625	2,094	4,848	1,921	3,834
Other Deposits	289	30,218	2,668	16,955	3,466	43,787	3,008	19,352
Total	**35,582**	**1,200,613**	**50,301**	**1,204,325**	**49,451**	**909,381**	**40,845**	**771,644**

The notable decrease in non-resident wholesale funding of US$39 billion from US$159 billion (2015) to US$120 billion (2016) was mainly due to the decrease in intragroup funding through Other Notes, Bonds and Commercial Paper and Other Borrowings, mainly from Group Non-Bank entities.

The resident sector reported an increase of US$2 billion from $14 billion (2015) to $16 billion (2016), due to a notable increase of US$700 million in the use of Repurchase Agreements (REPOs) and an increase of US$1 billion in Other Borrowings as seen in the shift from Parent Group bank and non-banks entities.

Total Term Debt and Other Borrowings (Millions U$D)	2013		2014		2015		2016	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Repurchase Agreements (REPOS)	**836**	**8,755**	**1,817**	**16,582**	**5,076**	**9,734**	**5,849**	**10,417**
Group Bank - Parent, Branch, Subsidiary or Affiliate	836	847	1,817	3,532	4,502	3,146	1	6,010
Other Banks	0	7,744	0	8,065	574	5,166	624	866
Group non-bank entities	0	47	0	3,689	0	1,001	5,224	39
Other	0	117	0	1,296	0	421	0	3,502
Hybrid Debt And Subordinated Debt	**84**	**13,757**	**153**	**17,908**	**88**	**16,083**	**0**	**12,407**
Unsecured subordinated debt (over 5 years original term maturity)	84	8,017	153	9,662	88	8,648	0	5,259
Hybrid debt/equity instruments (over 5 years original term to maturity)	0	5,740	0	8,246	0	7,435	0	7,148
Other Notes, Bonds and Commercial Paper	**617**	**61,410**	**1,241**	**61,278**	**270**	**51,129**	**94**	**34,856**
Group Bank - Parent, Branch, Subsidiary or Affiliate	124	8,236	155	6,694	51	6,153	0	4,908
Group non-bank entities	398	24,485	146	17,240	60	12,465	0	301
Other Banks	0	21,654	911	23,402	158	18,806	94	17,345
Other	95	7,035	29	13,942	0	13,705	0	12,302
Other Borrowings (loans, overdrafts, credit facilities etc.)	**172**	**53,471**	**700**	**47,372**	**9,109**	**81,722**	**10,299**	**62,063**
Group Bank - Parent, Branch, Subsidiary or Affiliate	154	20,132	300	18,105	300	54,925	1	44,240
Group non-bank entities	18	15,215	12	11,997	8,706	12,692	9,765	856
Other Banks	0	16,514	98	17,034	0	13,491	500	16,601
Other		1,610	290	236	102	614	33	367
Total Term Debt And Other Borrowings	**1,709**	**137,393**	**3,911**	**143,140**	**14,543**	**158,669**	**16,243**	**119,744**

Banking Sector - Loans to Funding and Liquidity Ratios

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

Loan-to-Deposit ratio (LTD), a measure of funding profile and liquidity, for the sector decreased marginally from 43.1% (2015) to 40.4% (2016), as at fiscal year-end 2016, as a result of a larger percentage reduction in loans (20%) than in deposits (15%).

LTD for the Category A retail banks increased from 58.6% (2015) to 59.2% (2016) due to a marginal increase in loans, whereas Category 'A' non-retail banks reported a slight decline from 75.9% (2015) to 75% (2016), due mainly to the exit of a bank which held a large deposit portfolio.

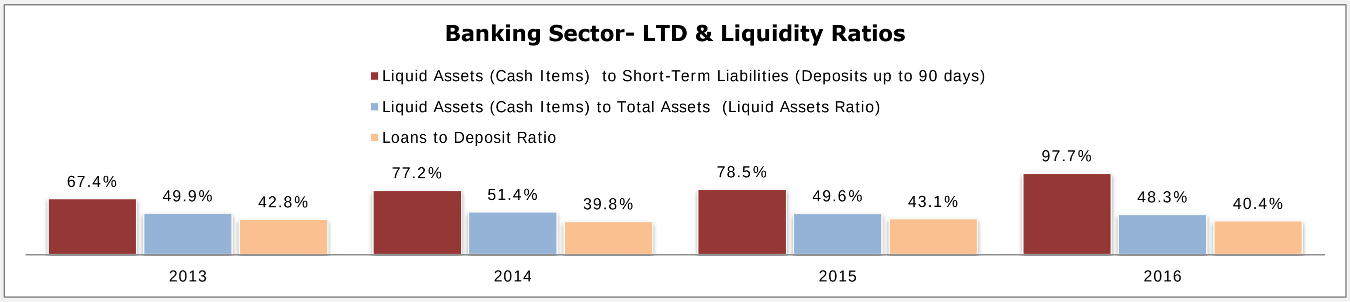
Loans to Deposit (LTD) and Loans to Funding	**2013**	**2014**	**2015**	**2016**
Total Gross Loans to Deposit Ratio - Category A Non-Retail Banks	41.2%	38.4%	75.9%	75.0%
Total Gross Loans to Deposits Ratio - Category A Retail Banks	60.1%	68.5%	58.6%	59.2%
Total Gross Loans to Deposits Ratio - All Banks	42.8%	39.8%	43.1%	40.4%
Total Gross Loans to Deposits & Wholesale Funding - All Banks	38.5%	35.6%	36.5%	34.6%
Liquidity Ratios (Millions U$D)	**2013**	**2014**	**2015**	**2016**
Liquid Assets (Cash Items) to Short-Term Liabilities (Deposits up to 90 days)	67.4%	77.2%	78.5%	97.7%
Liquid Assets	701,092	745,997	583,789	501,311
Short-Term Liabilities	1,040,503	966,595	743,425	513,131
Liquid Assets (Cash Items) to Total Assets (Liquid Assets Ratio)	49.9%	51.4%	49.6%	48.3%
Liquid Assets	701,092	745,997	583,789	501,311
Total Assets	1,404,768	1,450,089	1,177,628	1,037,983

Wholesale Funding

The sector's loans to funding ratio decreased slightly from 36.5% (2015) to 34.6% (2016). Whilst wholesale funding decreased, the sector reports a strong reliance on funding from intra-group non-bank entities and Other Banks, which can present vulnerabilities as non-resident banks are subject to changes in onshore regulatory and monetary policies. This effect was seen in 2015 by the up-streaming of deposits from EU banks for Euro Area liquidity and stress testing purposes and in the period under review by the effects of interest rates increases.

Liquidity Ratios - Liquid Assets to Short-Term Liabilities, Liquid Assets Ratio

The sector's liquid assets to short-term liabilities (the ability to meet withdrawals of short-term deposits) grew from 78.5% (2015) to 97.7% (2016) as a result of the significant decrease in short-term demand deposit liabilities by the contraction in deposit liabilities (see page 4). Liquid Assets ratio, a measure of liquid assets to total assets, decreased marginally from 49.6% (2015) to 48.3% (2016), due to the reduction in Cash Items (see Page 4).



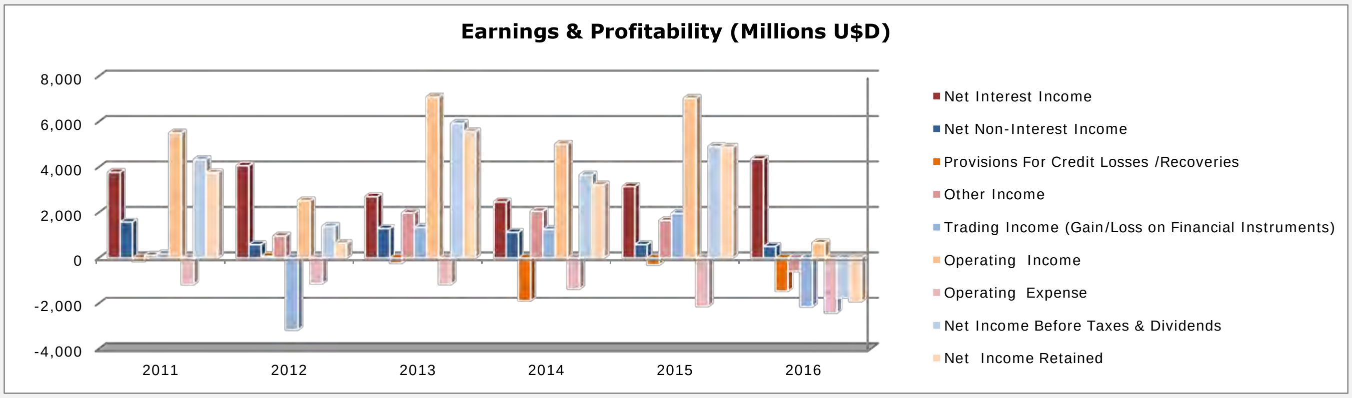
Banking Sector - Earnings & Profitability

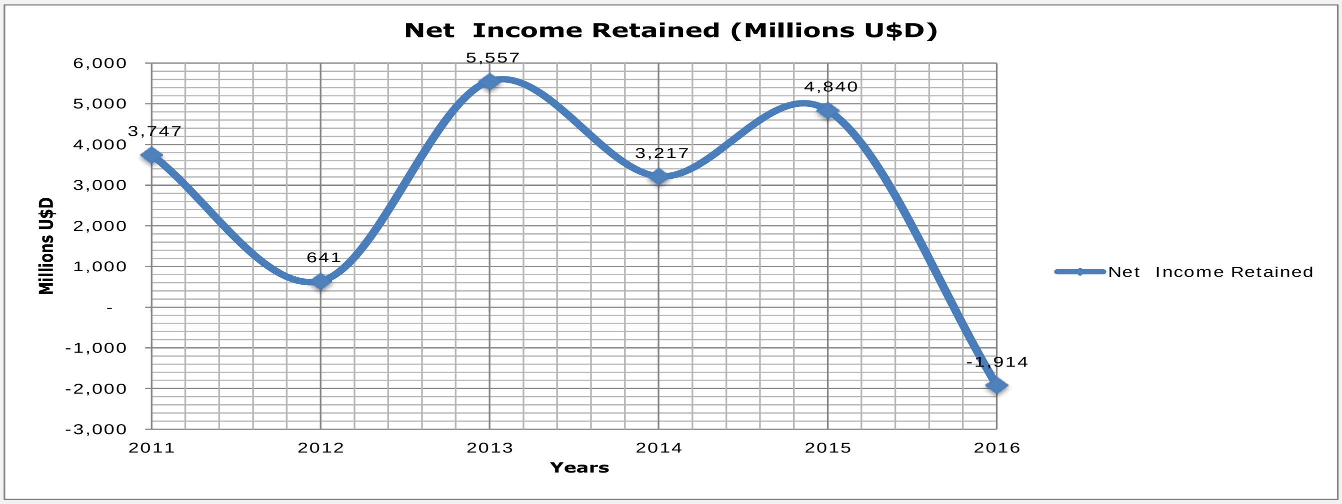
Sector reported improved net interest income, but losses in net income retained

The banking sector reported a negative net income retained despite improved earnings over the 2016 year as seen in the improved performance in Net Interest Income.

The reduction in Net Income Retained was due to the increase in Provisions for Credit Losses by South American banks, losses incurred in Other Income by European banks from Investments in non-resident related companies and losses in Trading Income from bouts of market volatility in Europe and South America.

Banking Sector (Millions U$D)	2011	2012	2013	2014	2015	2016
Net Interest Income	3,768	4,060	2,696	2,463	3,137	4,344
Net Non-Interest Income	1,578	585	1,290	1,124	588	508
Provisions For Credit Losses /Recoveries	-146	74	-224	-1,881	-303	-1,459
Other Income	113	962	1,974	2,048	1,644	-585
Trading Income (Gain/Loss on Financial Instruments)	184	-3,168	1,343	1,253	1,958	-2,145
Operating Income	5,497	2,513	7,079	5,007	7,024	663
Operating Expense	-1,166	-1,124	-1,159	-1,357	-2,126	-2,413
Net Income Before Taxes & Dividends	4,331	1,389	5,920	3,650	4,898	-1,751
Net Income Retained	3,747	641	5,556	3,212	4,869	-1,914



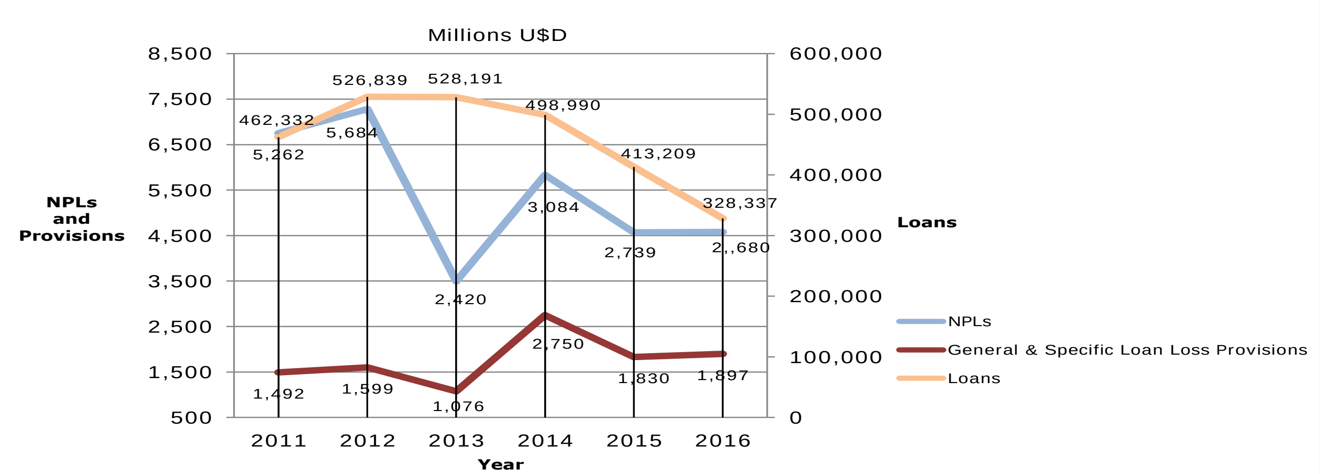


Banking Sector - Non-Performing Loans and Provisioning

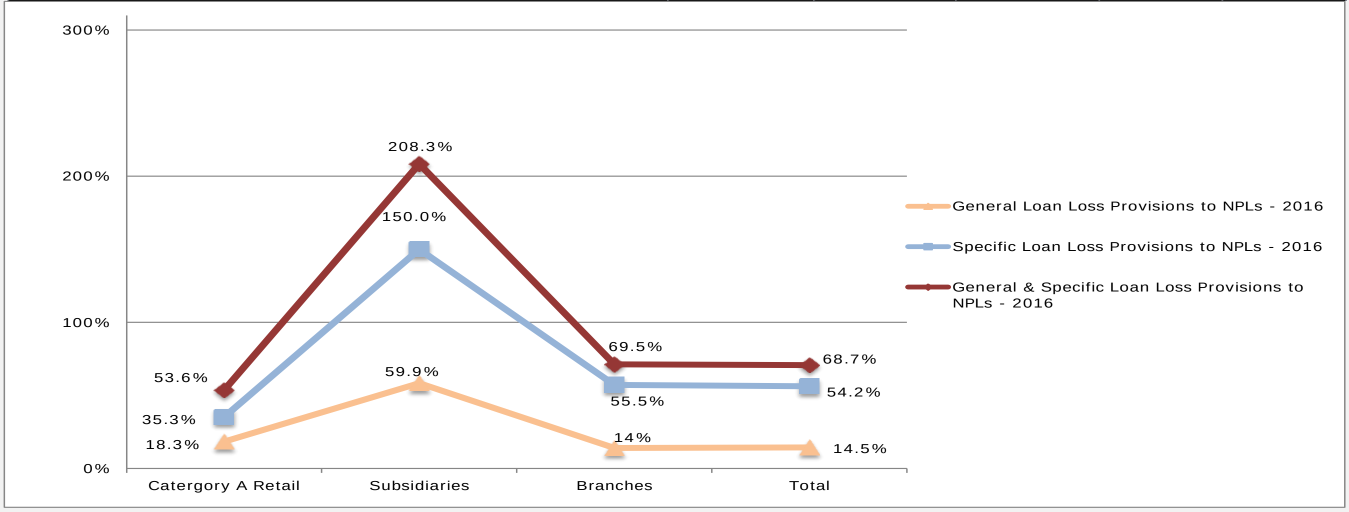
Improvement in NPLs for the Sector, adequate provisioning

In line with the decrease in Loans of US$85 billion, Non-Performing Loans (NPLs) decreased slightly by US$59 million from US$2,739 million (2015) to US$2,680 million (2016). With specific provisions at 54.2% and general provisions at 14.5%, the sector had an overall NPL provisioning rate of 68.7% at fiscal year-end 2016.

Category 'A' retail banks reported lower levels of provisioning with a provisioning rate of 53.6% in part due to the highly collaterised loan portfolio and significant write-offs of non-accruing NPLs in 2016. Subsidiaries, primarily South American banks, having previously experienced significant losses due to market volatility and depressed commodity prices reported low NPLs but held high levels of provisioning, while European and US subsidiaries reported no NPLs as their exposures are primarily with Sovereign and Group Banks rated AAA or AA. Branches, on the other hand, which hold the majority of NPLs (US$2,509 million), reported 55.5% and 14.0% in specific and general loan provisions, respectively, with an overall provisioning rate of 69.5%.



2016 (Millions U$D)	Category A Retail	Category A Non-Retail	Subsidiaries	Branches	Sector Total
NPLs	159	0	12	2,509	**2,680**
Specific Loan Loss Provisions	56	0	18	1,435	**1,509**
General Loan Loss Provisions	29	0	7	352	**388**
General & Specific Loan Loss Provisions to NPLs	85	0	25	1,787	**1,897**
Total Loans	**7,394**	**4,312**	**3,784**	**312,847**	**328,337**



Financial Soundness Indicators: Banking Sector, Fiscal Year

The Banking Sector reported healthy Financial Soundness Indicators (FSIs) for 2016 with capital adequacy ratios (CARs) above regulatory requirements of 8% required by the Basel II Accord and 10% as required by the Banking and Trust Company Law. Improved performance was seen in some key indicators such as net interest income and net non-interest income, offset by trading and investment losses. Overall the sector maintained high levels of liquidity and satisfactory levels of NPLs.

Capital Adequacy Ratio (CAR)

CAR for the entire banking sector increased from 31.7% (2015) to 35.6 % (2016), mainly due to a significant increase in CAR for subsidiaries from 39.4% (2015) to 47.2% (2016), as subsidiaries from South America increased regulatory capital due to the downgrading of sovereign ratings. CAR for the retail banks increased marginally from 18.9% (2015) to 19% (2016) as a result of a slight reduction in risk weighted assets, whereas CAR for Category 'A' non-retail banks declined slightly from 37.1% (2015) to 35.0% (2016).

Asset Quality

NPLs to total gross loans for the entire sector increased marginally from 0.7% (2015) to 0.8% (2016), due to a larger reduction in loans than the reduction in NPLs as a result of the decline in the number of branches. The retail banking sector which has been averaging 3.05% over the past four years, declined from 2.5% (2015) to 2.1% (2016), reflecting improved asset quality due in part to loan write offs and moderate growth in loans. NPLs for subsidiaries decreased from 9.9% (2015) to 0.3% (2016) as a result of the reduction in licensees, whereas NPLs for branches (which account for the largest share of the banking sector) increased from 0.5% (2015) to 0.8% (2016).

Earnings and Profitability

The banking sector reported a slight decline in earnings and profitability from 8.6% (2015) to 7.0% (2016) as a result of net losses incurred. Earnings and profitability indicators for subsidiaries reported a notable deterioration from 8.3% (2015) to 4.9% (2016) for Return on Equity (RoE) and from 1.4% (2015) to 0.9% (2016) for Return on Assets (RoA), due primarily to a significant increase in provisions for credit losses and a decrease in trading income. Retail banks reported positive performance, with an increase of RoE from 11.2% (2015) to 13.3% (2016), while the RoA increased from 1.3% (2015) to 1.5% (2016).

Liquidity

The sector continued to maintain adequate levels of liquidity, though liquid asset ratios declined marginally from 50.1% (2015) to 48.2% (2016) across all banks as a result of the reduction in licensees. Liquid assets to short-term liabilities improved from 79.2% (2015) to 97.2% (2016), despite a decline in ratios from Category 'A' retail and non-retail banks, as well as subsidiaries, due to the significant increase from 80.4% (2015) to 99.6% (2016) from branches.

Financial Soundness Indicators: Fiscal Year 2016

Banking Sector - Core Financial Soundness Indicators	Retail Banks		Category A Non-Retail Banks		Subsidiaries		Branches		Sector	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Indicator %										
Capital Adequacy										
Regulatory capital to risk-weighted assets	18.9	19.0	37.1	35.0	39.4	47.2	0.0	0.0	31.7	35.6
Regulatory Tier 1 capital to risk-weighted assets	17.1	16.8	35.8	31.6	36.2	44.5	0.0	0.0	29.2	33.1
Regulatory Tier 2 capital to risk-weighted assets	1.8	2.2	1.3	3.4	3.3	2.7	0.0	0.0	2.6	2.5
Regulatory capital to total assets	10.5	10.8	7.6	6.4	13.7	20.5	0.0	0.0	12	15.4
Non-performing loans net of provisions to capital (equity)	7.5	6.1	0.0	0.0	-0.3	-0.2	0.0	0.0	1.6	1.2
Asset Quality										
Non-performing loans to total gross loans	2.5	2.1	0.0	0.0	9.9	0.3	0.5	0.8	0.7	0.8
Specific provisions to non-performing loans	33.5	35.1	0.0	0.0	102.9	202.1	64.3	57.0	68.1	56.3
Earnings and Profitability										
Return on equity (net income before extraordinary items and taxes to average capital (equity))	11.2	13.3	4.5	9.2	8.3	4.9	0.0	0.0	8.6	7.0
Return on assets (net income to average total assets)	1.3	1.5	0.4	0.6	1.4	0.9	0.3	-0.2	0.4	-0.2
Interest margin (net interest income) to gross income	69.7	69.9	21.1	34.1	60.2	37.1	35.6	146.5	39.1	112.4
Non-interest expenses to gross income	54.0	50.2	69.7	60.2	32.5	52.3	30.9	135.3	33.2	106.7
Liquid Assets										
Liquid assets (core) to total assets (liquid asset ratio)	25.7	24.5	39.9	32.9	34.5	20.6	51.0	49.5	50.1	48.2
Liquid assets (core) to short-term liabilities	39.2	38.2	46.1	39.5	69.2	68.0	80.4	99.6	79.2	97.2

Banking Sector - Encouraged Financial Soundness Indicators	Retail Banks		Category A Non-Retail Banks		Subsidiaries		Branches		Sector	
Indicator %	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Capital to assets	11.5	11.7	7.7	6.5	13.1	20.5	0.0	0.0	11.9	15.6
Trading income to gross income	8.5	7.1	4.1	6.1	4.0	4.2	28.4	-87.9	24.6	-55.6
Fees, commissions and other income to gross income	21.8	23.0	74.7	59.8	35.8	58.7	36.0	41.4	36.2	43.2
Personnel expenses to non-interest expenses	50.9	52.8	50.1	46.2	28.9	17.7	1.0	0.6	10.1	6.3
Customer (non-interbank) deposits to total (non-interbank) loans	120.5	124.2	118.4	131.2	193.9	192.6	400.0	370.3	353.5	327.6
Residential real estate loans to total loans	31.0	32.5	0.4	0.1	7.5	7.9	3.7	3.9	4.2	4.5
Commercial real estate loans to total loans	6.0	6.6	0.0	0.0	2.7	4.3	0.3	0.4	0.4	0.6

Correspondent Banking Relationships (CBRs): De-risking

Following the '9/11' event in the US in 2001, and the 2007/2009 financial crisis, financial institutions have been under additional pressure to comply with increased local and international regulations. Consequently, compliance costs have arguably increased and many institutions are de-risking relationships that have higher compliance costs, resulting in the decrease in the number of banks offering correspondent banking services.

A trend has developed whereby many financial entities, particularly those in the Caribbean, are losing correspondent banking relationships (CBRs). As at May 2016, at least sixteen banks across five Caribbean countries lost all or some CBRs. In August 2016, the Caribbean Association of Banks advised that this trend, if not remedied, will endanger the livelihoods of Caribbean people. In the same press release, the International Monetary Fund (IMF) implored larger banks to narrow their view of risks and rewards. CIMA continues to monitor the situation and remains engaged with licensees to determine effects of this de-risking practice on the retail banks.

The Financial Stability Board (FSB), IMF and the World Bank have expressed concern in the decline of correspondent banking as this trend can contribute to negative effects on global growth, financial inclusion and, equally important, pose a threat to the stability and integrity of the global financial system. A number of working groups have been established to address this issue, with some major accomplishments in 2016 being:

- The FSB established the Correspondent Banking Coordination Group (CBCG) in March 2016 to coordinate the implmentation of the action plan that was presented to the G20 Leaders in November 2015.
- The Financial Action Task Force (FATF), in cooperation with the Basel Committee on Banking Supervision (BCBS) AML/CFT Expert Group, published guidance on correspondent banking, which clarified the FATF Recommendation on due diligence by correspondent banks to the customers of respondent banks, to clarify regulatory expectations.
- The Committte on Payments and Market Infrastructures (CPMI) and the FSB are collaborating by providing recommendations on the tools to strengthen due diligence by correspondent banks.

In December 2016, the FSB published its progress report on the implementation of its action plan to assess and address the decline in correspondent banking.

Regionally, the Caribbean Development Bank is funding a project to strengthen financial transparency to assist in preventing the loss of CBRs. Heads of Government of CARICOM have considered the Strategy and Action Plan, spearheaded by the Committee of Central Bank Governors (CCBG), and requested that the CCBG assume the oversight of its roll-out. Caribbean Heads of Governments have made presentations to the United Nations General Assembly on this issue and continue to lobby international organisations, such as the FSB, IMF and the World Bank.

http://www.fsb.org/2016/12/fsb-action-plan-to-assess-and-address-the-decline-in-correspondent-banking/

Banking Sector - International & Domestic Positions

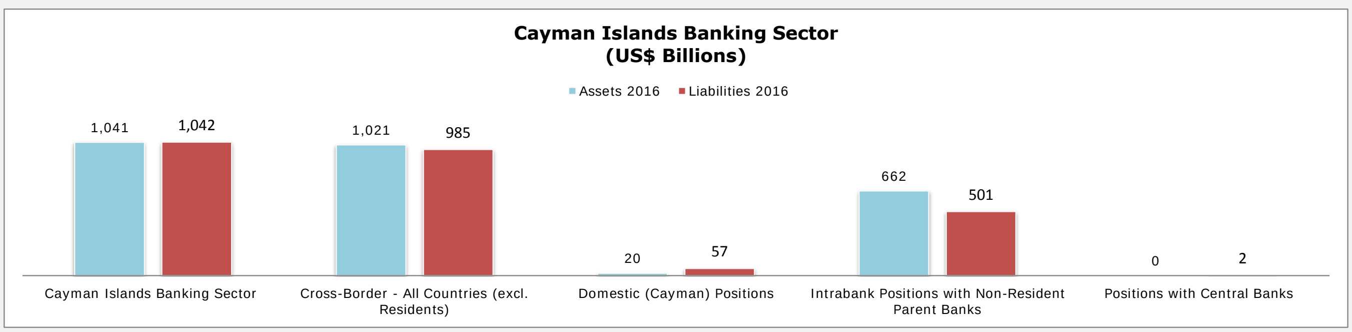
A financial intermediary facilitating the global movement of capital

Cayman Islands licensed banks booked total positions[3] of US$1.041 trillion and US$1.042 trillion as at calendar year-end 2016, reflecting a sharp contraction of US$134 billion and US$180 billion, from US$1.175 trillion and US$1.221 trillion in assets and liabilities, respectively, as at calendar year-end 2015. This contraction resulted in the decline in ranking of the Cayman Islands international banking position to 8th and 7th in terms of cross-border assets and liabilities.

Cross-border assets and liabilities declined to US$1.021 trillion and US$985 billion, respectively. This contraction was indicative of a global trend where international lending stagnated during the second half of 2016, as noted by the Bank for International Settlements (BIS) in the Quarterly Review 2016 Q4.

Correspondingly, assets and liabilities booked in the domestic economy declined by US$9 billion and US$8 billion to US$20 billion and US$57 billion, respectively, due mainly to a reduction in assets and liabilities booked by South American banks with other related Cayman Islands licensed banks.

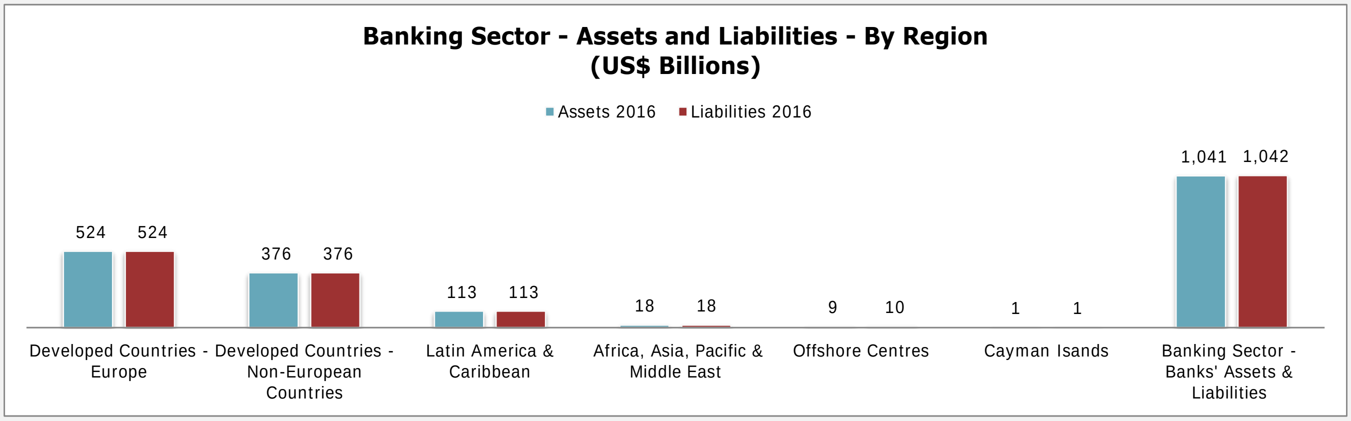
	2015			2016		
Assets (US$ millions)	**Total**	**Bank**	**Non-Bank**	**Total**	**Bank**	**Non-Bank**
Total Positions - All Currencies	1,175,697	842,429	333,268	1,041,854	737,491	304,363
o/w Cross-Border Positions - Domestic & Foreign Currencies	*1,146,155*	*826,353*	*319,802*	*1,021,842*	*731,682*	*290,160*
o/w Domestic Positions - Domestic & Foreign Currencies	*29,542*	*16,076*	*13,466*	*20,012*	*5,809*	*14,170*
Liabilities (US$ millions)	**Total**	**Bank**	**Non-Bank**	**Total**	**Bank**	**Non-Bank**
Total Positions (Liabilities) - All Currencies	1,221,823	702,837	467,586	1,042,079	636,023	370,597
o/w Cross-Border Positions - Unallocated Sector			*51,400*			*35,459*
o/w Cross-Border Positions - Domestic & Foreign Currencies	*1,156,991*	*678,435*	*427,156*	*985,357*	*627,543*	*323,355*
o/w Domestic Positions - Domestic & Foreign Currencies	*64,832*	*24,402*	*40,428*	*56,722*	*9,480*	*47,242*



72% or US$732 billion and 64% or US$627 billion of the banking sector assets and liabilities were booked as interbank assets and liabilities positions, of which 90% or US$662 billion and 80% or US$501 billion were intrabank assets and liabilities. This highlights the role of the Cayman Islands' banking sector as a financial intermediary providing liquidity and credit to Parent Group Banks and Other Banks globally. This high level of interconnectedness presents a vulnerability to the banking sector to global regulatory, political and policy issues.

Assets & Liabilities - By Region

Banks held US$1.041 and US$1.042 trillion in assets and liabilities, respectively, on balance sheet as at calendar year-end 2016, of which US$529 billion were held by European banks, US$370 billion by banks from Developed Non-European Countries (primarily, US, Canada, Japan and Australia) and US$113 billion by banks from Latin America & Caribbean (primarily Brazil and Mexico), which reflect the amount of licensees from these regions.

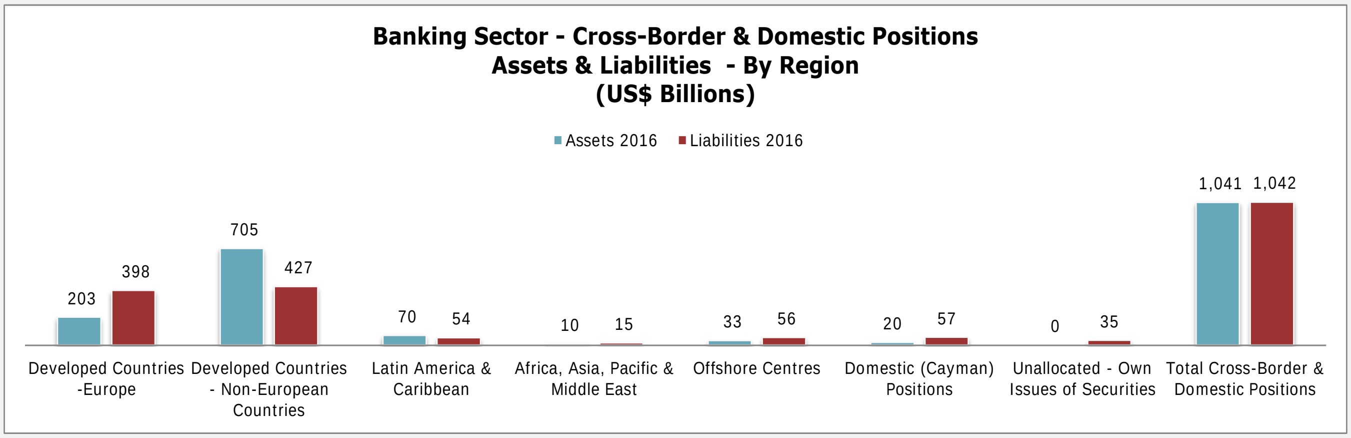


Cross-Border & Domestic Positions - By Region

Cross-Border & Domestic Positions

From the total positions of US$1.041 and US$1.042 trillion in assets and liabilities, Banks booked US$1.021 trillion and US$985 billion cross-border and US$20 billion and US$57 billion in the domestic economy in assets and liabilities, respectively, and raised US$35 billion from the issuance of Securities.

89% or US$908 billion was booked with Developed Countries, of which US$203 billion and US$705 billion were booked in Europe and Developed Non-European Countries, primarily the United States. 7% or US$70 billion was booked in Latin America & Caribbean (primarily Brazil and Mexico), 3% or US$33 billion was booked in international Offshore Financial Centres (primarily The Bahamas and Hong Kong) and 1% or US$10 billion with Developing Africa, Middle East and Asia Pacific.

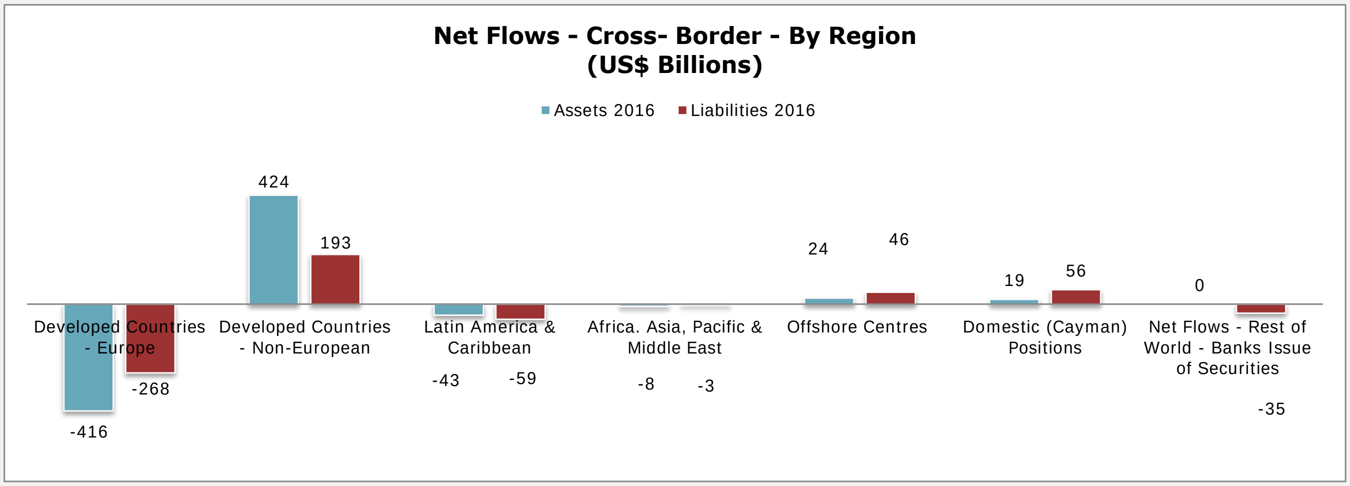


Net Flows - Cross-Border & Domestic - By Region

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

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

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



Parent Country/Region	Banking Sector Total		Cross-Border Positions		Net Flows - Cross-Border By Region	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
(US$ Billions)	2016	2016	2016	2016	2016	2016
Developed Countries - Europe	529	529	203	398	-326	-131
Developed Countries - Non-European Countries	370	370	705	427	335	57
Latin America & Caribbean	113	113	70	54	-43	-59
Africa, Asia, Pacific & Middle East	18	19	10	15	-8	-4
Offshore Centres	10	10	33	56	23	46
Cayman Isands	1	1	20	57	19	56
Unallocated - Banks' Own Issues of Securities	0	0	0	35	0	35
Banking Sector - Total Positions	1041	1042	1041	1042	-	-

Domestic Positions - Foreign & Local Currency

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

Of the US$20 billion in assets and US$57 billion in liabilities booked in the domestic economy, Category 'A' banks booked US$5 billion and Category 'B' banks booked US$15 billion in assets, whereas Category 'A' banks booked US$11 billion in liabilities and Category 'B' banks booked US$46 billion in liabilities.

Category 'A' banks domestic asset positions are booked primarily with resident Households and Non-Financial Corporations (Commercial Private Sector and Mortgages).

Category 'B' banks' domestic assets positions are mainly interbank and intragroup positions with other Cayman Islands licensed banks and entities, and bookings with other Cayman Islands licensed exempt or ordinary non-resident companies, which are considered residents of the domestic economy by being legally domiciled, though not carrying on business in the domestic economy.

Resident Positions - Assets	**Category A Banks - Resident**		**Category B Banks - Resident**		**Total Resident Sector**
Calendar Year 2016 *(Millions U$D)*	**Retail**	**Non-Retail**	**Physical Presence**	**No Physical Presence**	
Cash Items	165	32	158	1,005	1,360
Financial Assets at Fair Value	8	0	89	3,718	3,815
Investments - Held-to-Maturity	0	0	35	2	37
Investments -Available-for-Sale	12	0	708	182	902
Other Investments	1	195	282	364	842
Loans and Advances	3,980	123	907	2,900	7,910
Less Loan Loss Provisions	*44*	*0*	*1*	*0*	*45*
Net Loans	3,935	123	906	2,900	7,864
Other Assets	320	76	65	4,796	5,257
TOTAL ASSETS	**4,441**	**426**	**2,243**	**12,968**	**20,078**

Of the US$57 billion in liabilities positions booked in the domestic economy, 70% or US$39 billion was in retail deposits, while wholesale funding from Other Borrowings and Repurchase Agreements contributed 28% or US$16 billion. Category 'A' banks held US$11 billion, of which US$8 billion was mainly from Households and Non-Financial Corporations and US$3 billion from Other Financial Corporations (mainly investment funds). Category 'B' banks booked US$46 billion, primarily from interbank and intragroup Deposits and raised US$15 billion in wholesale funding from resident Group non-bank entities.

Resident Positions - Liabilities	**Category A Banks - Resident**		**Category B Banks -Resident**		**Total Resident Sector**
Calendar Year 2016 *(Millions U$D)*	**Retail**	**Non-Retail**	**Physical Presence**	**No Physical Presence**	
Deposits	7,486	3,277	2,620	25,470	38,853
Repurchase Agreements (REPOS)	0	0	624	5,227	5,851
Hybrid Debt & Subordinated Debt	0	0	0	0	0
Other Notes, Bond & Commercial Paper	0	0	0	94	94
Other Borrowings	0	0	10,360	32	10,392
Creditors & Other Liabilities	142	56	22	392	612
Other Loss Provisions	21	1	1	32	55
Total Liabilities	**7,649**	**3,334**	**13,627**	**31,247**	**55,857**
Shareholders' Equity	104	0	302	459	865
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	**7,753**	**3,334**	**13,929**	**31,706**	**56,722**

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

Sector contracts with decreases in cash items and credit loans

Category 'A' non-retail banks' total assets and liabilities decreased by 7% or US$651 million from US$9.11 billion (2015) to $8.43 billion (2016), due mainly to a sharp decline in Deposit Liabilities which decreased by US$521 million from US$6.27 billion (2015) to US$5.75 billion (2016), as a result of the exit of a bank. Other Borrowings from Parent Group Bank decreased by US$62 million from US$1.70 billion (2015) to US$1.64 billion (2016) from early repayment.

Year-on-year, Cash Items and Loans & Advances decreased by $858 million and $437 million, respectively, which was partially offset by an increase of $500 million in Investments-Held-to-Maturity and an increase of $195 million in Other Investments, reflecting a change in investment strategy from placement of CD's with Group Bank to other higher yield instruments.

Category A Banks - Non-Retail - Fiscal Year (Millions U$D)					
ASSETS	**2012**	**2013**	**2014**	**2015**	**2016**
Cash Items	6,535	5,105	5,282	3,630	2,773
Financial Assets at Fair Value	0	18	38	0	1
Investments - Held-to-Maturity	0	159	135	500	999
Investments -Available-for-sale	68	21	50	6	6
Other Investments	5	16	4	4	199
Loans and Advances	1,901	2,087	2,673	4,749	4,312
Less Loan Loss Provisions	0	1	0	0	0
Net Loans	1,901	2,086	2,673	4,749	4,312
Other Assets	361	299	366	221	143
TOTAL ASSETS	**8,870**	**7,705**	**8,548**	**9,110**	**8,434**
LIABILITIES	**2012**	**2013**	**2014**	**2015**	**2016**
Deposits	7,163	5,933	6,666	6,271	5,750
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	201	288	321	1,707	1,645
Creditors and Other Liabilities	503	463	538	425	481
Other Loss Provisions	0	0	2	0	0
TOTAL LIABILITIES	**7,867**	**6,684**	**7,527**	**8,403**	**7,877**
SHAREHOLDERS' EQUITY	**1,003**	**1,021**	**1,021**	**707**	**557**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**8,870**	**7,705**	**8,548**	**9,110**	**8,434**

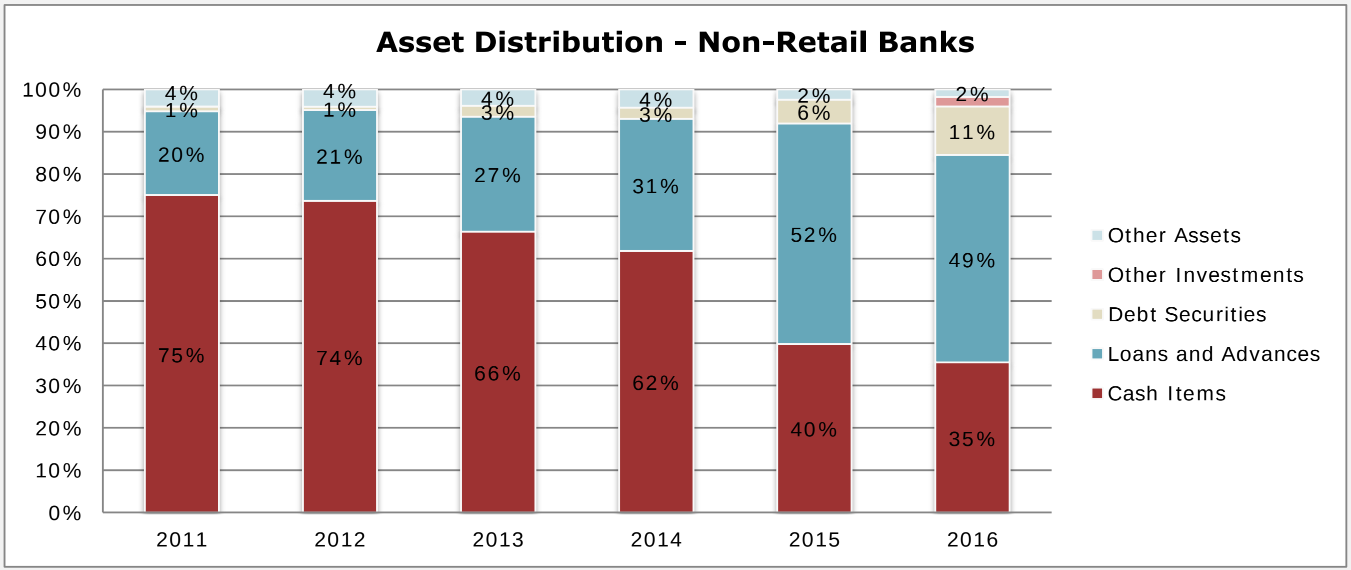
At year-end 2016, Shareholders' Equity declined by US$153 million mainly due to the payment of dividends from unappropriated retained earnings by a bank which held excess capital, as well as the effect of the exit of a bank due to a change in licence. The sector continued to hold share capital and capital adequacy ratios above the required level.

Category 'A' - Non-Retail Banks - Asset Distribution

In contrast to year end-2015, where the Category 'A' non-retail banks' balance sheet profile depicted 40% in Cash Items and 52% in Loans, there was a shift in the asset distribution to 33% in Cash Items, 51% in Loans and Advances and 12% in debt securities at end 2016.

Of the US$8.4 billion in assets held at end 2016, Cash Items accounted for US$2.7 billion and Loans & Advances accounted for US$4.3 billion. US$2.74 billion (99%) of the US$2.77 billion in Cash Items were placed with non-resident Parent Groups while US$4.19 billion (97%) of the US$4.31 billion in Loans & Advances were with non-residents.

Of the US$4.19 billion in non-resident loans, 39% or US$1.637 billion was booked with non-resident households as consumer loans and 60% or US$2.53 billion was booked with non-resident non-financial corporations in the US market.

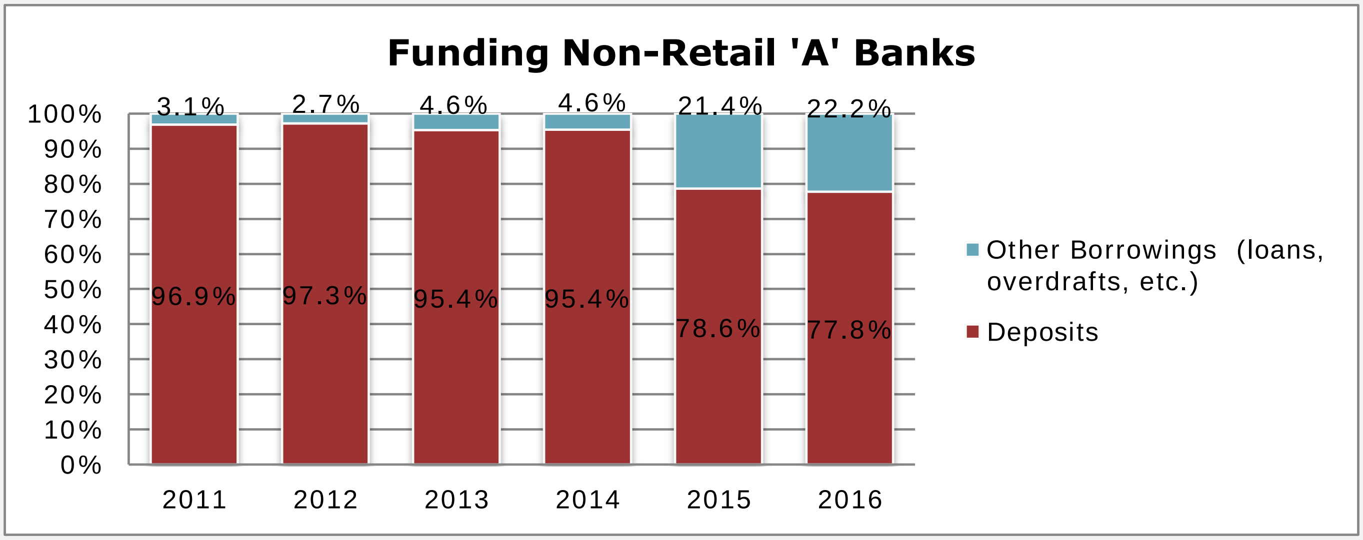


Non-Retail Banks	2013		2014		2015		2016	
Cash Items (Millions U$D)	**Resident**	**Non-Resident**	**Resident**	**Non-Resident**	**Resident**	**Non-Resident**	**Resident**	**Non-Resident**
Cash	0	0	0	0	0	0	0	0
Gold and bullion	0	0	0	0	0	0	0	0
Cash items in process of collection	0	0	0	0	0	0	0	0
Balances & CDs :	**56**	**5,049**	**18**	**5,262**	**20**	**3,564**	**29**	**2,743**
o/w Group Bank - Parent, Branch, Subsidiary, Affiliate	*38*	*4,716*	*6*	*4,899*	*10*	*3,470*	*13*	*2,724*
o/w Group non-bank entities	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
o/w Other Banks	*18*	*333*	*12*	*363*	*10*	*94*	*16*	*19*
Due from financial institutions	0	0	0	2	0	46	0	0
TOTAL	**56**	**5,049**	**18**	**5,264**	**20**	**3,610**	**29**	**2,743**

Non-Retail Banks	2013		2014		2015		2016	
Loans and Advances (Millions U$D)	**Resident**	**Non-Resident**	**Resident**	**Non-Resident**	**Resident**	**Non-Resident**	**Resident**	**Non-Resident**
Sovereigns & Central Banks	0	0	0	0	0	0	0	0
Non Central Government Public Sector Entities (PSEs)	0	0	0	0	0	0	0	0
Multilateral Development Banks (MDBs)	0	0	0	0	0	0	0	0
Group Bank - Parent, Branch, Subsidiary or Affiliate	0	0	0	0	0	0	0	1
Group non-bank entities	154	4	146	0	0	0	0	0
Other Banks	0	0	0	0	0	0	0	0
Non-Financial Corporations - Commercial Private Sector	29	586	13	952	0	2,761	0	2,527
Non-Financial Corporations - Commercial Mortgages	0	0	0	0	0	0	0	0
Other Financial Corporations - Financial Intermediaries	160	27	277	54	132	45	123	19
Retail Lending/Consumer Loans - Households	0	1,083	0	1,175	0	1,791	0	1,637
Residential Mortgages - Households	4	1	24	4	0	0	0	0
Other Loans and Advances	0	40	1	28	0	19	0	4
TOTAL	**347**	**1,741**	**461**	**2,213**	**132**	**4,616**	**123**	**4,189**

Category 'A' - Non-Retail Banks - Funding Distribution

Core retail deposit funding decreased from 78.6% (2015) to 77.8% (2016) while Other Borrowings showed a marginal percentage increase from 21.4% (2015) to 22.2% (2016) as a percentage of total funding, despite an overall reduction in actual borrowings. The decrease in core retail deposit funding was seen in resident Other Financial Corporations (mainly investment funds) sector and in the non-resident sector by households and other deposits.



Of the US$5.75 billion in deposits at end of 2016, Other Financial Corporations (mainly investment funds) accounted for US$3.16 billion and US$481 million from resident and non-resident entities, respectively, representing 63% of total deposits. This high level of funding from the investment funds sector highlights the interconnectedness of the non-retail banks (investment banks) to the investment funds sector in the resident economy.

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

Category 'A' - Retail Banks - Balance Sheet Profile

Increase in size of sector, with marginal increases in credit loans

The retail sector assets expanded by 2.5% or US$355 million from US$14.04 billion (2015) to US$14.39 billion (2016), as seen by the increase of US$372 million in Investments-Held-to-Maturity and Available-for-Sale and a marginal increase in Loans & Advances of US$62 million. Cash Items contracted marginally by US$105 million, from US$3.753 billion (2015) to US$3.648 billion (2016).

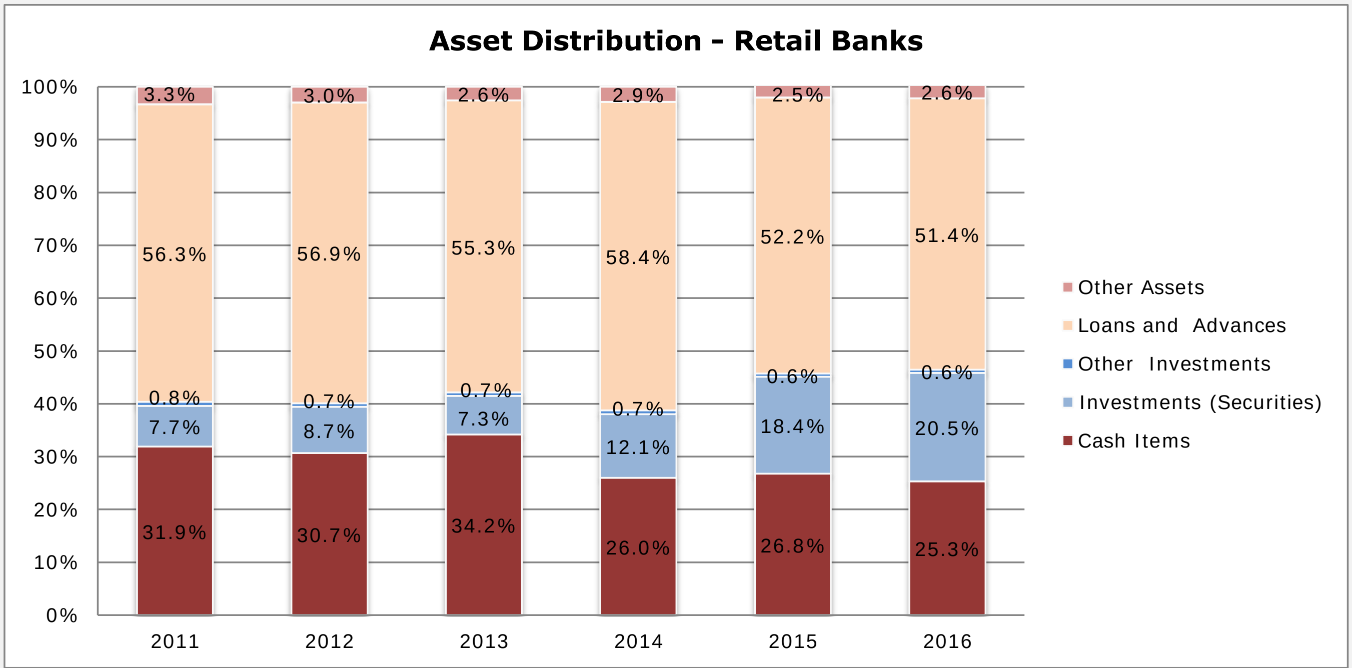
Liabilities increased by US$222 million in core retail Deposits, US$55 million in Other Borrowings and US$65 million in Shareholder's Equity. The increase in core retail deposits was due to an increase in resident deposits reflecting improvements in the domestic macro-economic environment.

Category A Banks - Retail - Fiscal Year (Millions U$D)					
ASSETS	**2012**	**2013**	**2014**	**2015**	**2016**
Cash Items	4,659	5,025	3,108	3,753	3,648
Financial Assets at Fair Value	0	13	12	14	8
Investments - Held-to-Maturity	204	200	253	641	912
Investments - Available-for-Sale	994	957	1,304	1,931	2,032
Other Investments	102	100	89	88	88
Loans and Advances	7,752	7,350	7,788	7,332	7,394
Less Loan Loss Provisions	*60*	*56*	*61*	*59*	*55*
Net Loans	7,692	7,293	7,727	7,273	7,340
Other Assets	424	375	337	342	369
TOTAL ASSETS	**14,075**	**13,963**	**12,830**	**14,042**	**14,397**
LIABILITIES	**2012**	**2013**	**2014**	**2015**	**2016**
Deposits	12,304	12,234	11,263	12,271	12,493
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	2	0	0	0	55
Creditors and Other Liabilities	203	207	52	186	202
Other Loss Provisions	18	25	34	31	28
TOTAL LIABILITIES	**12,527**	**12,466**	**11,349**	**12,488**	**12,778**
SHAREHOLDERS' EQUITY	**1,548**	**1,497**	**1,481**	**1,554**	**1,619**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**14,075**	**13,963**	**12,830**	**14,042**	**14,397**

Shareholders' Equity for this sector showed an increase of US$65 million from US$1.55 billion (2015) to US$1.62 billion (2016), through a healthy accumulation of unappropriated retained earnings and improved earnings and profitability over the 2016 period.

Category 'A' - Retail Banks - Asset Distribution

The sector's asset distribution is indicative of banks conducting traditional retail banking services with Loans & Advances constituting 51.4% or US$7.39 billion (2016) of total assets. Cash Items of 25.3% or US$3.648 billion reflects the placement of excess liquidity with Parent Groups Banks as a result of not having to hold reserve requirements with CIMA. The sector's investment portfolio in securities continues to expand as evidenced by 20.5% or US$2.94 billion in Investments-Held-to-Maturity and Investments-Available-for-Sale.



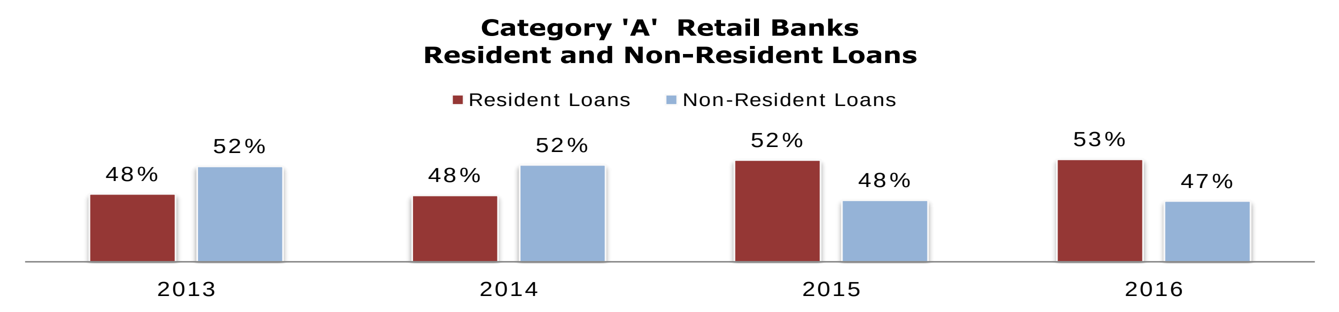
Retail Banks (Millions U$D) (revised to fiscal year end)	2013		2014		2015		2016	
Cash Items (Millions U$D)	**Resident**	**Non-Resident**	**Resident**	**Non-Resident**	**Resident**	**Non-Resident**	**Resident**	**Non-Resident**
Cash	47	6	47	8	46	6	46	7
Gold and bullion	0	0	0	0	0	0	0	0
Cash items in process of collection	8	1	9	2	15	1	33	-3
Balances & CDs :	**202**	**4,583**	**141**	**2,861**	**28**	**3,656**	**28**	**3,537**
o/w Group Bank - Parent, Branch, Subsidiary, Affiliate	*0*	*3,368*	*0*	*1,546*	*7*	*2,229*	*4*	*2,531*
o/w Group non-bank entities	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
o/w Other Banks	*202*	*1,215*	*141*	*1,315*	*21*	*1,427*	*24*	*1,006*
Due from financial institutions	0	179	0	40	0	0	0	0
TOTAL	**257**	**4,769**	**197**	**2,911**	**89**	**3,663**	**107**	**3,541**

Retail Banks (Millions U$D)	2013		2014		2015		2016	
Loans and Advances	**Resident**	**Non-Resident**	**Resident**	**Non-Resident**	**Resident**	**Non-Resident**	**Resident**	**Non-Resident**
Sovereigns & Central Banks	472	15	481	15	476	74	429	71
Non Central Government Public Sector Entities (PSEs)	75	4	87	37	90	58	99	53
Multilateral Development Banks (MDBs)	0	0	0	0	0	0	0	0
Group Bank - Parent, Branch, Subsidiary or Affiliate	0	91	0	41	7	40	0	40
Group non-bank entities	22	0	10	0	8	0	6	0
Other Banks	0	0	0	0	0	0	0	0
Non-Financial Corporations - Commercial Private Sector	392	3,040	795	3,257	684	2,625	613	2,537
Non-Financial Corporations - Commercial Mortgages	463	234	156	217	181	238	255	221
Other Financial Corporations - Financial Intermediaries	18	114	19	104	103	75	120	124
Retail Lending/Consumer Loans - Households	319	25	378	71	346	36	352	46
Residential Mortgages - Households	1,604	226	1,728	228	1,865	277	1,925	359
Other Loans and Advances	185	50	95	68	86	62	86	57
TOTAL	**3,550**	**3,799**	**3,749**	**4,038**	**3,846**	**3,485**	**3,885**	**3,508**

Category A - Retail Banks - Loans - Resident & Non-Resident

Of the US$7.4 billion in Loans & Advances, 53% or US$3.89 billion were resident loans as expected in domestic commercial retail banks and 47% or US$3.51 billion were non-resident loans. Loans to the resident domestic market increased marginally by US$39 million, whereas Loans to the non-resident sector increased by US$23 million.

This large amount of non-resident loans is atypical of domestic commercial retail banks, reflecting an open economy with no foreign exchange controls and a fixed exchange rate of the Cayman Islands dollar to the US dollar. The non-resident portfolio is also indicative of the Cayman Islands role as an international financial centre providing credit globally as Cayman Islands licensed retail banks can conduct business both in the domestic and international market.

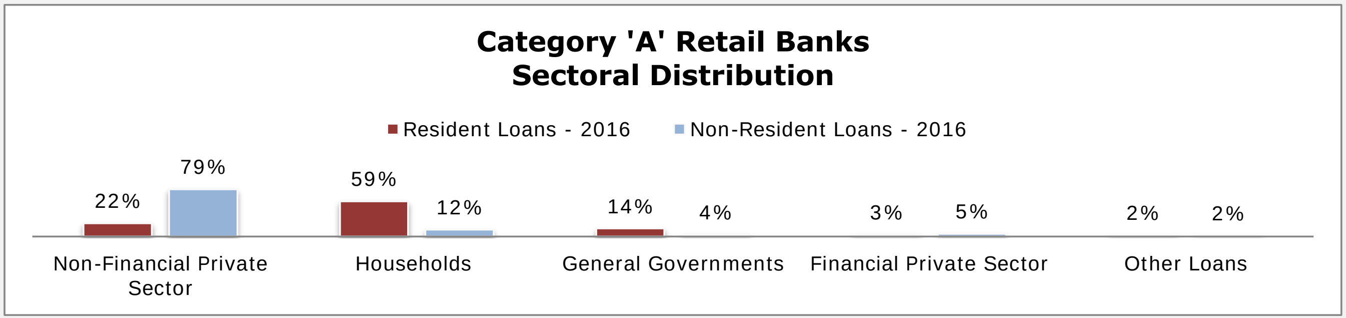


Resident/Domestic

Credit to the domestic market increased by 1% or US$39 million to US$3.88 billion in 2016. Credit to the resident private sector increased as loans to households and businesses expanded by US$66 million and US$20 million, respectively, which was offset by an overall reduction of US$38 million in loans to Central Government and Public Sector entities. Credit to households accounted for 58.6% or US$2.211 billion as residential and consumer loans, indicating the high exposure to this sector. Credit to the private sector accounted for 25.6% or US$988 million reflecting a marginal increase of US$20 million from US$968 million (2015), which was seen in an increase in loans to Other Financial Corporations and Non-Financial Corporations (Commercial Private Sector).

Non-Resident/International

Credit to the non-resident sector increased marginally by US$23 million to US$3.51 billion in 2016, of which 38% or US$2.75 billion were to non-financial corporations. Credit to the non-financial corporation sector decreased by US$80 million from 2015, which was offset by increases in loans to Other Financial Intermediaries and Households. Credit to the non-resident sector is primarily to South American countries which are highly dependent on commodity exports and are subject to price volatility and could present some vulnerability. Concurrently, these exposures are funded by deposits from Parent Banks which also present some vulnerability to the potential for up-streaming of deposits in the event of a stress scenario.



Category 'A' Retail Banks - Asset Distribution - Investments

Total investments increased by US$396 million from $2.54 billion (2015) to US$2.94 billion (2016) driven by an increase of US$292 million in Investments - Held-to-Maturity (HTM) and US$105 million in Investments - Available-for-Sale (AFS) in the non-resident sector.

The notable increase of US$275 million in Investments HTM is seen mainly in investments in US Government Agencies operating primarily in the housing market, possibly in response to the interest in interest rates.

The retail banks reported a shift in diversification of portfolio holdings of AFS in the non-resident sector from Sovereigns to Public Sector Entities (PSEs), Multilateral Development Banks (international organizations funded by Governments) and the Non-Financial Corporations (Commercial Private Sector) issued by the United States and Europe, reflecting continued confidence in the global economy.

Investments AFS in the resident sector is attributed to the holding of the Cayman Islands Government Bond.

The increase in the investment portfolio from 18.8% (2015) to 20.5% (2016) suggests a response to the increase in interest rates in the United States in 2016 and projected growth in developed European countries.

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

Herfindahl-Hirschman Index (HHI)

The **Herfindahl index** (also known **as Herfindahl–Hirschman Index or HHI**) is a measure of the size of firms in relation to the industry and an indicator of the amount of competition among them. Named after economists Orris C. Herfindahl and Albert O. Hirschman, it is an economic concept widely applied in competition law, antitrust and technology management. It is defined as the sum of the squares of the market shares of the firms within the industry (sometimes limited to the 50 largest firms) where the market shares are expressed as fractions. The result is proportional to the average market share, weighted by market share. As such, it can range from 0 to 1.0, moving from a huge number of very small firms to a single monopolistic producer. Alternatively, if whole percentages are used, the index ranges from 0 to 10,000 points. Increases in the Herfindahl index generally indicate a decrease in competition and an increase of market power, whereas decreases indicate the opposite.

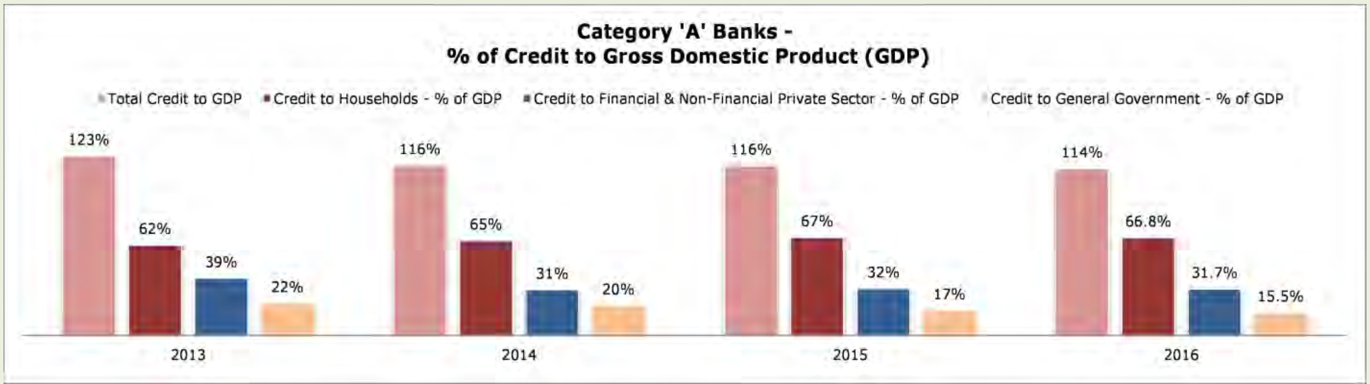
HHI, used here to measure concentration in private sector lending, increased by 3% from 596 in 2015 to 612 at end-2016, which generally represents the median score of an unconcentrated market. Lending to households for residential mortgages had an HHI of 509 at end 2016, implying a slight increase in concentration from 481 in 2015.

Key	Index	Intepretation
HHI	HHI<100	**Indicates a highly competitive market**
	100<=HHI<1000	**Indicates an unconcentrated market**
	1000<=HHI<1800	**Indicates moderate market concentration**
	HHI>1800	**High Market Concentration**

HHI Resident Loans and Advances					(% of resident loans to total resident Loans)		
Sector	**2014**	**2015**	**2016**	**Interpretation of HHI**	**2014**	**2015**	**2016**
Sovereigns and Central Banks	89	82	62	Indicates a highly competitive market	13%	12%	11%
Non Central Government Public Sector Entities (PSEs)	3	2	4	Indicates a highly competitive market	2%	2%	3%
Non-financial Corporations - Industrial & commercial private sector	107	79	64	Indicates a highly competitive market	21%	18%	16%
Non-Financial Corporations - Commercial Mortgages	8	10	15	Indicates a highly competitive market	5%	5%	7%
Other financial Corporations - financial intermediaries & auxiliaries	0	4	5	Indicates a highly competitive market	5%	3%	3%
Retail Lending/Consumer Loans - Households	22	17	17	Indicates a highly competitive market	10%	9%	9%
Residential Mortgages - Households	435	481	509	Indicates an unconcentrated market	46%	49%	50%
Other loans and advances	8	5	2	Indicates a highly competitive market	3%	2%	2%

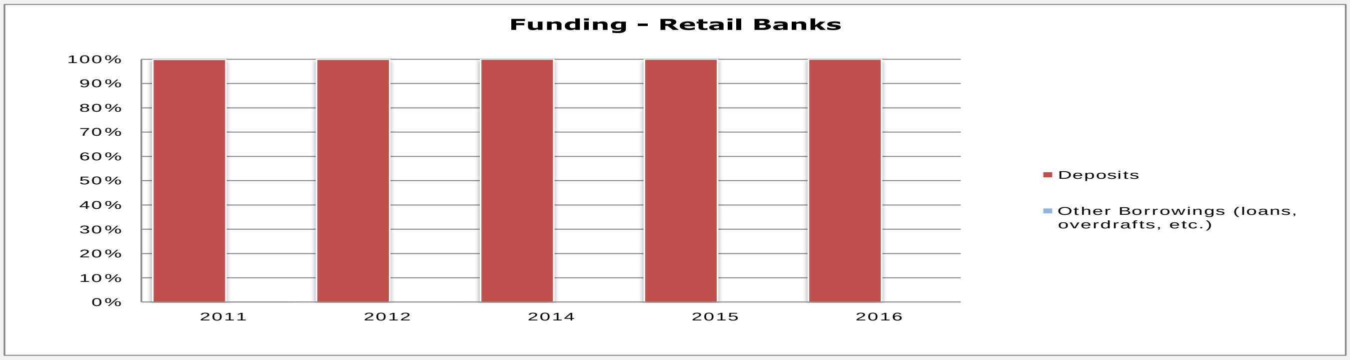
Credit-to-GDP Ratio

Overall, Credit-to-GDP, a measure of a country's indebtedness (credit assets) to the value of the goods and services produced (GDP), provides an indicator of build-up of "booms" or overheating in the economy. The Cayman Islands Credit-to-GDP has decreased slightly from 116% in 2015 to 114% in 2016, due to marginal increase in GDP from US$3.13 billion to US$3.220 billion and a reduction in General Government loans, indicating a more resilient economy.



Category 'A' - Retail Banks - Funding Distribution

The sector's funding from core retail deposits averaged 99.8%. Overall, funding increased by US$191 million, from US$12.3 billion (2015) to US$12.49 billion due mainly to an increase in resident deposits of US$403 million, which partially offset a decrease in non-resident deposits of US$214 million. Retail banks consistently fund their credit assets with minimal use of wholesale funding.



Resident

Resident deposits accounted for US$7.2 billion or 58% of total deposits, consisting mainly of deposits from Non-Financial Corporations of US$2.20 billion, Other Financial Corporations of US$1.74 billion and Households of US$1.91 billion. The overall increase in resident deposits of US$403 million was mainly due to an increase of US$168 million from Households and US$174 million from Non-Financial Corporations (Commercial Private Sector). The increase in Sovereign deposits primarily offset Advances held by Central Governments for general operating expenses.

Non-Resident

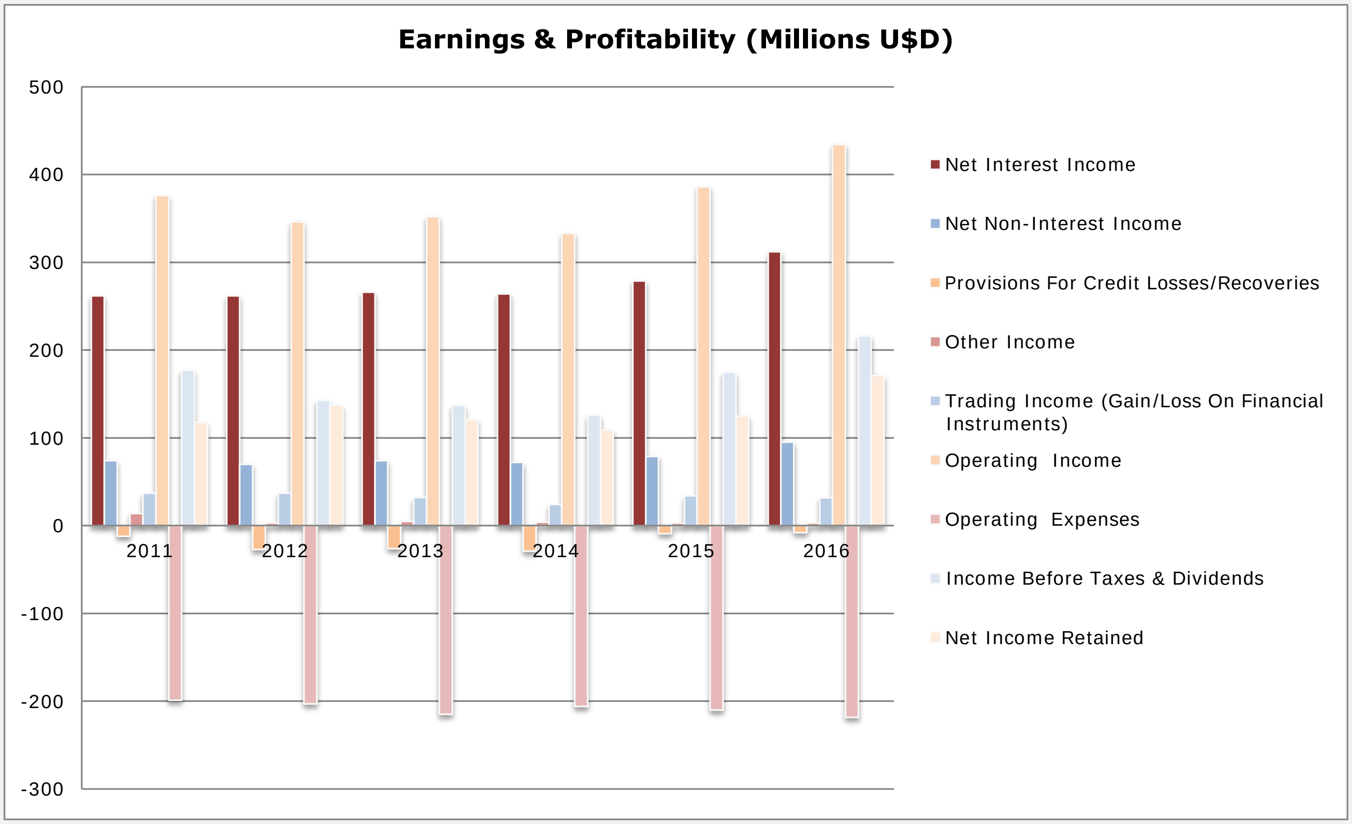
Non-resident deposits accounted for US$5.3 billion or 41% of total deposits. Deposits from Group Banks of US$3.3 billion accounted for 58% and Non-Financial Corporations deposits of US$981 million accounted for 21% of total deposits. This reflects a decrease of US$141 million from US$1.1 billion (2015), driven mainly by the reduction in deposits from Non-Financial Corporations (Commercial Private Sector).

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

Category 'A' - Retail Banks - Earnings & Profitability

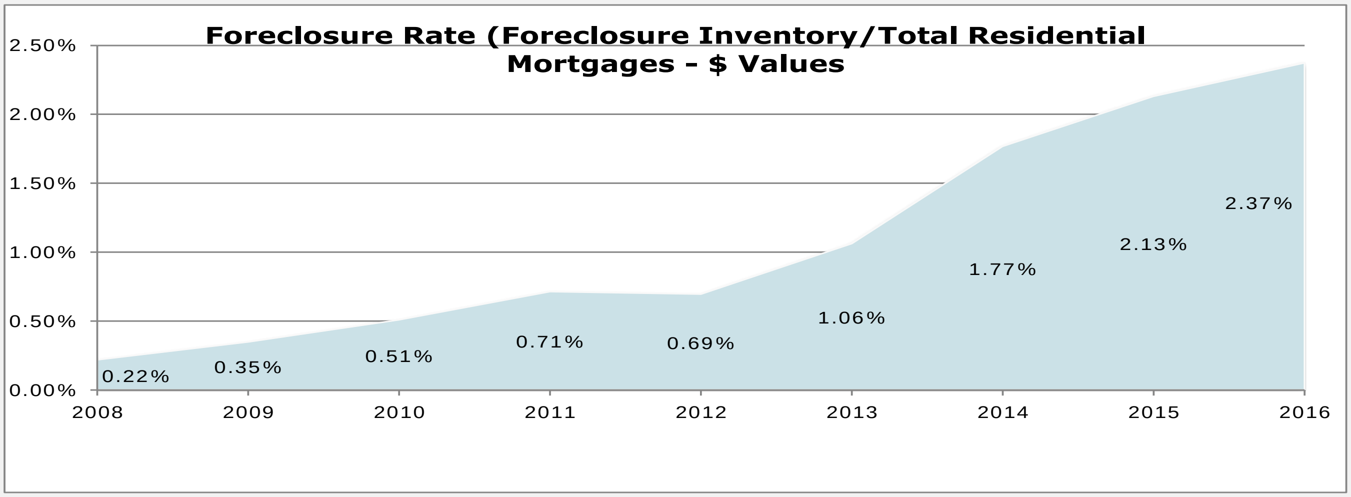
Retail banks reported improved earnings and profitability with a US$48 million increase in Operating Income from US$386 million in 2015 to US$434 million in 2016 due to increases in Net Interest Income and Net Non-Interest Income. With operating expenses increasing slightly by US$8 million, the sector reported Net Income Retained of US$171 million, a US$46 million increase from US$125 million in 2015. The increase in earnings reflects the increase in earnings from the interest rates increases and spreads in 2016.

Retail Banks (Millions U$D) ***(revised to fiscal year end)***	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Net Interest Income	262	262	266	264	279	312
Net Non-Interest Income	74	70	74	72	79	95
Provisions For Credit Losses/Recoveries	-12	-27	-26	-29	-9	-8
Trading Income (Gain/Loss On Financial Instruments)	37	37	32	24	34	32
Other Income	14	3	5	4	3	3
Operating Income	376	346	352	333	386	434
Operating Expenses	-199	-203	-215	-206	-210	-218
Income Before Taxes & Dividends	177	143	137	126	175	216
Net Income Retained	118	137	121	109	125	171

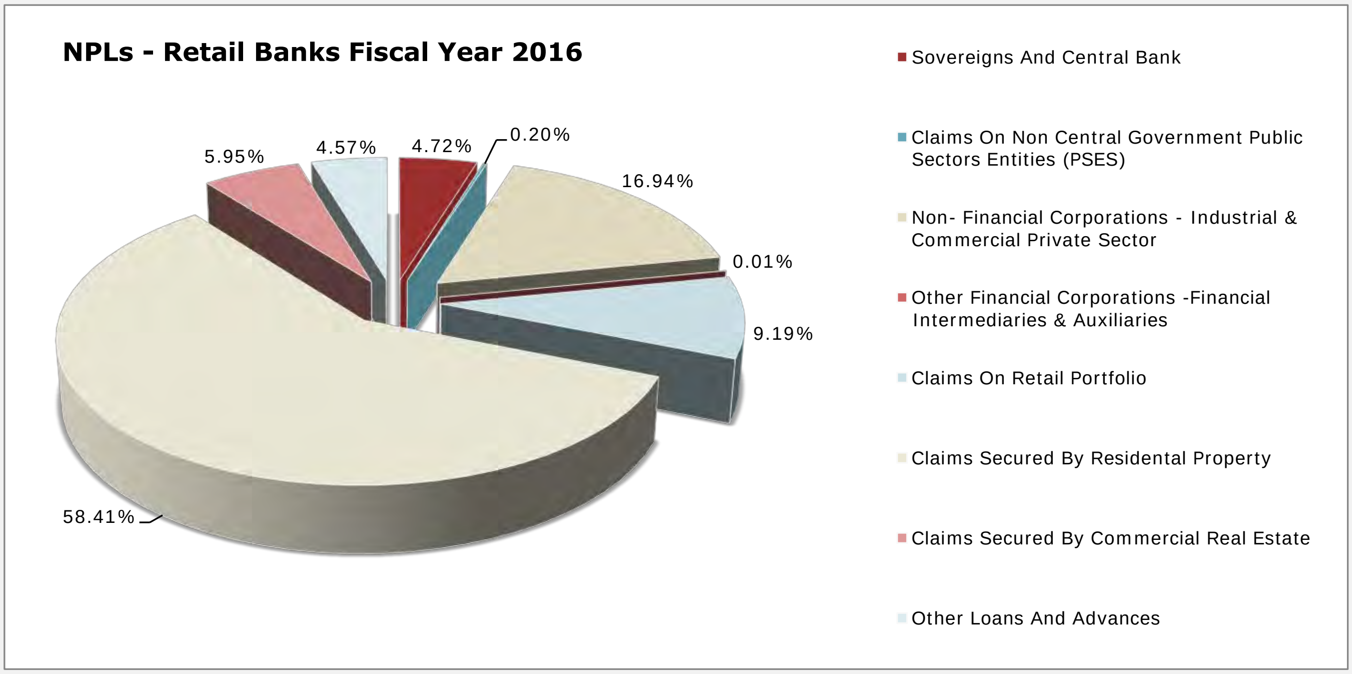


Category 'A' - Retail Banks - Non-Performing Loans

NPLs as a proportion of Total Assets declined from 2.5% (2015) to 2.1% (2016) reflecting improvements in asset quality due to loan write-offs, a decrease in the unemployment rate and an increase in economic activity as seen by a 2.7% increase in the Cayman Islands GDP for 2016. Foreclosure rates reflected a marginal increase in 2016 as non-accruing loans in the loan portfolio were placed in the foreclosure inventory for possible sales and write-offs.



A review of the composition of NPLs shows that the majority of the NPLs were concentrated in the domestic sector with 58.4% from the Household Sector - Residential Mortgages and 16.9% from the Non-Financial Corporations (Commercial Private Sector) as these are the two main sectors of loan concentration for the retail banks.



Financial Soundness Indicators: Retail Banks, Fiscal Year

Capital Adequacy Ratio (CAR)

The capital adequacy ratio for the six retail banks remains above the 8% threshold prescribed by the Basel II Accord and the 10% requirement of the BTCL (2013 Revision).

Asset Quality

NPLs declined from 2.5% (2015) to 2.1% (2016) due to improvements in the domestic macroeconomic environment.

Earnings and Profitability

Banks continue to remain profitable with stable operating income levels and an increase in net income retained in 2016, as seen by an increase in Return on Equity (RoE) from 11.2% (2015) to 13.3% (2016).

Liquidity

The sectors' level of liquidity remains stable decreasing slightly from 25.7% (2015) to 24.5% (2016) for liquid assets to total assets and from 39.2% (2015) to 38.2% (2016) for liquid assets to short-term liabilities, respectively.

Domestic Retail Banks - Core Financial Soundness Indicators

Indicator (%)	2011	2012	2013	2014	2015	2016
Capital Adequacy						
Regulatory Capital to risk-weighted assets	22.2	19.7	18.3	17.6	18.9	19.0
Regulatory Tier 1 Capital to risk-weighted assets	21.0	18.7	17.5	16.0	17.1	16.8
Regulatory Tier II Capital to risk-weighted assets	1.2	1.1	0.8	1.6	1.8	2.2
Total Regulatory Capital to Total assets	7.8	9.7	9.6	10.7	10.5	10.8
Non-performing loans (net of provisions) to capital	13.3	11.5	13.8	9.8	7.5	6.1
Asset Quality						
Non-performing loans to total Gross Loans	3.0	3.2	3.8	2.7	2.5	2.1
Specific provisions to non-performing loans	13.3	25.8	23.2	29.9	33.5	34.7
Earnings and Profitability						
Return on equity	11.8	9.4	8.4	8.1	11.2	13.3
Return on assets	1.1	1.1	0.96	0.98	1.3	1.5
Interest margin to gross income	66.5	70.1	69.6	71.9	69.7	69.9
Non-interest expenses to gross income	54.1	53.6	58.0	58.3	54.0	50.2
Liquidity						
Liquid assets (core) to total assets ****	24.9	33.0	35.5	24.2	25.7	24.5
Liquid assets (core) to short-term liabilities ***	34.6	49.7	49.9	35.6	39.2	38.2

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

Domestic Retail Banks - Encouraged Financial Soundness Indicators

Indicator (%)	2011	2012	2013	2014	2015	2016
Capital (shareholders equity) to assets	8.8	11.3	11.0	11.8	11.5	11.7
Trading income to gross income	9.4	8.7	8.6	6.4	8.5	7.1
Personnel expenses to non-interest expenses	51.1	50.6	50.7	48.9	50.9	52.8
Customer deposits to total (non-interbank) Gross Loans	174.9	125.6	131.1	102.6	120.5	124.2
Residential real estate loans to Total Loans	27.6	26.1	28.4	27.1	31	32.5
Commercial real estate loans to Total Loans	6.0	6.3	9.6	5.1	6.0	6.6