BANKING SECTOR STATISTICAL DIGEST AND PRUDENTIAL SURVEILLANCE REPORT 2015

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Preface

The Cayman Islands Monetary Authority (CIMA) is charged with the responsibility to promote and maintain a sound financial system in the Cayman Islands. Post-financial crisis, the global macroeconomic environment has endured many challenges, including regulatory reforms and changes in monetary policies, all of which pose potential vulnerabilities to the Cayman Islands banking sector.

CIMA published its first Banking Sector Statistical Digest in early 2016, covering the period 2011-2014. The 2015 Digest builds on the information and analysis presented in the 2011-2014 Digest and provides a macro-prudential assessment of the health and soundness, trends and vulnerabilities, of the entire banking sector.

Section I of this Digest presents an overview of the banking sector for 2015 by reviewing the balance sheet composition, earnings and profitability and financial soundness indicators on the health and soundness of the entire sector.

The role of the banking sector as a financial intermediary in the global economy through its cross-border transactions to advanced and emerging economies 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.

Banking Sector 2015 - Overview

The Cayman Islands banking sector continued to demonstrate its resilience against a challenging global macro-financial environment as seen by a general improvement in the financial soundness indicators (FSIs). The sector remains generally stable and well capitalized with capital adequacy ratios (CAR) above the minimum 8% prescribed by the Basel II Accord and the statutory requirements of 10% by the Banks and Trust Companies Law (2013 Revision). Reduced market volatility and slight improvements in global economies contributed to notable increases in net interest income and trading income, as seen by improvements in the return on equity (RoE) and return on assets (RoA) and stable liquidity ratios. Asset quality also reported positive improvements as evidenced by a reduction in Non-performing Loans (NPLs). However, credit growth remained weak.

The Cayman Islands' ranking as an international banking centre declined to 7thand 6th in terms of cross-border assets and liabilities from 6th and 5th, due to a contraction in the fourth quarter of 2015 as a result of international changes in regulatory and monetary policies, as well as the continued decline in the number of licensees.

Global and Domestic Macro-Financial Environment in 2015

The global economic environment produced mixed results in 2015 as evidenced by slower than predicted global economic growth. The bursting of China's equity bubble and its economic slowdown contributed to the weak performance of Canada, some Euro Area and Latin American economies as a result of a decrease in demand and lower prices for oil and commodities. The United States, United Kingdom and some developed Euro Area countries, on the other hand, recorded moderate growth, mainly through accommodative monetary policies, while oil importing countries benefitted from lower commodity prices. The domestic macro-financial environment improved in 2015 with a moderate increase in GDP, lower unemployment rate, depressed gas and oil prices and the continued reduction in fiscal balances.

Outlook

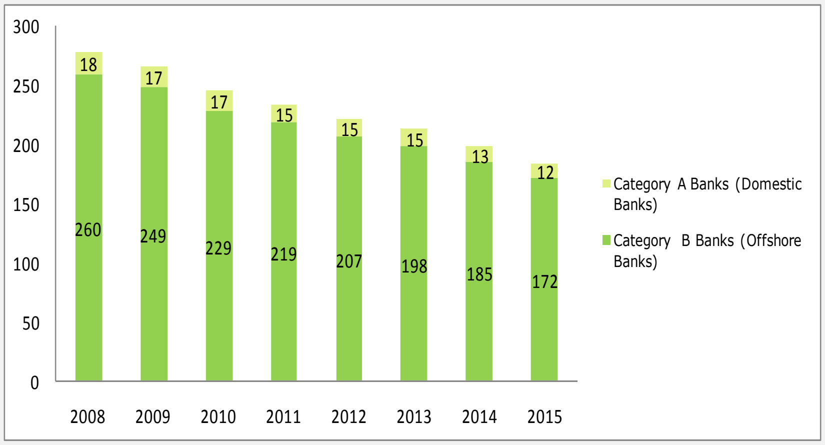
Global economic growth improved slightly in 2016 and is projected to improve at a higher rate in 2017 as commodity prices are expected to continue to rise slightly, which will stimulate growth in oil exporting countries such as Canada, US and Latin American countries. These improvements will have spill over effects of increased tourism receipts for the Cayman Islands, whereas the tightening of US monetary policy may have a slight dampening effect on the growth of the domestic economy and the use of wholesale funding for the banking sector.

Cayman Islands licenced banks, primarily from advanced and emerging countries, are vulnerable to global scenarios, including the health and soundness of Parent Group entities, which can cause contagion stress transmission through the high interbank and intra-group interconnectedness.

Domestically, Category 'A' banks, which provide retail commercial and investment banking business and facilitate international capital transfers for other banks , are vulnerable to challenges such as natural disasters, including health related issues, and the loss of correspondent banking relationships, which could disrupt access to international payments systems and have severe effects on the economy and financial system of the Cayman Islands.

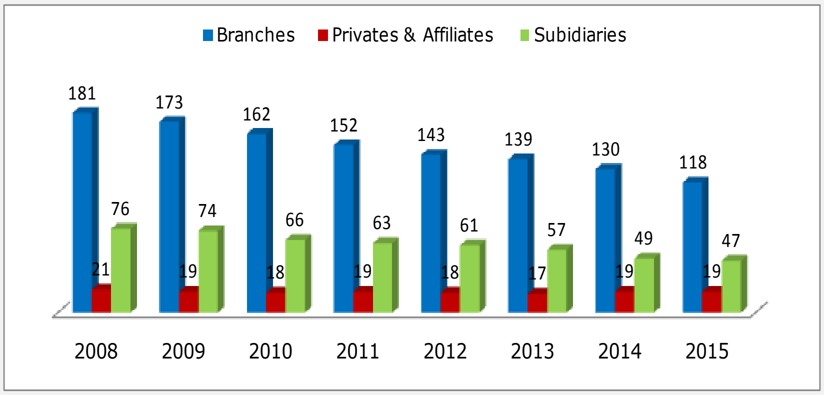
Banking Sector - Structure

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 with other financial services licensees and companies incorporated in the Cayman Islands which are not carrying on business in the Islands.



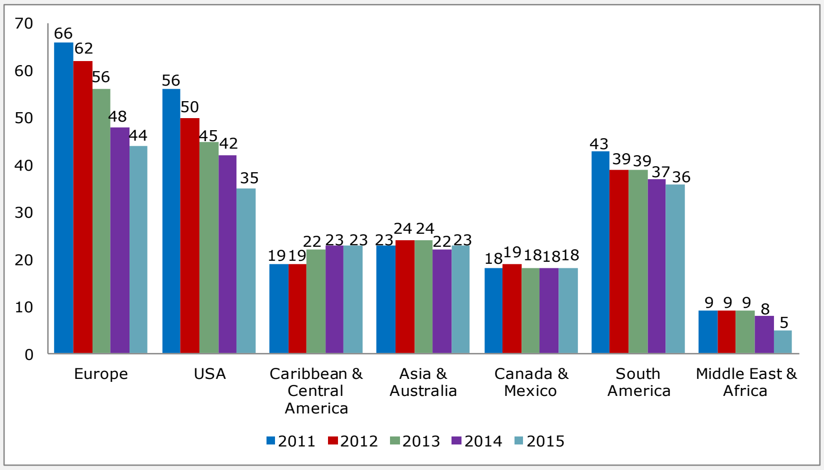
Number of Banks

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 198 in 2014 to 184 as at end 2015.



Types of Banks

Of the 184 category A and B licensees at end 2015, 118 were branches primarily from Europe, the US and Asia, 47 were subsidiaries primarily from Europe and South America and 19 were privately owned Cayman Islands licensed private banks or affiliates of other banks or financial institutions.



Change in 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 44 in 2015) and banks from the USA (56 in 2011 to 35 in 2015). Banks from South America and Middle East & Africa experienced a decline from 43 to 36 and 9 to 5, respectively over the 2011 to 2015 period.

Banking Sector - Balance Sheet - Calendar Year

Large Contraction in Banks' Balance Sheets

The Cayman Islands' banking sector is contracting post-financial crisis as a result of global monetary and regulatory changes, resulting in the reduction in the number of licensees and total assets.

Total unconsolidated assets and liabilities at calendar year end 2015 stood at US$1.179 trillion as a result of a significant decrease in deposit liabilities of 24% or US$296 billion from US$1.254 trillion in 2014 to US$958 billion in 2015. As a result, total assets decreased as seen by the decrease in Cash Items (mainly certificate of deposits placements) by 22% or US$162 billion dollars from US$745 billion to US$584 billion, while loans decreased by US$86 billion.

A significant contraction occurred over the last quarter of 2015 due to an up-streaming of deposits by European banks to Parent Group banks to facilitate Euro Area monetary and supervisory policies to build Euro-System liquidity and to facilitate an European Union (EU) stress testing exercise.

CATEGORY A & B BANKS - CALENDAR YEAR - (Millions U$D)					
ASSETS	**2011**	**2012**	**2013**	**2014**	**2015**
Cash Items	870,513	682,726	701,712	745,829	584,104
Financial Assets at Fair Value	28,614	26,931	20,210	24,646	31,511
Investments - Held-to-Maturity	4,425	2,803	4,682	5,392	5,842
Investments -Available-for-Sale	47,516	52,988	40,078	37,733	48,673
Other Investments	90,963	66,132	51,009	57,368	43,128
Loans and Advances	462,332	526,839	528,191	498,990	413,209
Less Loan Loss Provisions	*1,492*	*1,537*	*1,012*	*2,700*	*1,795*
Net Loans	460,839	525,302	527,179	496,290	411,414
Other Assets	80,628	82,763	64,120	81,999	54,975
TOTAL ASSETS	**1,583,498**	**1,439,645**	**1,408,990**	**1,449,257**	**1,179,647**
LIABILITIES	**2011**	**2012**	**2013**	**2014**	**2015**
Deposits	1,466,410	1,246,084	1,236,198	1,254,628	958,833
Repurchase Agreements (REPOS)	8,901	12,911	9,591	18,399	14,903
Hybrid Debt and Subordinated Debt	10,549	11,273	13,825	18,062	16,171
Other Notes, Bonds and Commercial Paper	26,228	39,815	62,027	62,518	51,399
Other Borrowings	61,133	75,414	53,635	48,073	91,080
Creditors and Other Liabilities	21,776	45,229	35,204	43,978	42,524
Other Loss Provisions	1,304	1,009	737	711	769
TOTAL LIABILITIES	**1,596,301**	**1,431,735**	**1,411,217**	**1,446,369**	**1,175,679**
TOTAL SHAREHOLDERS' EQUITY	**-12,801**	**7,910**	**-2,527**	**2,888**	**3,968**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**1,583,500**	**1,439,645**	**1,408,690**	**1,449,259**	**1,179,647**

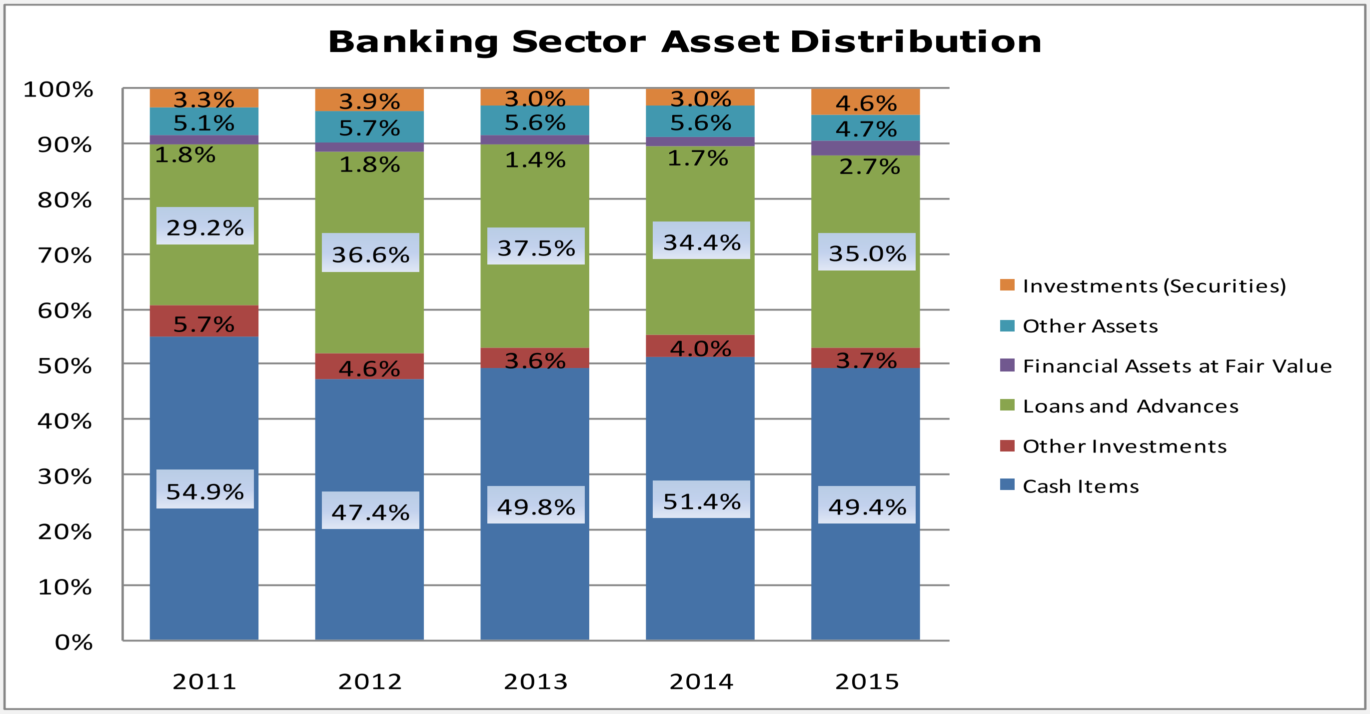
Shareholders' Equity reflected continued improved performance. Subsidiaries showed positive earnings due to improvements in global economies, which was reflected in the increase from US$2.89 trillion in 2014 to US$3.96 trillion as at calendar year 2015.

*Footnote: Unconsolidated data at calendar year end is presented to show intra-group positions as at December which more accurately reflects the size of the banks' balance sheet. Consolidated data at fiscal year end will return a lesser value due to eliminations and totals at differing fiscal month-end periods. ***Branches are licensed as legal entities of the Parent Bank and are not required to hold capital.*

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 Deposits) accounting for US$584 billion (49%) and Loans & Advances accounting for US$413 billion (35%) of Total Assets. 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 licensees access funding and foreign currency on the international markets to provide liquidity and credit to Parent Groups. The distribution of cash and loans is also influenced by the business models of the banking sector where Category 'A' banks provide retail and investment banking services to households, non-financial corporations and other financial corporations. Category 'B' banks, primarily branches, provide liquidity and credit to non-resident Parent Group bank and non-bank entities, and provide credit to commercial private sector entities in their home countries.



Calendar Year 2015 ***(Millions U$D)***	**Category A Banks**		**Category B**		**Total**
	Retail	**Non- Retail**	**Physical Presence**	**No Physical Presence**	
Cash Items	3,765	3,630	37,518	539,191	584,104
Financial Assets at Fair Value	14	0	3,744	27,753	31,511
Investments - Held-to-Maturity	641	500	1,289	3,412	5,842
Investments - Available-for-Sale	1,928	6	26,657	20,082	48,673
Other Investments	90	4	22,983	20,051	43,128
Loans and Advances	7,345	4,749	36,461	364,654	413,209
Less Loan Loss Provisions	*59*	*0*	*866*	*870*	*1,795*
Net Loans	7,286	4,749	35,595	363,784	411,414
Other Assets	346	221	3,540	50,868	54,975
TOTAL ASSETS	**14,070**	**9,110**	**131,326**	**1,025,141**	**1,179,647**

Banking Sector - Cash Items, Loans & Advances

Contraction in Cross-Border Liquidity and Credit

During the 2013 to 2015 period, an average of 95% or US$680 billion of Cash Items was used to provide liquidity to Parent Groups, through placements of Certificates of Deposits (CDs). Non-resident Cash Items decreased by US$165 billion from US$741 in 2014 to US$576 billion at calendar year 2015, as a result of a decrease in CDs with non-resident European Parent Group banks. Cash Items booked in the resident sector reflected a strong growth of 75.7% or US$3.2 billion from US$4.2 billion in 2014 to US$7.4 billion due to placements of CDs by South American banks with their Cayman Islands licensed related Group Banks, which are considered residents by means of being legally domiciled by licence.

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

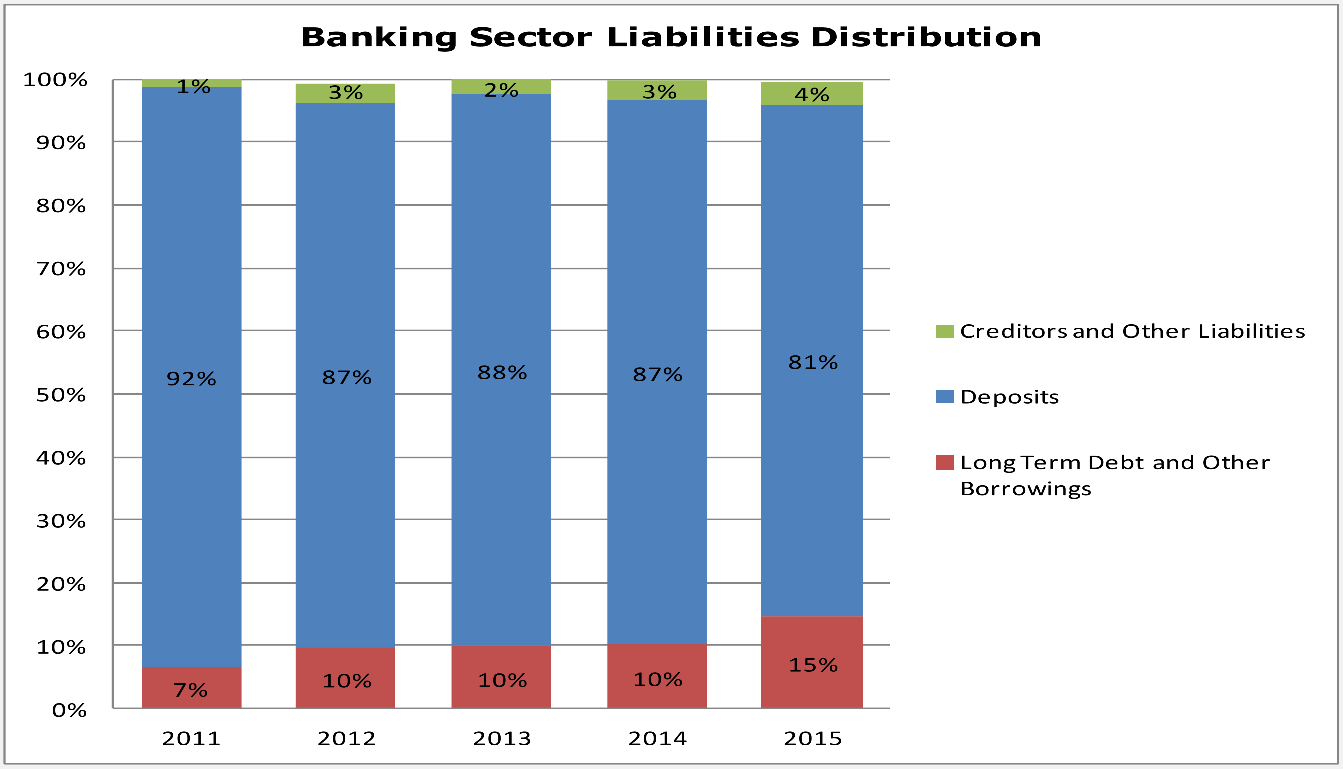
Loans to Parent Group banks and non-bank entities over the 2013-2015 period averaged 79% of total loans and advances. Non-resident loans contracted by US$88 billion (20%) from US$490 billion in 2014 to US$402 billion in 2015. This was mainly due to the reduction in intra-group activity of European banks and the effects of the decline in the number of banks. Resident Loans increased by US$3 billion in 2015, due mainly to South American banks increasing credit to their Cayman Islands licensed related Group Banks, from US$1.8 billion to US$4.6 billion, from 2014 to 2015, respectively.

Loans and Advances *(Millions U$D)*	**Resident**	**Non-Resident**	**Resident**	**Non-Resident**	**Resident**	**Non-Resident**
	2013		**2014**		**2015**	
Sovereigns and Central Banks	618	678	591	890	591	928
Non Central Government Public Sector Entities (PSEs)	77	478	90	562	84	517
Multilateral Development Banks (MDBs)	0	49	0	0	0	0
Group Bank - Parent, Branch, Subsidiary or Affiliate	866	287,158	1,844	2,343,934	4,627	173,804
Group non - banking entities	4,648	147,672	321	164,717	432	139,428
Other banks	25	1,695	158	2,249	323	7,455
Non-financial Corporations - Commercial Private Sector	1,359	48,551	1,676	47,944	1,733	45,821
Non-Financial Corporations - Commercial Mortgages	328	1,993	88	1,834	175	1,953
Other financial Corporations - Financial Intermediaries	927	9,271	929	17,362	841	13,769
Retail Lending/Consumer Loans - Households	325	2,269	355	2,547	351	3,154
Residential Mortgages - Households	1,643	923	1,823	767	1,869	829
Other loans and advances	212	16,427	144	17,706	176	14,348
TOTAL	**11,028**	**517,164**	**8,019**	**490,972**	**11,202**	**402,006**

Banking Sector - Liabilities Distribution

Contraction in Retail Deposits, Expansion in Wholesale Funding

During 2011 to 2015, core retail deposits averaged 91% or US$1.30 trillion and wholesale funding (REPOS, Hybrid & Subordinated Debt, Other Notes and Other Borrowings) averaged 9% or US$130 billion. As at end 2015, funding sources reflected a continued decline in retail deposits from 87% (US$1.254 trillion) in 2014 to 81% (US$959 billion), offset by an increase in wholesale funding from 10% (US$147 billion) in 2014 to 15% (US$174 billion). A Category 'A' non-retail bank and a Category B bank (of which the Head Office is in the US) financed increased lending by wholesale funding through Other Borrowings from Parent Groups.



Calender Year 2015	**Category A Banks**		**Category B Banks**		**Total**
(Millions U$D)	**Retail**	**Non- Retail**	**Physical Presence**	**No Physical Presence**	
Deposits	12,726	6,258	48,260	891,589	958,833
Repurchase Agreements (REPOS)	0	0	2,578	12,325	14,903
Hybrid Debt and Subordinated Debt	0	0	11,665	4,506	16,171
Other Notes, Bonds and Commercial Paper	0	0	15,252	36,148	51,400
Other Borrowings	0	1,707	23,741	65,633	91,081
Creditors and Other Liabilities	145	430	3,815	38,132	42,522
Other Loss Provisions	31	0	154	584	769
TOTAL LIABILITIES	**12,902**	**8,395**	**105,465**	**1,048,917**	**1,175,679**
TOTAL SHAREHOLDERS EQUITY	1,502	676	26,728	-24,938	3,968
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**14,404**	**9,071**	**132,193**	**1,023,979**	**1,179,647**

Banking Sector - Funding Distribution

Monetary and Supervisory Policies result in up-streaming of deposits

At end 2015, retail funding declined by 24% from US$1.25 trillion in 2014 to US$959 billion, a reduction of US$296 billion. This decline was mainly due to changes in the EU monetary policy towards Euro-system liquidity and supervisory policies to accommodate an EU wide stress testing exercise, which resulted in European banks up-streaming their Deposits to Parent Groups. The reduction in funding was also influenced by the decline in licensees whose deposits were mainly from non-resident Other Financial Corporations, as seen by the reduction of US$37 billion at year end 2015.

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

The notable increase in non-resident wholesale funding of US$24 billion from US$143 billion in 2014 to US$167 billion in 2015 was solely due to the increase in Other Borrowings from non-resident Group Banks to fund increased loans to non-resident entities. Wholesale Funding, through the use of REPOS, also increased by US$2.1 billion, from US$3.9 billion in 2014 to US$6.0 billion in 2015 from related Cayman Islands licenced Group Banks. Despite the increase in wholesale funding, this was not significant enough to offset the US$296 billion decrease in retail funding, resulting in the decrease in liabilities for 2015.

TOTAL TERM DEBT AND OTHER BORROWINGS (Millions U$D)	2013		2014		2015	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Repurchase Agreements (REPOS)	**836**	**8,755**	**1,817**	**16,582**	**5,076**	**9,827**
Group Bank - Parent, Branch, Subsidiary or Affiliate	836	847	1,817	3,532	4,502	3,146
Other Banks	0	7,744	0	8,065	574	5,248
Group non-bank entities	0	47	0	3,689	0	1,012
Other	0	117	0	1,296	0	421
Hybrid Debt And Subordinated Debt	**84**	**13,757**	**153**	**17,908**	**88**	**16,083**
Unsecured subordinated debt(over 5 years original term maturity)	84	8,017	153	9,662	88	8,648
Hybrid debt/equity instruments (over 5 years original term to maturity)	0	5,740	0	8,246	0	7,435
Other Notes, Bonds and Commercial Paper	**617**	**61,410**	**1,241**	**61,278**	**269**	**51,129**
Group Bank - Parent, Branch, Subsidiary or Affiliate	124	8,236	155	6,694	51	5,153
Group non-bank entities	398	24,485	146	17,240	60	12,465
Other Banks	0	21,654	911	23,402	158	19,806
Other	95	7,035	29	13,942	0	13,705
Other Borrowings(loans, overdrafts, credit facilities , etc.)	**172**	**53,471**	**700**	**47,372**	**653**	**90,426**
Group Bank - Parent, Branch, Subsidiary or Affiliate	154	20,132	300	18,105	300	54,925
Group non-bank entities	18	15,215	12	11,997	2	21,396
Other Banks	0	16,514	98	17,034	249	13,491
Other		1,610	290	236	102	614
Total Term Debt And Other Borrowings	**1,709**	**137,393**	**3,911**	**143,140**	**6,086**	**167,465**

Banking Sector - Loans to Funding and Liquidity Ratios

Banking Sector maintains low Loan-to-Deposit ratios and high Liquidity Ratios

Loan-to-Deposit ratio (LTD), a measure of a banking sector funding profile and liquidity, averaged 39.9% during 2011 to 2015, reflecting the uniqueness of international financial centres (IFCs), where 'offshore' banks, primarily branches, raise funds on the international market to provide liquidity to Parent Groups, instead of conventional lending activity. At calendar year end 2015, the LTD for the sector was 43.1%, with the retail banks reporting 58.6% and the Category 'A' non-retail banks reporting 75.9%. The significant increase in LTD for Category 'A' non-retail banks was due to an increase in non-resident loans by a single US bank which was financed by Other Borrowings, instead of core retail deposits.

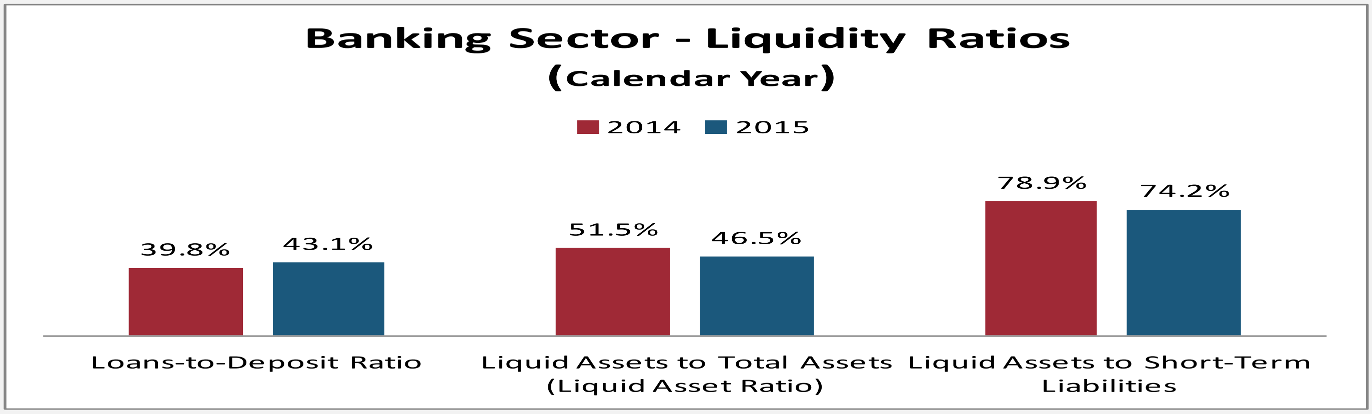
Loans to Funding	2011	2012	2013	2014	2015
Total Gross Loans to Deposits Ratio - Category A Non-Retail Banks	30.7%	40.3%	41.2%	38.4%	75.9%
Total Gross Loans to Deposits Ratio - Retail Banks	49.7%	62.9%	60.1%	68.5%	58.6%
Total Gross Loans to Deposits Ratio - All Banks	31.5%	42.3%	42.8%	39.8%	43.1%
Total Gross Loans to Retail Deposits & Wholesale Funding - All Banks	29.4%	38.0%	38.5%	35.6%	36.5%

Wholesale Funding

With the use of wholesale funding, the sectors' loans to funding ratio increased slightly from 35.6% in 2014 to 36.5% at end-2015. Whilst LTD ratios are lower than industry norms, reliance on wholesale funding from intra-group funding can present vulnerabilities as Parent Groups are subject to changes in onshore regulatory policies, as evidenced by the up-streaming of deposits by European banks and the repeal of Regulation Q in the US.

Liquidity Ratios – Liquid Asset Ratio, Loan-to-Deposit Ratio, and Liquid Assets to Short-Term Liabilities

Liquid assets ratio, a measure of liquid assets to total assets, decreased from 51.5% in 2014 to 46.5% as at calendar year-2015, due to the substantial decrease in cash items and total assets in the last quarter of 2015. The sectors' LTD ratio increased from 39.8% in 2014 to 43.1% in 2015 and liquid assets to short-term liabilities (the ability to meet withdrawals of short-term deposits) declined from 78.9% in 2014 to 74.2% at calendar year end 2015, following the decrease of the US$86 billion in loans and the large decrease of US$296 billion in deposits in the fourth quarter of 2015.

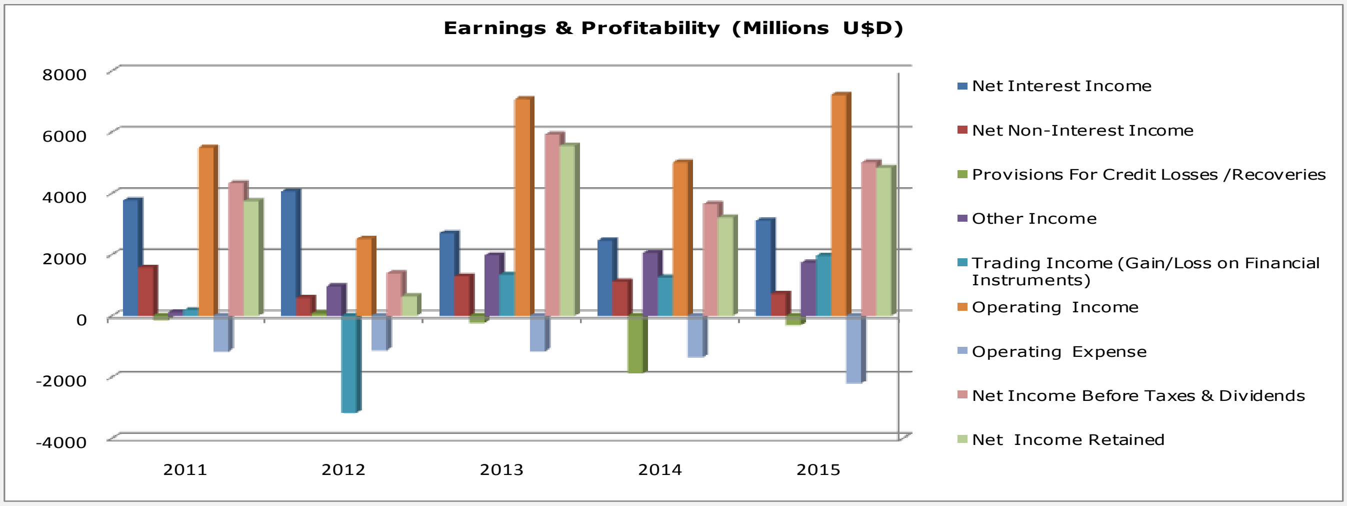


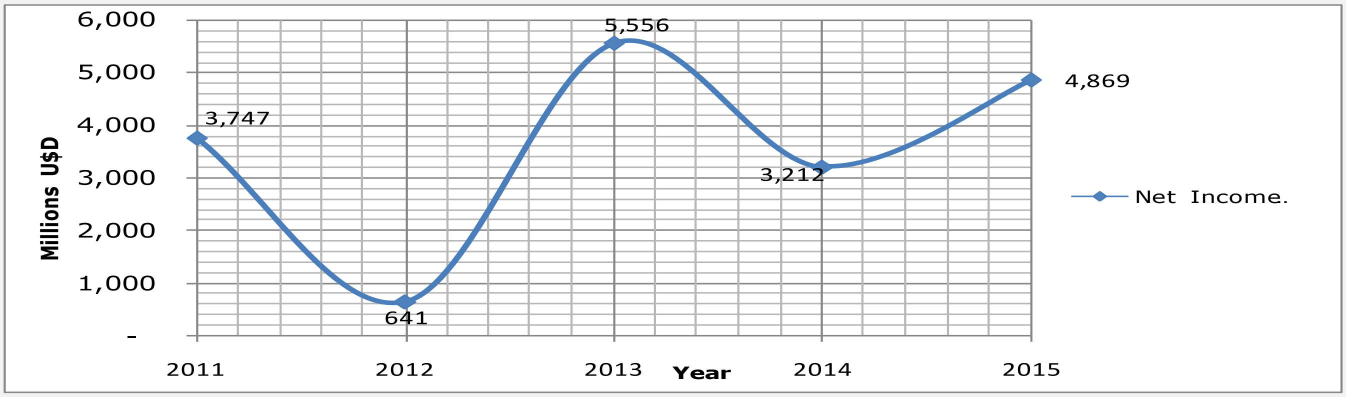
Banking Sector - Earnings & Profitability

Banks reports improved earnings performance and indicators

The banking sector reported improved earnings and profitability as at year end-2015, which was driven by improved performance in Net Interest Income, Trading Income and a reduction in Provisions for Credit Losses. Net Interest Income increased by US$674 million (27%), Provisions for Credit Losses decreased by US$1.57 billion (84%), whereas Trading Income increased by US$705 million (56%). Net Income Retained increased by US$1.65 billion (52%), from US$3.21 billion in 2014 to US$4.86 billion at calendar year end 2015.

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



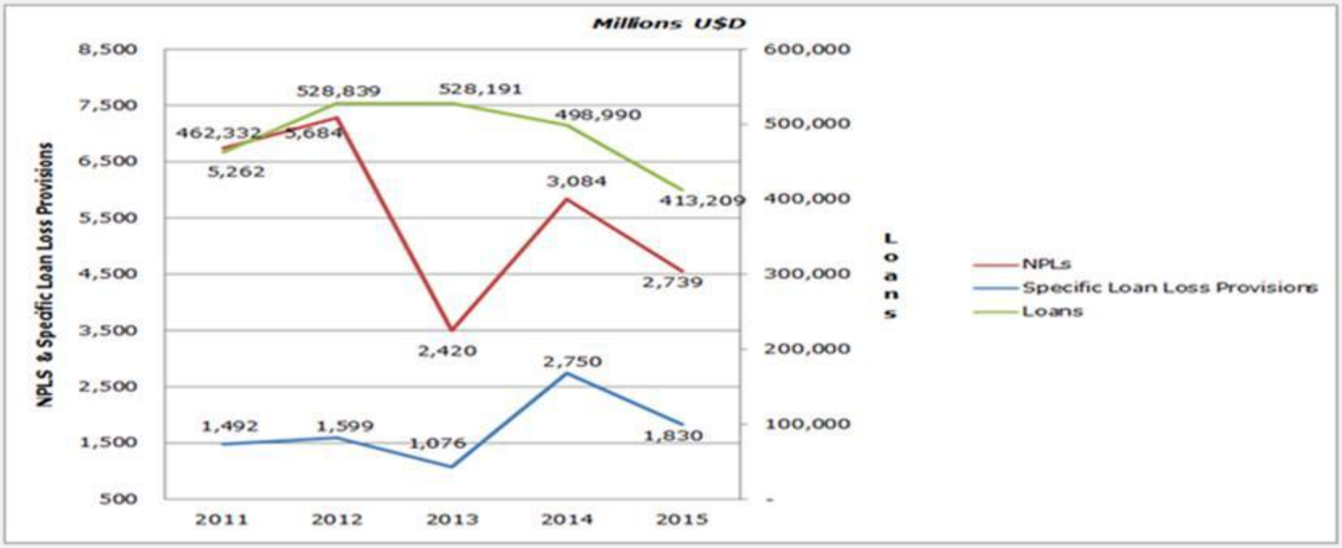


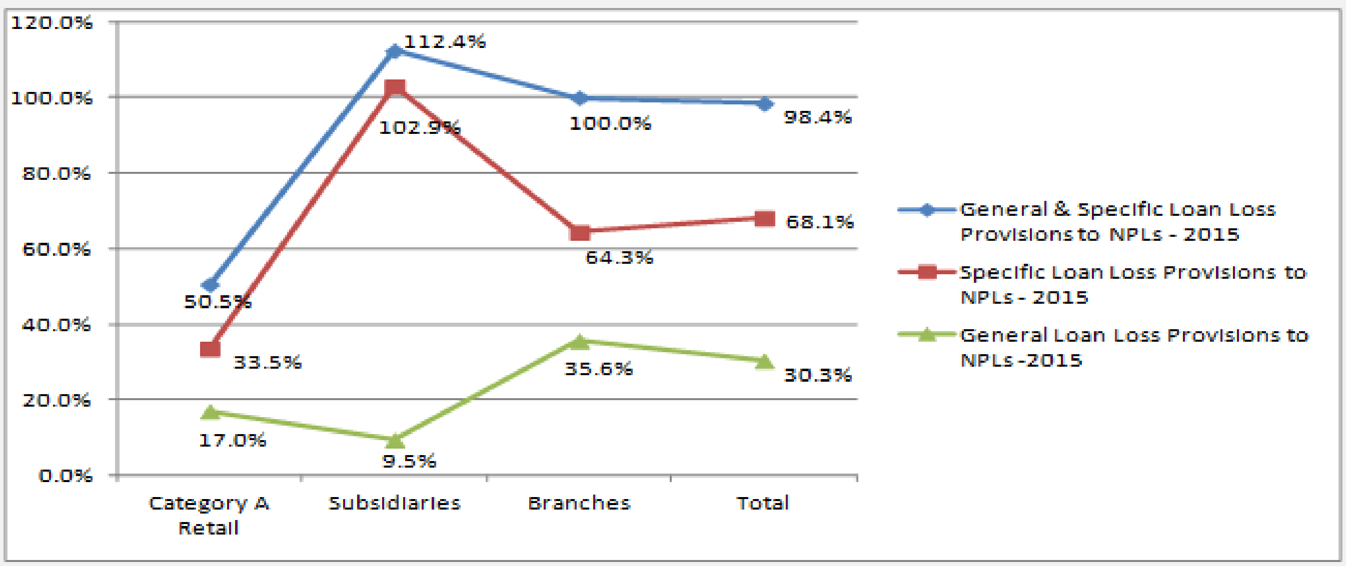
Banking Sector – Non-Performing Loans & Provisioning

Improvement in NPLs for the Sector, adequate provisioning

Post-financial crisis, the banking sector experienced significant increases in Non-performing loans (NPLs) with a high of US$5.6 billion in 2012, which has declined to US$2.7 billion at calendar year end 2015. NPLs decreased by US$345 million over the 2014 to 2015 period, which can be attributed to moderate improvements in the global macroeconomic environment as well as the general decrease in the number of licensees. Branches, the largest licence type, which account for approximately 90% of total assets, reported approximately 80% of the total NPLs.

With high levels of specific provisions at 68.1% and general provisions at 30.3%, the sector has an overall level of NPL provisioning rate of 98.4% at calendar year-end 2015. Category A retail banks reported lower levels of provisioning, in part due to the highly collaterised loan portfolio and significant write-offs of non-accruing NPLs in 2015.





Financial Soundness Indicators: Fiscal Year

Banking Sector, 2015

Overview

The Banking Sector reported healthy Financial Soundness Indicators (FSI's) for 2015 with capital adequacy ratios (CARs) above regulatory requirements of 8% required by the Basel II Accord and 10% as required by the BTCL. Positive performance in earnings and profitability was seen due to improvements in some key indicators such as net interest margin and trading income which reflects some stabilization in market volatility. Asset quality declined marginally.

Capital Adequacy Ratios (CAR)

CAR for the retail banks increased marginally from 17.6% to 18.9% and has remained comfortably above the minimum CAR, as a result of a reduction in risk weighted assets, whereas CAR for Category 'A' non-retail banks declined marginally due to an increase in risk weighted assets from an expansion in the loan portfolio. On the other hand, subsidiaries reported a notable increase in CAR from 29.5% in 2014 to 39.4% at end 2015.

Asset Quality

NPLs increased marginally from 0.6% in 2014 to 0.7% in 2015, due to a larger reduction in loans than the reduction in NPLs. The retail banking sector which has been averaging 3.05% over the past four years, declined from 2.7% in 2014 to 2.5% in 2015, reflecting improved asset quality due in part to loan write offs and moderate growth in loans, with a NPL provisioning ratio of 50.5%. In contrast, NPLs for subsidiaries increased from 7.6% in 2014 to 9.9% in 2015, which was covered by a 102.9% provisioning ratio. NPLs for branches remained constant at 0.5%, however the specific provisioning ratio decreased from 95.8% in 2014 to 64.3% in 2015, which was adequately provisioned as seen by a general and specific provisioning ratio of 100%. Category 'A' non-retail banks reported no NPLs.

Earnings and Profitability

The banking sector reported improved earnings and profitability despite a slight decline from Category 'A' non-retail banks. Retail banks reported positive performance, with an increase of Return on Equity (RoE) from 8.1% in 2014 to 11.2% in 2015, while the Return on Assets (RoA) increased from 0.9% in 2014 to 1.3% in 2015. Earnings and profitability indicators for subsidiaries reported a notable improvement from -6.8% to 8.3% for RoE and from -1.2% to 1.4% for RoA, due primarily to a significant decrease in provisions for credit losses and an increase in trading income.

Liquidity

The sector continued to maintain adequate levels of liquidity, though liquid asset ratios declined from 52.2% to 50.1%, while liquid assets to short-term liabilities improved slightly from 79% to 79.10%, despite a decline in ratios from Category 'A' non-retail banks.

Financial Soundness Indicators: Fiscal Year

Banking Sector - Core Financial Soundness Indicators	Category A				Category B				Sector	
	Retail Banks		*Non-Retail Banks*		*Subsidiaries*		*Branches*		*Total*	
Indicator %	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**
Capital Adequacy										
Regulatory capital to risk-weighted assets	17.6	18.9	39.1	37.1	29.5	39.4	n/a	n/a	n/a	n/a
Regulatory Tier 1 capital to risk-weighted assets	16.0	17.1	38.0	35.8	28.0	36.2	n/a	n/a	n/a	n/a
Regulatory Tier 2 capital to risk-weighted assets	1.6	1.8	1.1	1.3	1.5	3.2	n/a	n/a	n/a	n/a
Regulatory capital to total assets	10.7	10.5	12.0	7.6	17.2	13.7	n/a	n/a	n/a	n/a
Nonperforming loans (net of provisions) to capital (equity)	9.8	7.5	0.0	0.0	0.1	(0.3)	n/a	n/a	n/a	n/a
Asset Quality										
Nonperforming loans to total gross loans	2.7	2.5	0.0	0.0	7.6	9.9	0.5	0.5	0.6	0.7
Specific provisions to nonperforming loans	29.9	33.5	0.0	0.0	98.4	102.9	95.8	64.3	91.4	68.1
Earnings and Profitability										
Return on equity	8.1	11.2	5.4	4.5	(6.8)	8.3	n/a	n/a	n/a	n/a
Return on assets	0.9	1.3	0.7	0.4	(1.2)	1.4	0.3	0.3	0.2	0.4
Interest margin to gross income	71.9	69.7	13.3	21.1	37.0	60.2	32.6	35.6	34.5	39.1
Noninterest expenses to gross income	58.3	54.0	66.2	69.7	44.4	32.6	16.3	30.9	22.5	33.2
Liquidity										
Liquid assets (core) to total assets (liquid asset ratio)***	24.2	25.7	60.8	39.9	31.4	34.5	52.8	51.0	52.2	50.1
Liquid assets (core) to short-term liabilities***	35.6	39.2	75.4	46.1	45.4	69.10	80.2	80.3	79.0	79.1

**** Liquid assets(core) are defined as Cash Items and Short-term Liabilities are deposits up to 90 days*

Banking Sector- Encouraged Financial Soundness Indicators	Category A				Category B				Sector	
	Retail Banks		*Non-Retail Banks*		*Subsidiaries*		*Branches*		*Total*	
Indicator %	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**
Capital to assets	11.8	11.5	12.1	7.7	15.9	13.1	n/a	n/a	n/a	n/a
Trading income to gross income	6.4	8.5	6.4	4.1	(13.0)	4.00	21.8	28.40	17.6	24.6
Fees, commissions and other income to gross income	21.6	21.8	80.4	74.7	75.9	35.8	45.6	36.0	47.9	36.2
Personnel expenses to noninterest expenses	48.9	50.9	52.0	50.1	24.0	28.9	5.8	1.0	18.9	10.1
Customer (noninterbank) deposits to total (noninterbank) loans	102.6	120.5	256.7	118.4	236.5	193.9	401.3	400	369.1	353.5
Residential real estate loans to total loans	27.1	31.0	2.0	0.4	6.2	7.5	3.9	3.7	4.3	4.2
Commercial real estate loans to total loans	5.1	6.0	0.0	0.0	1.4	2.7	0.3	0.4	0.4	0.4

Correspondent Banking Relationships (CBRs): De-risking

According to the Financial Action Task Force (FATF) "correspondent banking is the provision of banking services by one bank (correspondent bank) to another bank (respondent bank)". The Cayman Islands banking sector relies on the use of international correspondent banks to facilitate cross-border transactions for the financial services and tourism industries, international trade, foreign direct investments and many other activities, such as remittances.

As these relationships rely heavily on the due diligence of both parties, correspondent banking has been increasingly scrutinized by regulators under the risk-based approach required by FATF, with regulators imposing more stringent compliance requirements and higher penalties in order to force banks to implement a more risk-based based approach to AML/CFT matters. Increased penalties have led to correspondent banks terminating their relationships with entire categories of clients and jurisdictions considered to be "high risk" by "de-risking". Rather than manage these risky clients, financial institutions opt to end the relationship altogether by "de-risking", consequently minimizing their own risk exposure while leaving clients bank-less.

In 2012, the Financial Action task Force (FATF) identified money services businesses (MSBs) and non-profit organizations as high risk entities mainly as a result of these entities being linked to illicit funds transfers and terrorist financing. Accordingly, correspondent banks around the world embarked on a 'de-risking exercise' to avoid, rather than manage, risk. A recent World Bank report on the issue noted that large international banks (predominantly US/European/Canadian) are terminating or severely limiting their correspondent banking relationships with respondent banks from jurisdictions around the world where they consider the risks unacceptable. Based on the report, Latin America and the Caribbean appears to be the region that is most affected by this decline in correspondent banking relationships. At least 16 banks in five Caribbean countries have lost some of their correspondent banking relationships. If the situation persists, this can lead to financial exclusion for the banks in the region affecting trade, investment and remittances.

MSBs often referred to as "alternative money transfer services," hold accounts with formal financial institutions (banks), which allow them to perform transactions and serve as an access point and gateway for financial inclusion. Activities of MSBs in the Cayman Islands were severely affected, as the local retail bank that was providing banking services to the remittance companies lost its correspondent bank and in turn "de-banked" these entities, which resulted in a significant decline in the value of remittances during the second half of 2015. In addition, a small number of Cayman Islands Category 'B' banks, which rely on correspondent banks to make international money transfers on behalf of their clients, have also been affected and have had difficulties in maintaining their local and international banking relationships; the implications though not fully quantified can be significant.

The Cayman Islands continue to work to reinforce the message that the Cayman Islands, and the Caribbean as a whole, is a well regulated jurisdiction, and in some instances countries meet or exceed international financial and AML standards. The IMF and World Bank have highlighted that an unintended consequence of the loss of correspondent banking relationships could lead to systemic risks to a country's financial system.

Of interest is the view of some industry professionals that the "de-risking" phenomenon may have linkage to the tax evasion vs tax avoidance debate as it relates to international financial centres.

Banking Sector- International and Domestic Positions

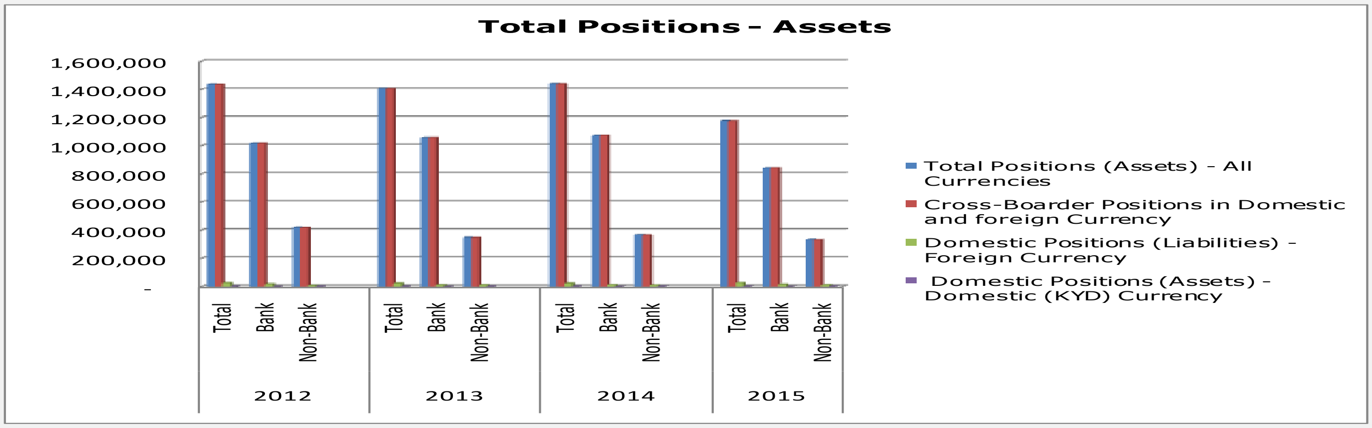
Banking Sector as a financial intermediary providing liquidity and credit

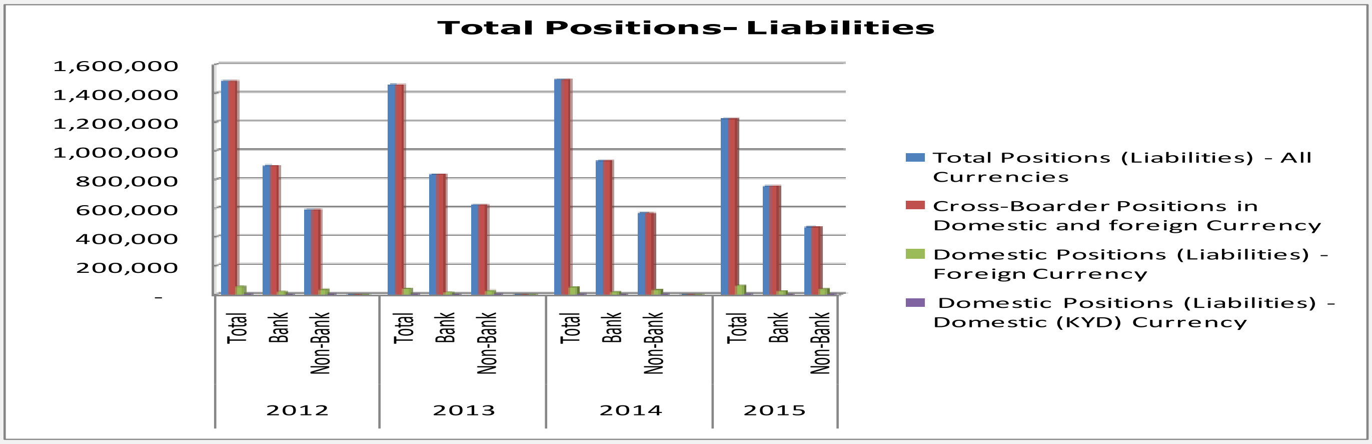
[1]

Total international and domestic financial assets and liabilities[2] stood at US$1.178 trillion and US$1.224 trillion, respectively, as at calendar year end 2015, reflecting a sharp contraction of US$264 and US$272 billion, from US$1.442 trillion and US$1.495 trillion in 2014. The contraction resulted in the decline in ranking for the Cayman Islands international banking position, to 7th and 6th in cross-border assets and liabilities, from 6th and 5th respectively.

Of the US$1.178 and US$1.224 trillion, Cayman Islands licensed banks booked US$1.148 and US$1.159 trillion in cross-border assets and liabilities, a reduction of US$267 billion and US$284 billion, respectively, which was indicative of global trends as noted in the Bank for International Settlements (BIS) 2015Q4 Statistical Bulletin.

In addition, US$28 billion and US$63 billion in domestic assets and liabilities in foreign currencies were booked with other Cayman Islands licensed companies, financial and non-financial entities, households and general government. Category 'A' banks also booked an additional US$2.3 billion in assets and US$1.9 billion in liabilities in local currency in the domestic economy.



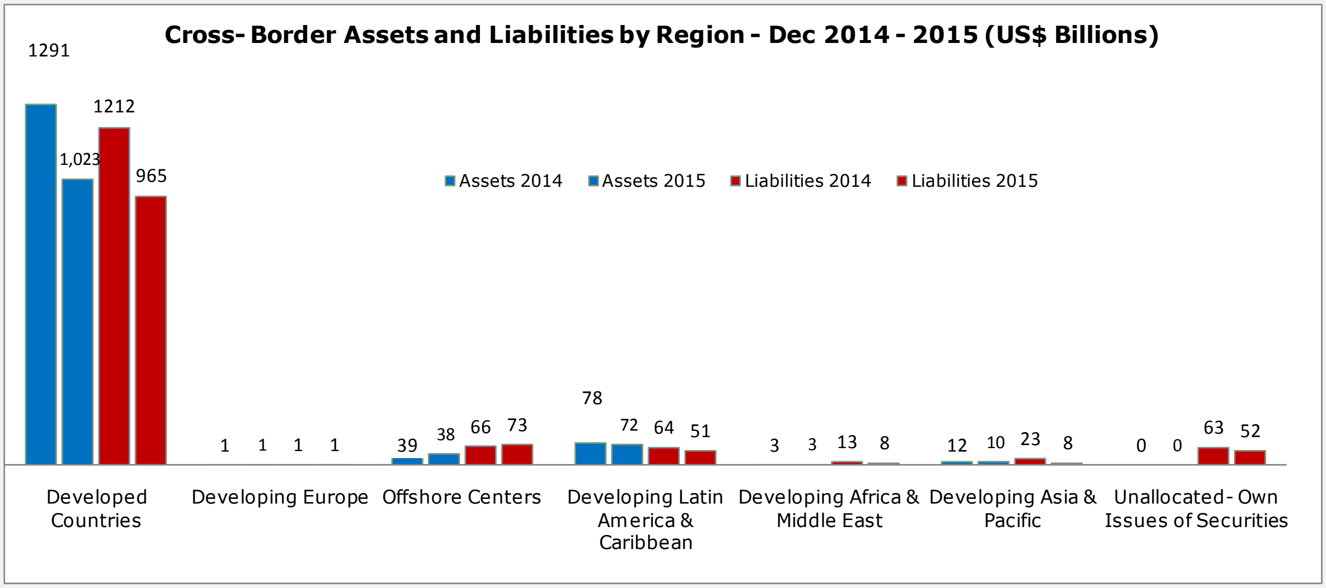


[1] Total financial assets and liabilities are calculated based on the BIS methodology as (a) cross-border positions in foreign and domestic currency, (b) domestic positions in foreign currencies and (c) domestic positions in local currency (non-financial assets such as premises and goodwill are not included in the total financial assets of US$1.178 trillion). Liabilities include positive shareholder's equity but excludes negative amounts reported by branches (from liabilities being larger than assets), which results in total financial liabilities being greater than reported in the banking sector balance sheet profile where it is netted.

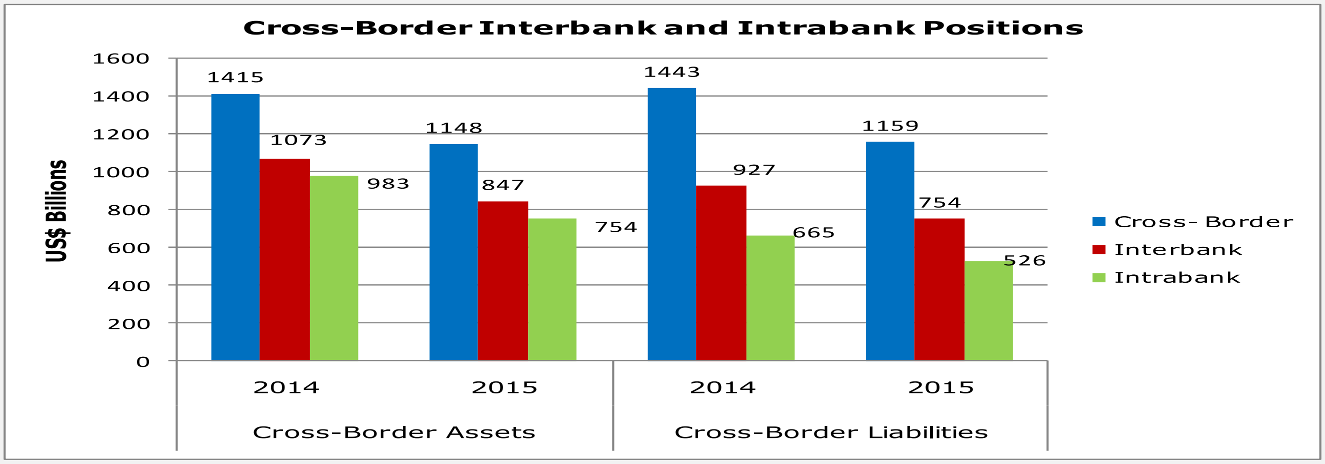
Cross-Border Positions in Foreign & Domestic Currency

Providing liquidity and credit to advanced and emerging economies

Of the US$1.148 trillion of cross-border assets, 83.6% or US$1.023 trillion was booked with Developed Countries (primarily North America and Europe) with the remaining distributed mainly to Developing Latin America & Caribbean (primarily South America) and International Financial Centres. Cross-border credit to Latin America & Caribbean declined by US$6 billion during Q4 2015, the sharpest decline post-global financial crisis.



Of the cross-border positions reported, US$847 billion and US$754 billion were interbank assets and liabilities as at year end-2015. Of these positions, US$754 billion and US$526 billion were intrabank placements with Group Banks. This highlights the role of the Cayman Islands' banking sector as a financial intermediary providing liquidity and credit to Parent Groups.

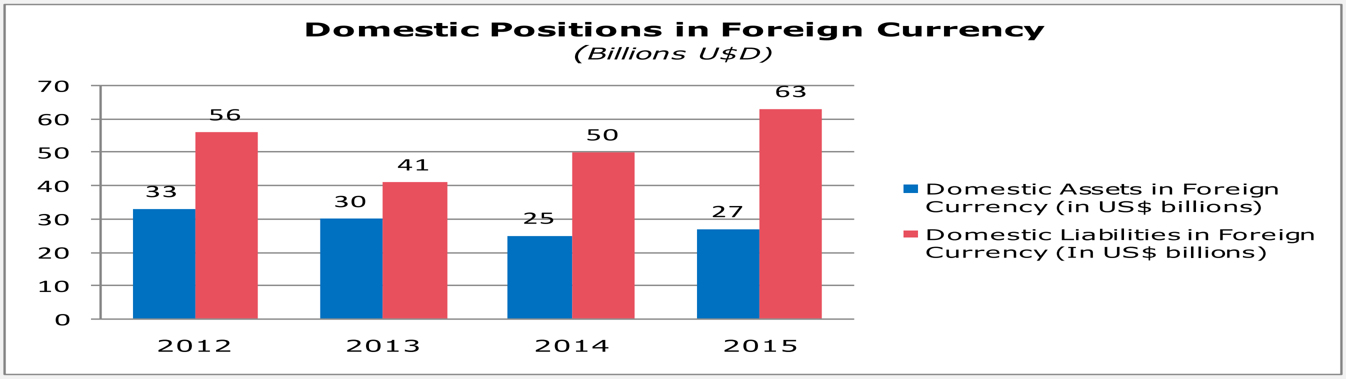


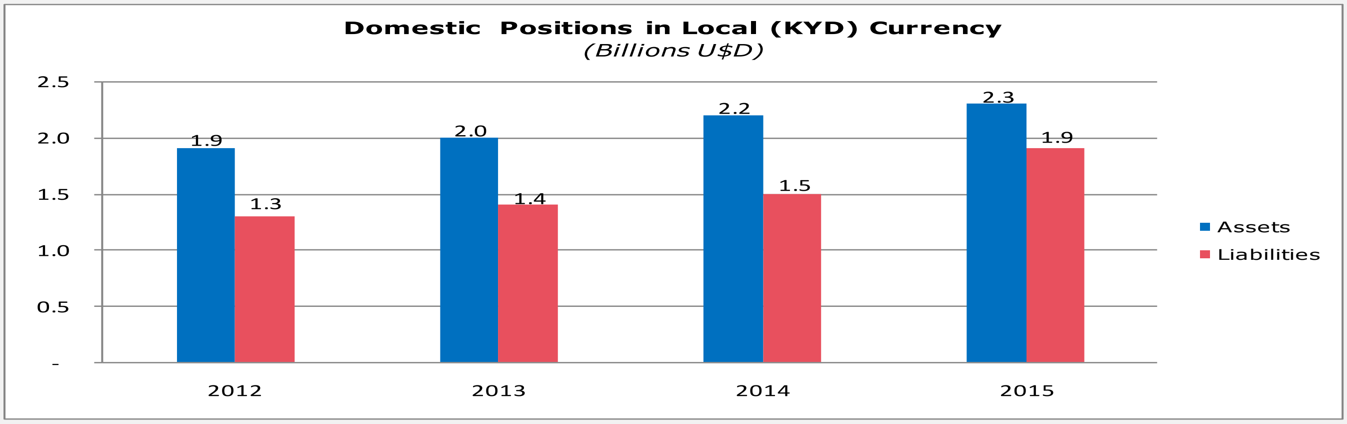
Domestic Asset Positions in Foreign & Local Currency

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

Banks booked US$29 billion in assets and US$65 billion in liabilities in the domestic economy, of which US$27 billion and US$63 billion were booked in foreign currency and US$2.3 and US$1.9 were booked in domestic currency. Category ‘A’ retail banks booked US$4.3 billion primarily with resident households and non-financial private sector entities, whereas Category ‘A’ non-retail (investment banks) booked US$340 million with other financial intermediaries (primarily investment funds). Category “B” banks’ domestic positions reflect inter-bank bookings with other Cayman Islands licensed banks, intra-group bookings with Parent Group banks and non-bank entities (primarily investment funds) and bookings with other Cayman Islands licensed exempt or ordinary non-resident companies, which are considered residents of the domestic economy, though not carrying on business in the domestic economy.

Calendar Year 2015 *(Millions U$D)*	**Category A**		**Category B**		**Total**
	Retail	**Non-retail**	**Physical Presence**	**No Physical Presence**	**Sector Total**
Cash Items	99	55	1,522	5,775	7,451
Financial Assets at Fair Value	9	0	126	1,438	1,573
Investments - Held-to-Maturity	0	0	73	58	131
Investments -Available-for-Sale	33	0	403	1,889	2,325
Other Investments	6	4	291	169	470
Loans and Advances	3,915	132	770	6,385	11,202
Less Loan Loss Provisions	*54*	0	*4*	*169*	*227*
Net Loans	3,864	132	766	6,216	10,978
Other Assets	317	148	72	6,206	6,743
TOTAL ASSETS	**4,379**	**339**	**3,257**	**21,920**	**29,895**





Category A - Non-Retail Banks - Balance Sheet Profile

Sector expands with increases in credit loans, funded by Other Borrowings

Category 'A' non-retail banks' total assets and liabilities grew by US$562 million from US$8.55 billion in 2014 to $9.11 billion at year-end 2015, funded by the use of Other Borrowings.

In contrast to year end-2014, where the Category 'A' non-retail banks' balance sheet profile depicted an average of 70% in Cash Items and 25% in Loans, in 2015 there was a shift to 40% in Cash Items and 52% in Loans and Advances.

The increase in credit loans was funded by Other Borrowings from Parent Group banks which increased by US$1.386 billion from US$321 million to US$1.7 billion, while core retail deposits decreased by US$395 billion from US$6.6 billion in 2014 to US$6.2 billion as at year end 2015.

Category A Banks - Non-Retail - Calendar Year (Millions U$D)

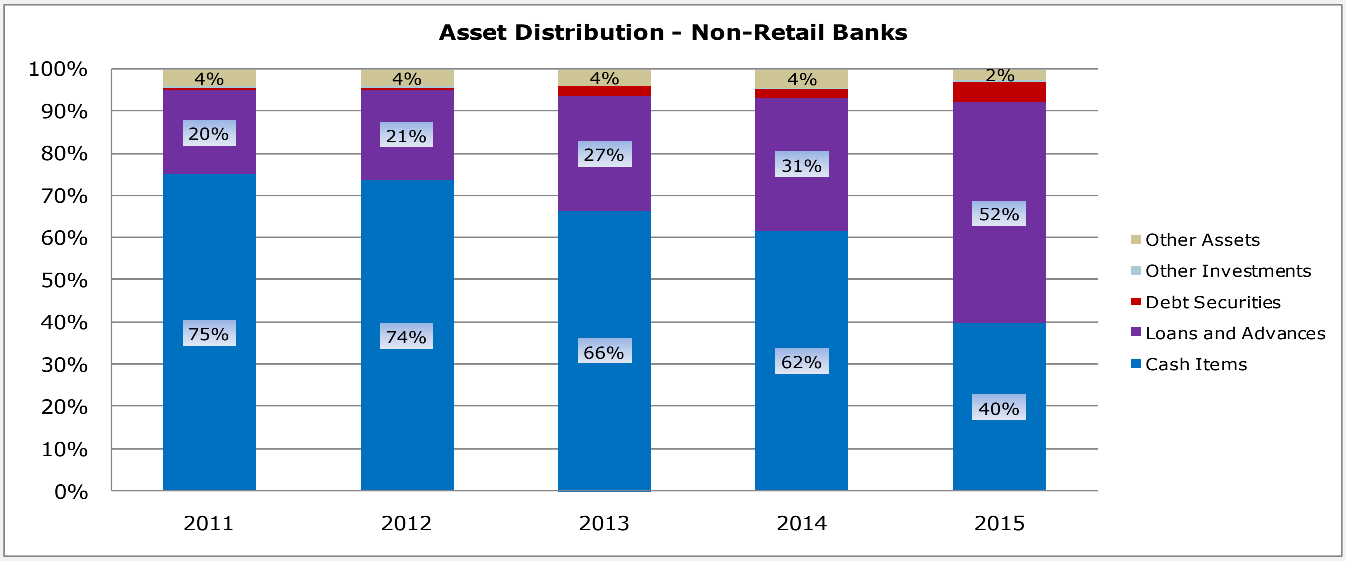
ASSETS	**2011**	**2012**	**2013**	**2014**	**2,015**
Cash Items	7,153	6,535	5,105	5,282	3,630
Financial Assets at Fair Value	0	0	18	38	0
Investments - Held-to-Maturity	55	0	159	135	500
Investments -Available-for-sale	53	68	21	50	6
Other Investments	5	5	16	4	4
Loans and Advances	1,884	1,901	2,087	2,673	4,749
Less Loan Loss Provisions	0	0	1	0	0
Net Loans	1,884	1,901	2,086	2,673	4,749
Other Assets	382	361	299	366	221
TOTAL ASSETS	**9,532**	**8,870**	**7,705**	**8,548**	**9,110**
LIABILITIES	**2,011**	**2,012**	**2,013**	**2,014**	**2,015**
Deposits	7,778	7,163	5,933	6,666	6,271
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	251	201	288	321	1,707
Creditors and Other Liabilities	499	503	463	538	425
Other Loss Provisions	0	0	0	2	0
TOTAL LIABILITIES	8,529	7,867	6,684	7,527	8,403
SHAREHOLDERS' EQUITY	**1,003**	**1,003**	**1,021**	**1,021**	**707**
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**9,532**	**8,870**	**7,705**	**8,548**	**9,110**

At year-end 2015, Shareholders' Equity declined by US$300 million mainly due to a reduction in unappropriated retained earnings by a bank which held excess Capital, as well as the effects of a slight reduction in the number of licensees. The sector continued to hold share capital and capital adequacy ratios above the required level.

Category A - Non-Retail Banks – Asset Distribution

Of the US$9.1 billion in assets held by the non-retail banking sector, Cash Items accounted for 40% or US$3.68 billion and Loans accounted for 52% or US$4.75 billion, a decrease of US$1.6 billion in Cash and an increase of US$2.07 billion in Loans, respectively.

US$3.47 billion (97%) of the US$3.61 billion in Cash Items was placed with non-resident Parent Groups and US$4.61 billion (97%) of the US$4.75 billion in loans was with non-residents. Of the US$4.61 billion in non-resident loans, 37% or US$1.79 billion was booked with non-resident households as consumer loans and 60% or US$2.76 billion was booked with non-resident non-financial corporations, both in the US market.

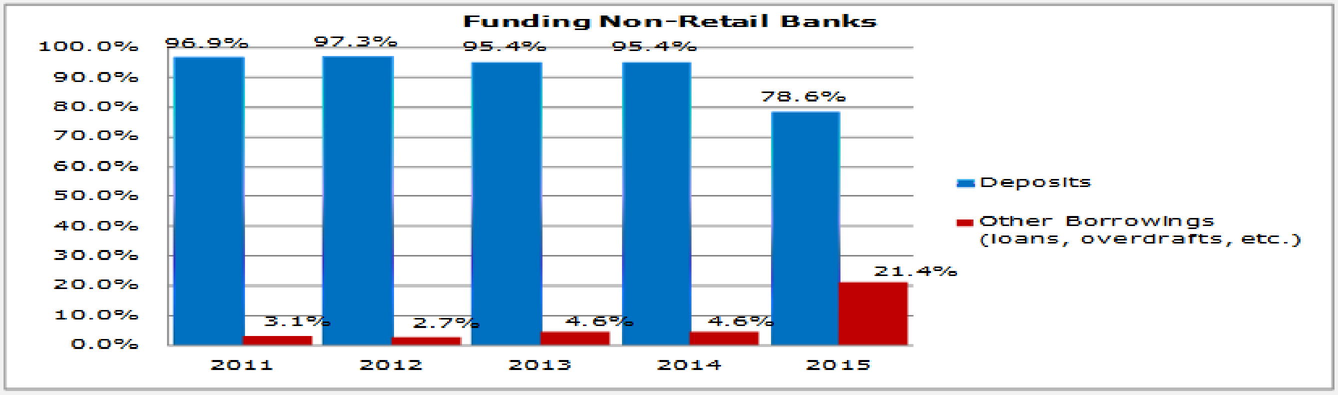


Non-Retail Banks	2013		2014		2015	
Cash Items (Millions U$D)	**Resident**	**Non-Resident**	**Resident**	**Non-Resident**	**Resident**	**Non-Resident**
Cash	0	0	0	0	0	0
Gold and bullion	0	0	0	0	0	0
Cash items in process of collection	0	0	0	0	0	0
Balances & CDs :	**56**	**5,049**	**18**	**5,262**	**20**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

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

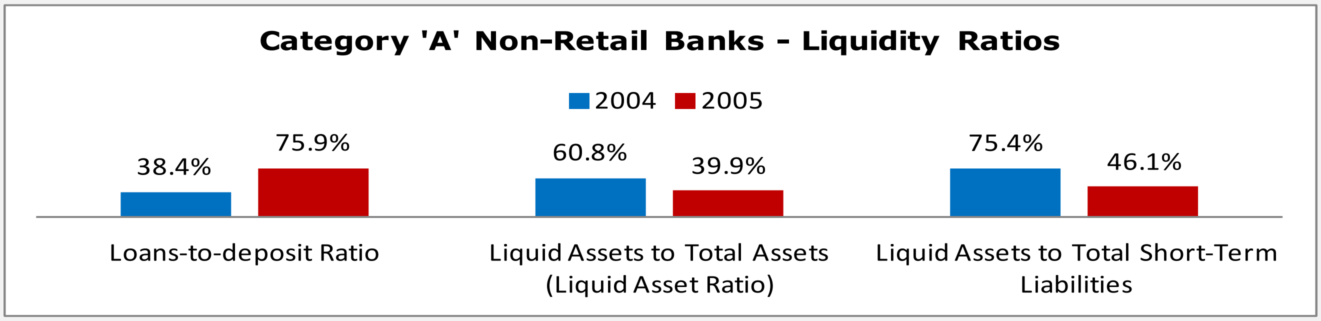
Category A - Non-Retail Banks - Funding Distribution

Core retail deposit funding decreased from 95% to 78%, while Other Borrowings increased from 4.6% to 21.4% as at calendar year end 2015. These decreases were partially offset by increases in non-resident deposits and Other Borrowings reflecting a change in funding sources of this sector from resident to non-resident funding and the increased use of wholesale funding.



Of the US$6.2 billion in deposits at calendar year end 2015, Other Financial Corporations (mainly investment funds) account for US$3.5 billion and US$516 million from resident and non-resident entities, respectively, as against US$4.2 billion and US$1 billion in 2014. This represents 64% of total deposit funding, against 79% (US$4.2 billion and US$ 1.0 billion) as at 2014. Resident and non-resident deposits from Non-Financial Corporations also decreased significantly from US$258 (100%) and US$742 (99%) in 2014 to US$7 million in 2015, mainly due to one bank that ceased operations and another that changed its license to a Category 'B' license. The decrease in core retail deposit funding and the increase in Other Borrowings accounted for significant decreases in the non-retail banks' funding structure and liquidity ratios, albeit at comparable levels to industry norms.

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



Category A - Retail Banks - Balance Sheet Profile

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

Total Assets and Liabilities increased by US$1.13 billion (9%) from US$12.94 billion in 2014 to US$14.07 billion at year end-2015, primarily as a result of an increase of US$900 million in core retail deposits, from US$11.36 billion in 2014 to US$12.3 in 2015.

The sector's asset distribution is indicative of banks conducting traditional retail banking services, with Loans & Advances accounting for approximately 52% or US$7.3 billion of total assets, Cash Items accounting for approximately 26.8% or US$3.7 billion, with some diversification in asset concentration as evidenced by Investments of US$2.5 billion.

Loan balances contracted marginally from US$7.5 billion to US$7.3 billion, which were offset by marginal increases in Households and Other Financial Corporations' private sector lending. Investments increased by over 66% or US$1 billion from US$1.5 billion (investments held to maturity and available for sale) in 2014 to US$2.5 billion at end 2015, indicating a healthy composition of assets.

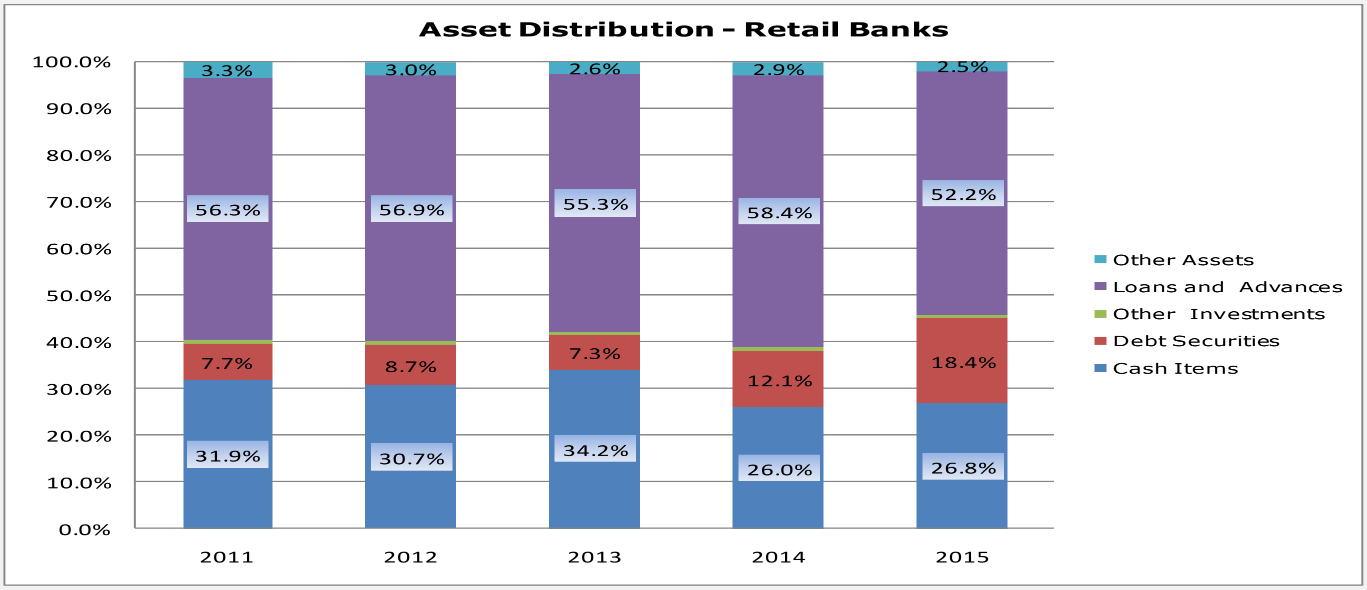
Category A Banks - Retail - Calendar Year (Millions U$D)

ASSETS	**2011**	**2012**	**2013**	**2014**	**2015**
Cash Items	4,355	4,356	5,082	3,376	3,765
Financial Assets at Fair Value	9	0	14	12	14
Investments - Held-to-Maturity	123	204	200	252	641
Investments -Available-for-sale	924	1,032	864	1,306	1,928
Other Investments	105	101	100	88	90
Loans and Advances	7,689	8,072	8,209	7,588	7,345
Less Loan Loss Provisions	*46*	*57*	*46*	*62*	*59*
Net Loans	7,643	8,015	8,163	7,526	7,286
Other Assets	454	426	384	374	346
TOTAL ASSETS	**13,613**	**14,134**	**14,807**	**12,934**	**14,070**
LIABILITIES	**2011**	**2012**	**2013**	**2014**	**2015**
Deposits	11,916	12,477	13,144	11,369	12,302
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	13	6	16	0	0
Creditors and Other Liabilities	178	103	106	34	178
Other Loss Provisions	22	18	31	35	31
TOTAL LIABILITIES	**12,128**	**12,604**	**13,297**	**11,438**	**12,511**
SHAREHOLDERS' EQUITY	**1,485**	**1,530**	**1,510**	**1,496**	**1,559**
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**13,613**	**14,134**	**14,807**	**12,934**	**14,070**

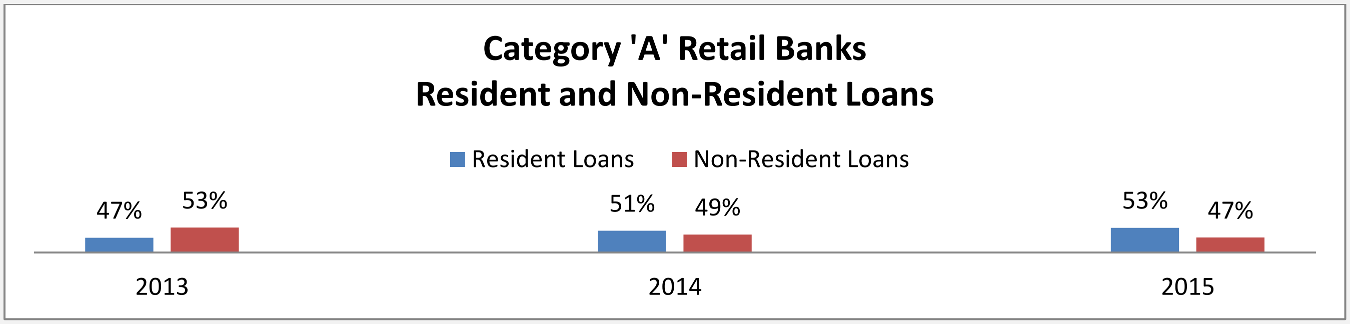
Shareholders' Equity for this sector showed substantial increases from US$1.49 billion to US$1.55 billion at calendar year end 2015, through a healthy accumulation of unappropriated retained earnings and improved earnings and profitability over the 2015 period.

Category A - Retail Banks - Asset Distribution

At calendar year end 2015, of total loans of US$7.34 billion, 53% or US$3.8 billion were resident loans as expected in domestic commercial retail banks and 47% or US$3.4 billion were non-resident loans. This large amount of non-resident loans is atypical of domestic commercial retail banks reflecting an open economy with no foreign exchange controls due to the fixed exchange rate regime of the Cayman Islands dollar to the US dollar. This large non-resident portfolio is also indicative of the Cayman Islands role as an international financial centre providing credit to non-financial commercial private sector entities to various onshore jurisdictions.



Retail Banks (Millions U$D)	2013		2014		2015	
Loans and Advances	**Resident**	**Non-Resident**	**Resident**	**Non-Resident**	**Resident**	**Non-Resident**
Sovereigns & Central Banks	618	15	591	66	476	74
Non Central Government Public Sector Entities (PSEs)	77	0	89	43	90	58
Multilateral Development Banks (MDBs)	0	0	0	0	0	0
Group Bank - Parent, Branch, Subsidiary or Affiliate	0	90	0	41	8	40
Group non-bank entities	21	0	16	0	0	0
Other Banks	0	0	0	0	0	0
Non-Financial Corporations - Commercial Private Sector	744	3,555	799	2,891	694	2,627
Non-Financial Corporations - Commercial Mortgages	328	236	82	217	182	238
Other Financial Corporations - Financial Intermediaries	25	114	71	104	106	77
Retail Lending/Consumer Loans - Households	324	26	355	66	347	36
Residential Mortgages - Households	1,638	225	1,799	228	1,871	277
Other Loans and Advances	121	52	64	66	83	62
TOTAL	**3,896**	**4,313**	**3,866**	**3,722**	**3,857**	**3,489**

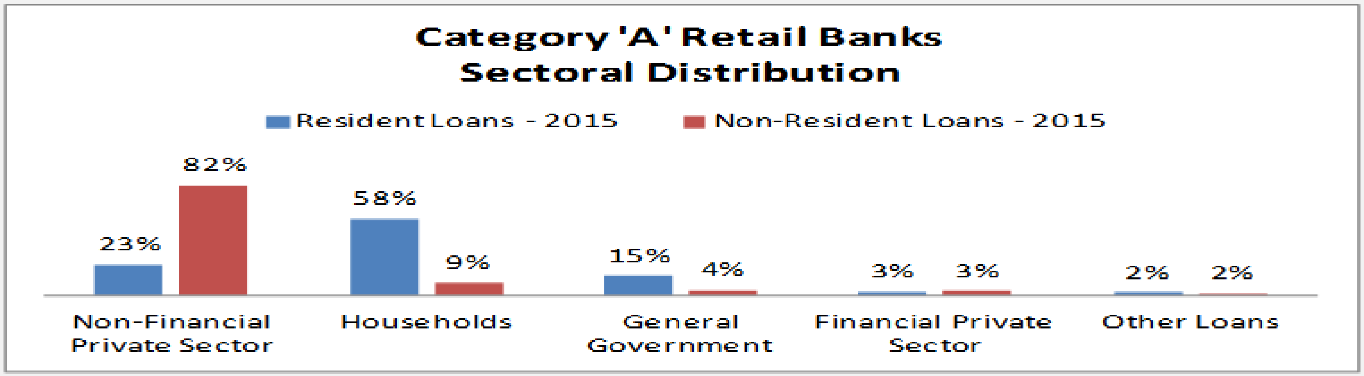


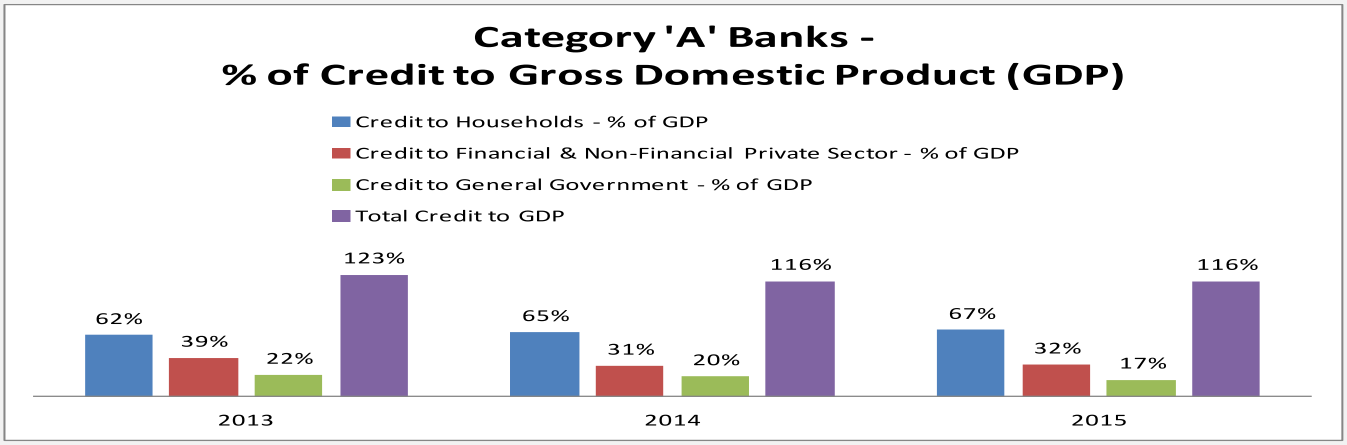
Category A - Retail Banks - Asset Distribution (cont'd)

Credit to the resident domestic market declined marginally by US$9 million over the 2014 to 2015 period from US$3.86 billion to US$3.85 billion, driven mainly by the steady reduction in central government debt and a reduction in loans held by Non-Financial Corporations. Credit to households as mortgages and consumer loans represented the largest exposure to the domestic sector at 58% or US$2.21 billion, reflecting a moderate increase in credit growth of US$64 million, from US$2.15 billion in 2014. Credit to the private sector accounted for 26% or US$982 million, reflecting a marginal increase of US$30 million, from US$952 million in 2014, which was seen in an increase in loans to Other Financial Corporations and Non-Financial Corporations Commercial Mortgages, while credit to Non-Financial Corporations commercial businesses contracted.

Non-resident loans accounted for 47% or US$3.49 billion of total loans of which 82% or US$2.8 billion were to non-financial corporations, primarily in South American countries. This high concentration of loans to South American countries that are highly dependent on commodity exports, which are subject to price volatility, could present some vulnerability. Concurrently, these exposures which are funded by deposits from Parent Banks, present a further vulnerability to the potential for up-streaming of deposits in the event of a stress scenario.

Overall, credit-to-GDP, a measure of a country's indebtedness 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 declined from 123% in 2013 to 116% in 2015, as a result of the reduction in general government and private sector debt, with a marginal increase in household debt.





Category A - Retail Banks - Asset Distribution (cont'd)

Cash Items accounted for 26.8 % or US$3.76 billion of total assets at calendar year end 2015, a slight increase of US$389 million, from US$3.37 billion in 2014. The increase was mainly as a result of an increase in cash balances and certificates of deposits (CDs) held with Group Banks from US$1.77 billion in 2014 to US$2.22 billion in 2015. While reflecting an increase in liquidity, this also increases the high level of intra-group interconnectedness.

Retail Banks (Millions U$D)	2013		2014		2015	
Cash Items	**Resident**	**Non-Resident**	**Resident**	**Non-Resident**	**Resident**	**Non-Resident**
Cash	53	7	48	9	50	6
Gold and bullion	0	0	0	0	5	0
Cash items in process of collection	10	1	10	0	8	0
Balances & CD's :	**198**	**4,779**	**156**	**3,152**	**27**	**3,668**
o/w Group Bank - Parent, Branch, Subsidiary or Affiliate	0	3,536	0	1,779	7	2,229
o/w Group non-bank entities	0	0	0	0	0	0
o/w Other Banks	198	1,244	158	1,373	20	1,439
Due from financial institutions	0	34	0	0	0	0
TOTAL	**261**	**4,823**	**215**	**3,161**	**90**	**3,674**

Total investments increased from 12.1% or US$1.5 billion in 2014 to 18.4% or US$2.5 billion of total assets for the retail banks as at calendar year end 2015, driven mainly by an increase of US$368 million in Investments-Held-to-Maturity (HTM) and US$620 million in Investments-Available-for-Sale (AFS). Of the US$368 in HTM, US$288 represent a retail bank's investment with its Group Bank operating in the South American market, while the increase in AFS was from another retail bank diversifying its asset portfolio with investments issued by the government, public sector entities and other banks from the US.

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

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. Increases in the Herfindahl index generally indicate a decrease in competition and an increase of market power, whereas decreases indicate the opposite. Alternatively, if whole percentages are used, the index ranges from 0 to 10,000 points.

HHI, used here to measure concentration in private sector lending, increased by 3% from 580 in 2014 to 599 at end-2015. Lending to households for residential mortgages had an HHI of 481 at end-2015, implying a slight increase in concentration from 435 in 2014.

The HHI score of 596 generally represents the median score of an unconcentrated market.

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	**2013**	**2014**	**2015**	**Interpretation**	**2013**	**2014**	**2015**
Sovereigns and Central Banks	97	89	82	Indicates a highly competitive market	13	13	12
Non Central Government Public Sector Entities (PSEs)	1	3	2	Indicates a highly competitive market	2	2	2
Non-financial Corporations - Industrial & commercial private sector	50	107	79	Indicates a highly competitive market	12	21	18
Non-financial Corporations - Commercial Mortgages	53	8	10	Indicates a highly competitive market	13	5	5
Other financial Corporations - financial intermediaries & auxiliaries	0	0	4	Indicates a highly competitive market	1	1	3
Retail Lending/Consumer Loans - Households	14	22	17	Indicates a highly competitive market	9	10	9
Residential Mortgages - Households	372	435	481	Indicates an unconcentrated market	46	46	49
Other loans and advances	21	8	5	Indicates a highly competitive market	5	3	2

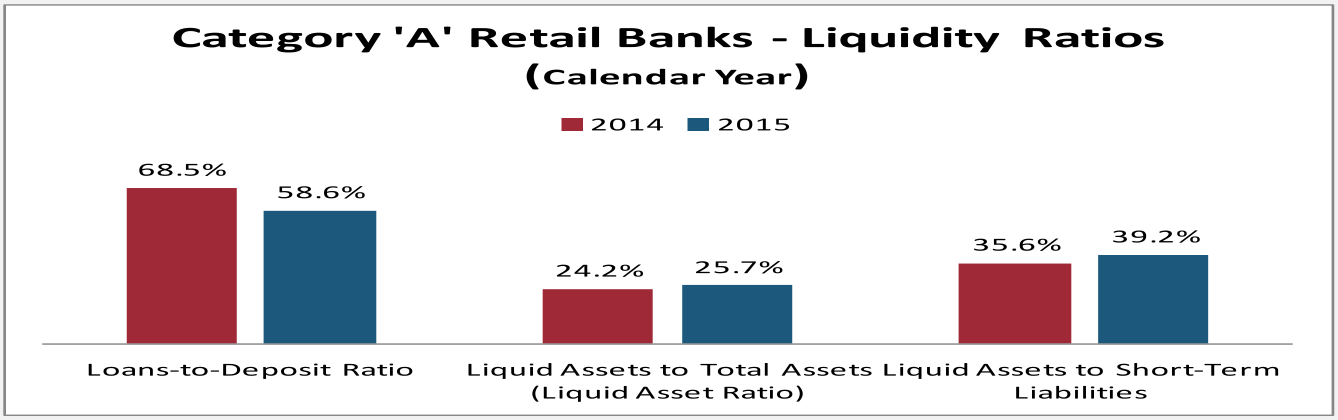
Category A - Retail Banks - Funding Distribution

The sector's funding from core retail "deposits" averaged 99.9%. Overall, funding increased due mainly to an increase in resident deposits of US$625 million and non-resident deposits of US$310 million.

Resident deposits accounted for US$6.8 billion or 55% of total deposits, consisting mainly of deposits from Non-Financial Corporations of US$2.02 billion, Other Financial Corporations of US$1.88 billion and Households of US$1.74 billion. The overall increase in resident deposits of US$625 million was mainly due to an increase of US$610 million in Other Financial Corporations (mainly investment funds and other financial intermediaries and auxiliaries).

Non-resident deposits accounted for US$5.5 billion or 45% of total deposits. Deposits from Group Banks of US$3.36 billion accounted for 60% and Non-Financial Corporations deposits of US$1.12 billion accounted for 20%. This reflects an increase of US$97 million from US$1.02 billion in 2014 to US$1.12 billion.

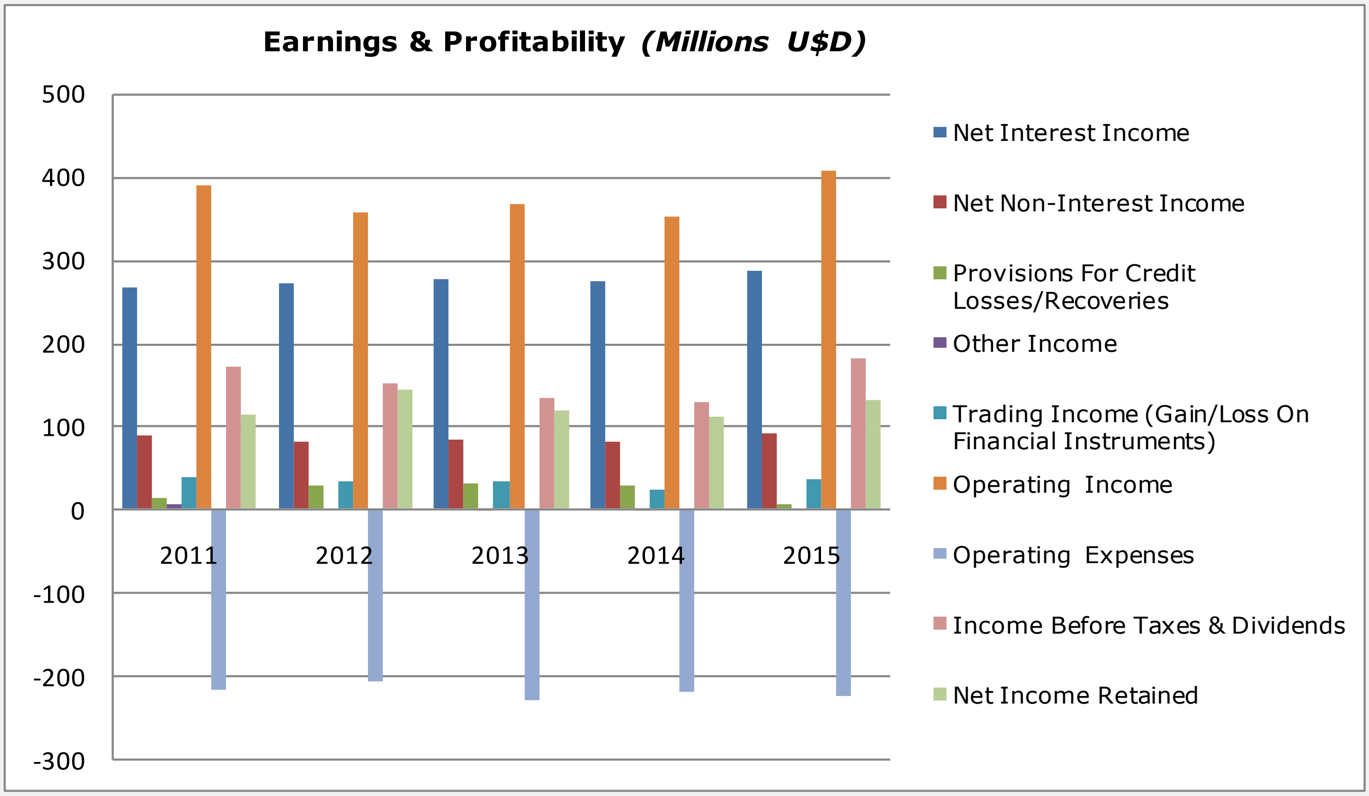
Retail Banks (Millions U$D)	2013		2014		2015	
DEPOSITS	**Resident**	**Non-Resident**	**Resident**	**Non-Resident**	**Resident**	**Non-Resident**
Sovereign	565	20	553	32	531	28
Non-Central Government Public Sector Entities (PSEs)	124	15	156	15	175	16
Multilateral Development Banks (MDBs)	0	0	0	0	0	0
Group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



Retail Banking Sector - Earnings & Profitability

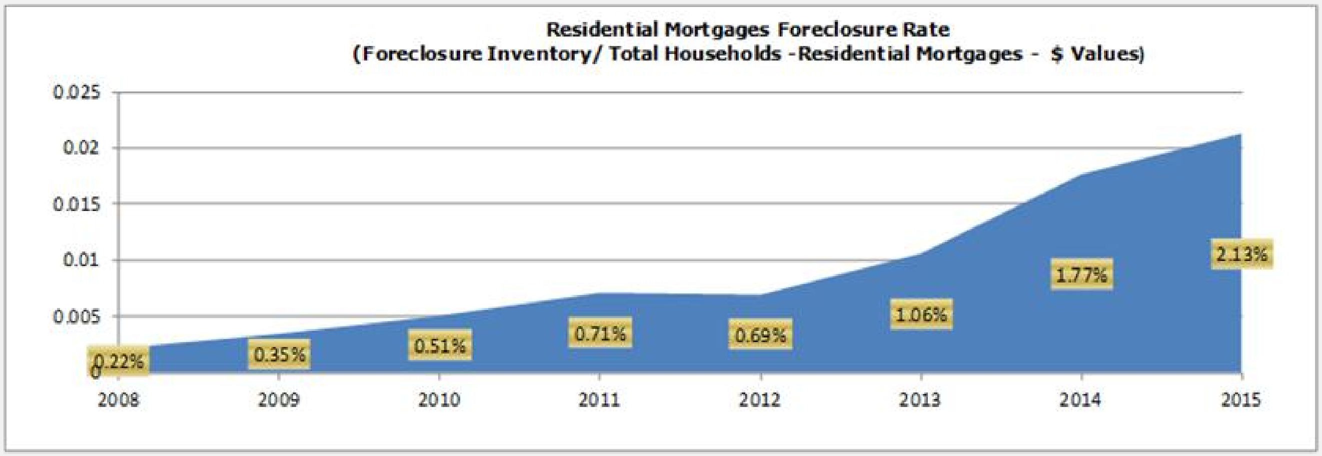
Retail banks reported improved earnings and profitability with a US$56 million increase in Operating Income from US$351 million in 2014 to US$407 million in 2015. With operating expenses remaining stable, the sector reported Net Income before Taxes and Dividends of US$183 million, ending with US$132 million in Net Income Retained, a US$20 million increase from 2014. The increase in retained income was mainly due to a reduction in Provisions for Credit Losses by US$21 million and an improvement in Net Interest Income and Trading Income.

Retail Banks Income (Millions U$D)	**2011**	**2012**	**2013**	**2014**	**2015**
Net Interest Income	268	271	277	274	288
Net Non-Interest Income	89	81	84	81	90
Provisions For Credit Losses/Recoveries	13	28	31	29	7
Other Income	7	0	2	1	0
Trading Income (Gain/Loss On Financial Instruments)	38	34	34	24	35
Operating Income	389	358	366	351	406
Operating Expenses	-218	-207	-231	-221	-224
Income Before Taxes & Dividends	171	151	135	130	182
Net Income Retained	113	145	120	112	132

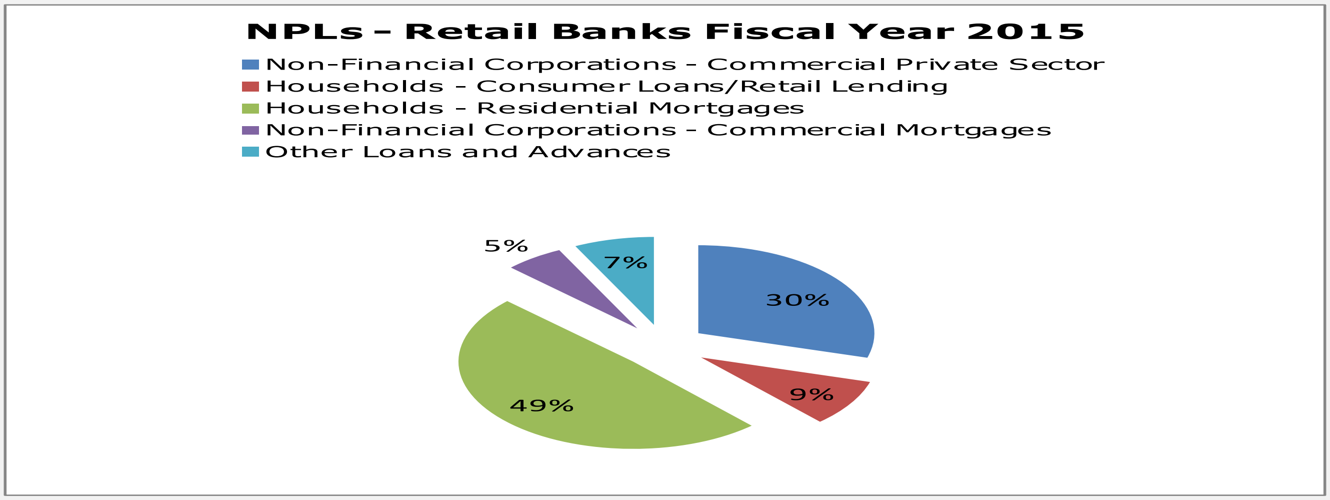


Retail Banks - Non-Performing Loans

Over the 2011 to 2015 period, NPLs as a proportion of Total Assets ranged from 3.0% in 2011, with a record high of 3.8% in 2013 to 2.5% at end 2015. The decrease in NPLs at year end 2015 is due to a number of factors, namely, the improvement in asset quality by loan write-offs, a decrease in the unemployment rate and an increase in economic activity as seen by a 2 % increase in Cayman Islands GDP for 2015. Foreclosure rates peaked in 2015 as loans transitioned to the foreclosure status. With improvements in the macro-financial environment a reduction in the foreclosure inventory is expected with an increase in the sales of foreclosed properties.



A review of the decomposition of NPLs shows that the majority of the NPL's were concentrated in the domestic Household Sector in residential mortgages and the Non-Financial Corporations' commercial private sector, as these are the two main sectors of loan concentration for the retail banks.



Financial Soundness Indicators: Fiscal Year Retail Banking Sector

Capital Adequacy Ratio (CAR)

The capital adequacy ratio for the six retail banks remains above the 8% threshold prescribed by the Basel II Accord, the 10% requirement of the BTCL (2013 Revision) and the regulatory requirements of 12% for subsidiaries and 15% for privates and affiliates.

Asset Quality

NPLs declined from 2.7% in 2014 to 2.5% at end 2015 due to improvements in the domestic macroeconomic environment.

Earnings and Profitability

Banks continue to remain profitable with stable operating income levels and marginal reductions in net income retained since 2012. In 2015, there was a significant improvement, as seen by an increase in RoE from 8.1% in 2014 to 11.2% at end-2015.

Liquidity

The sectors' level of liquidity remains high by industry norms increasing from 24.2% in 2014 to 25.7% in 2015 for liquid assets to total assets and from 35.6% in 2014 to 39.2% in 2015 for liquid assets to short-term liabilities, respectively.

Domestic Retail Banks - Core Financial Soundness Indicators

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

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

Domestic Retail Banks - Encouraged Financial Soundness Indicators

Indicator (%)	2011	2012	2013	2014	2015
Capital to assets	8.8	11.3	11.0	11.8	11.5
Trading income to gross income	9.4	8.7	8.6	6.4	8.5
Personnel expenses to noninterest expenses	51.1	50.6	50.7	48.9	50.9
Customer deposits to total (noninterbank) Gross Loans	174.9	125.6	131.1	102.6	120.5
Residential real estate loans to Total Loans	27.6	26.1	28.4	27.1	31
Commercial real estate loans to Total Loans	6.0	6.3	9.6	5.1	6.0