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# 2019

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# BANKING

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## DIGEST

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## Table of Acronyms

<b>BIS</b>	<b>Bank for International Settlements</b>
<b>BTCL</b>	<b>Bank and Trust Companies Law<sup>1</sup></b>
<b>BSD</b>	<b>Banking Supervision Division</b>
<b>BCBS</b>	<b>Basel Committee on Banking Supervision</b>
<b>CAR</b>	<b>Capital Adequacy Ratio</b>
<b>CIMA</b>	<b>Cayman Islands Monetary Authority</b>
<b>ESO</b>	<b>Economics and Statistics Office</b>
<b>FATF</b>	<b>Financial Action Task Force</b>
<b>FSI</b>	<b>Financial Soundness Indicator</b>
<b>GDP</b>	<b>Gross Domestic Product</b>
<b>IMF</b>	<b>International Monetary Fund</b>
<b>NPL</b>	<b>Non-Performing Loans</b>
<b>PLL</b>	<b>Provisions for Loan Losses</b>
<b>ROAA</b>	<b>Return on Average Assets</b>
<b>ROAE</b>	<b>Return on Average Equity</b>
<b>USA</b>	<b>United States of America</b>
<b>US\$</b>	<b>United States Dollar</b>

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<sup>1</sup> Effective 3 December 2020, the Cayman Islands Citation of Acts of Parliament Law 2020 came into force. This law provides that any enactment that has been a "Law" or which contains a reference to the title of a Law, should be amended by omitting the word "Law" and substituting it with the word "Act".

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## **Preface**

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

The 2019 Banking Digest contains a summary of the Cayman Islands' banking sector and the analysis of local and global economic and regulatory developments affecting the industry. It provides a comparative analysis of changes over the prior year, an assessment of the entire banking sector and details on Category 'A' Retail, Category 'A' Non-Retail and Category 'B' (International) banks.

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



## Economic Outlook - 2019 Review and Beyond

### Global Perspective

In 2019, the Federal Reserve decreased US prime interest rates in August, September, and October – the first rate decreases since the 2008 financial crisis. In response to rising global risks, interest rate decreases were paused, and the Federal Reserve signalled that there would be no further decreases for the rest of the year or for 2020. At year end 2019 the US interest rate was ranged at 1.5% to 1.75%. The decrease in rates during 2019 was to counteract the effects of increased geopolitics with the US and its trading counterparts, mainly China, and to insure against the uncertainty caused by the slowdown in global growth and low inflation.

Trade policy uncertainty, geopolitical tensions, and idiosyncratic stress in key emerging market economies continued to weigh on global economic activity especially in the manufacturing and trade sector. Intensifying social unrest in several countries posed new challenges, as did weather-related disasters such as hurricanes in the Caribbean, drought and bushfires in Australia, floods in eastern Africa, and drought in southern Africa.

Global growth, estimated at 2.9% by the International Monetary Fund in 2019, was projected to increase to 3.3% in 2020 before the COVID-19 pandemic, and climb to 3.4% in 2021. However, as containment efforts to fight the COVID-19 pandemic continue to inflict economic fallout, projections were revised in June 2020 to -4.9% in 2020 and 5.4% in 2021. Overall, 2021 GDP is expected to be 6½ percentage points lower than in the pre-COVID-19 projections.

The global growth trajectory reflects a higher than usual degree of uncertainty, and a return closer to historical norms for a group of underperforming and stressed emerging markets and developing economies (including Brazil, India, Mexico, Russia, and Turkey). These outcomes are highly dependent on the efforts of countries to suppress the pandemic, avoiding further escalation in the US-China trade tensions (and, more broadly, on preventing a further worsening of US-China economic relations, inclusive of tech supply chains), averting a no-deal Brexit, and the economic ramifications of social unrest and geopolitical tensions remaining contained.

### Regional Perspective

After a sustained slowdown over the past five years, which included two years of contraction, economic growth in Latin America and the Caribbean was expected to continue its downward trajectory during 2019, with a projected rate of 0.5%. Unlike previous years, 2019 was expected to see a general slowdown that will affect 21 of the 33 countries of the region (17 of the 20 Latin American countries). On the domestic front, low growth rates were the result of weak investment, export performances and a fall in public spending. At the same time, private consumption waned, reflective of the decline in GDP growth. The room for maneuvering through macroeconomic policies narrowed due to the shrinking fiscal space available to the countries in the region.

South American economies shrank by 0.7% on average in the first quarter of 2019, a far poorer performance than the 1.5% growth in



the first quarter of 2018. The Central American economies achieved a growth rate (3.3%) lower than that of the same period in 2018. Growth in Central America and Mexico combined equated to 1.5% in the first quarter of 2019. At the national level, the Dominican Republic and the Plurinational State of Bolivia were the region's fastest growing economies in the first quarter (5.7% and around 4.0%, respectively), followed by Panama (3.1%), Guatemala (3.0%) and Colombia (2.8%). Five economies (Argentina, Bolivarian Republic of Venezuela, Paraguay, Nicaragua and Uruguay) contracted, Brazil slowed (to 0.46%) and the rest grew by between 0.6% and 2.6%

### Domestic Perspective

"Expanding infrastructural capacity and increased demand for the Islands' services supported a 3.2% growth in GDP for 2019. This expansion was driven by the services sector, which accounted for 88.4% of GDP. The key sectors contributing to the overall growth were financing and insurance services, hotels and restaurants, construction, and wholesale and retail trade. The financing and insurance services sector continues to be the largest contributor to the economy, accounting for approximately 30.4% of GDP and grew by 2.0% in 2019. The performance of Caymans' economy has been robust in recent history, with economic activity growing at an average of 3.2% per year for the five years between 2014 and 2018. GDP per capita in nominal terms was \$73,694 in 2019 compared to \$71,369 in 2018.

Broad liquidity or money supply expanded by 2.6% as local currency deposits held by

residents and currency in circulation expanded. The weighted average lending rate for KYD loans declined by 45 basis points to 7.27% at the end of 2019. This reduction was consistent with a decline in the prime lending rate by 58 basis points to 4.88%. Domestic credit expanded by 7.6% due to increases in both public and private sector credit of 33.2% and 5.8%, respectively.

The central government's overall surplus decreased to \$102.1 million compared to \$132.4 million in 2018. The moderation in the surplus was in the context of an increase in expenditure outweighed by an expansion in revenue. Despite this reduction, the positive balance represented the central government's seventh consecutive year of surplus. The total outstanding debt of the central government declined to \$284.4 million at end-2019 from \$418.7 million at end-2018. The reduced debt resulted in a debt-to-GDP ratio of 5.7% at end-2019 relative to 9.1% at the end of the previous year.

In November 2018, shareholders of Cayman National Bank lifted a restriction that prevented a single entity from owning more than 10 percent of the company. The move paved the way for Republic Group of Trinidad and Tobago to acquire 74.99% of Cayman National at US\$6.25 per share, through its wholly owned subsidiary Republic Bank Trinidad and Tobago (Barbados) Ltd. This transaction also required regulatory approval in Cayman, the Isle of Man and Dubai – the jurisdictions where Cayman National operates. CIMA granted conditional approval on February 7, 2019." <sup>2</sup>

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<sup>2</sup> ESO

## Banking Sector 2019 Financial Soundness Highlights

The core financial soundness indicators for all segments of the banking industry were sound for the year under review.

### Capital Adequacy Ratio

Capital adequacy, which is the amount of capital a bank must hold as required by the financial regulator, increased to 48.1% in 2019 compared to 46.8% in 2018. This was mainly driven by an increase in capital held by Category 'A' Retail and Category 'B' Subsidiary, Private, Affiliate banks in 2019 compared to 2018. All the retail banks maintained capital adequacy ratios well above their minimum required ratios.

### Asset Quality

One of the critical areas in determining the overall condition of the bank is asset quality and in particular, the quality of the loan portfolio and how well the bank administers its loan program. In 2019, there was an increase in the ratio of non-performing loans to the total loan portfolio from 0.2% to 0.4%. However, the value of specific provisioning to impaired loans decreased to 101.8% compared to 132.1% in 2018. This change was attributed to a few Brazilian banks with branches in the Cayman Islands where the impaired loan balances decreased substantially. For Category 'A' Retail Banks both total nonperforming loans

and total gross loans declined in 2019 resulting in lower ratios than in 2018.

### Earnings and Profitability

Earnings and profitability determine a bank's ability to pay dividends to its shareholders. In 2019, the sector did not report any return on assets compared to an overall positive rate of return of 0.2% in 2018. Overall, all banks except for Category 'A' retail banks reported a decline in the net income position when compared to the prior year comparative period. In 2019, the annualized gross income for Category 'A' retail banks grew by 31.03% and average shareholders' equity increase by 7.1% when compared to 2018, contributing to a positive return on equity in 2019.

### Liquidity

Liquidity, which measures the ability and ease with which assets can be converted to cash to meet short term obligations such as deposit withdrawals, deteriorated in 2019. Liquid assets to total assets was 28.7% compared to 32.6% in 2018 and liquid assets to short term liabilities were 56.9% down from 62.1% in 2018. The Banking Supervision Division had no concerns with liquidity and capital levels in 2019 and continues to closely monitor the retail banks to ensure that the jurisdiction remains sound.

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

Core Financial Soundness Indicators	Category 'A' Retail Banks		Category 'A' Non-Retail Banks		Category 'B' (Subsidiary, Private, & Affiliate)		Category 'B' Branch		All Sectors <sup>3</sup>	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
<b>Indicator %</b>										
<b>Capital Adequacy</b>										
Regulatory capital to risk-weighted assets	25.5	28.5	39.1	16.6	68.7	71.9	n/a	n/a	46.8	48.1
Regulatory Tier 1 capital to risk-weighted assets	22.4	24.5	34.9	14.7	63.3	67.1	n/a	n/a	42.5	44.0
Regulatory Tier 2 capital to risk-weighted assets	3.1	4.0	4.2	1.9	5.4	4.8	n/a	n/a	4.3	4.1
Regulatory capital to total assets	12.9	13.3	11.0	8.8	28.9	24.4	n/a	n/a	20.1	19.2
Nonperforming loans net of provisions to capital (equity)	2.6	2.1	0.0	0.0	0.0	0.0	n/a	n/a	0.7	0.6
<b>Asset Quality</b>										
Non-performing loans to total gross loans	1.6	1.4	0.0	0.0	0.3	0.1	0.2	0.3	0.2	0.4
Specific provisions to non-performing loans	50.0	48.8	0.0	0.0	67.0	53.5	153.3	107.8	132.1	101.8
<b>Earnings and Profitability</b>										
Return on equity (net income before extraordinary items and taxes to average capital (equity))	15.3	18.1	11.1	11.7	8.1	8.6	n/a	n/a	10.0	11.3
Return on assets (net income to average total assets)	2.0	2.6	1.1	1.0	1.9	2.6	0.1	(0.2)	0.2	0.0
Interest margin (net interest income) to gross income	73.1	71.5	44.9	20.2	65.0	72.9	(10.7)	(16.0)	11.2	20.2
Noninterest expenses to gross income	43.9	41.5	52.3	71.8	14.7	21.5	70.9	105.0	59.8	74.8
<b>Liquid Assets</b>										
Liquid assets to total assets (liquid asset ratio)	32.7	31.8	48.8	76.6	21.5	34.2	32.8	28.8	32.6	28.7
Liquid assets to short-term liabilities	53.8	52.7	58.4	89.0	124.5	138.0	61.8	56.4	62.1	56.9

<sup>3</sup> For ratios that include equity or capital, Category 'B' branches are excluded as capital is maintained by the parent company for these entities and would therefore skew the data significantly.

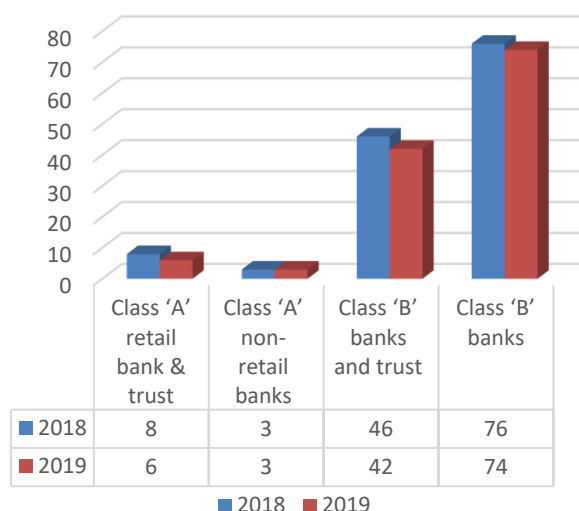
## Overview of Cayman Islands Banking Sector

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

As at 31 December 2019, there were 125 (2018: 133) licenses:

- Class 'A' retail bank & trust 6
- Class 'A' non-retail banks 3
- Class 'B' banks and trust 42
- Class 'B' banks 74

**Figure 1: Number of Class A and B Banks**



Class 'A' banks consist of 7 subsidiaries and 2 private & affiliate entities. The Class 'B' banks consist of 77 branches, 26 subsidiaries and 13 private & affiliates of international banks from

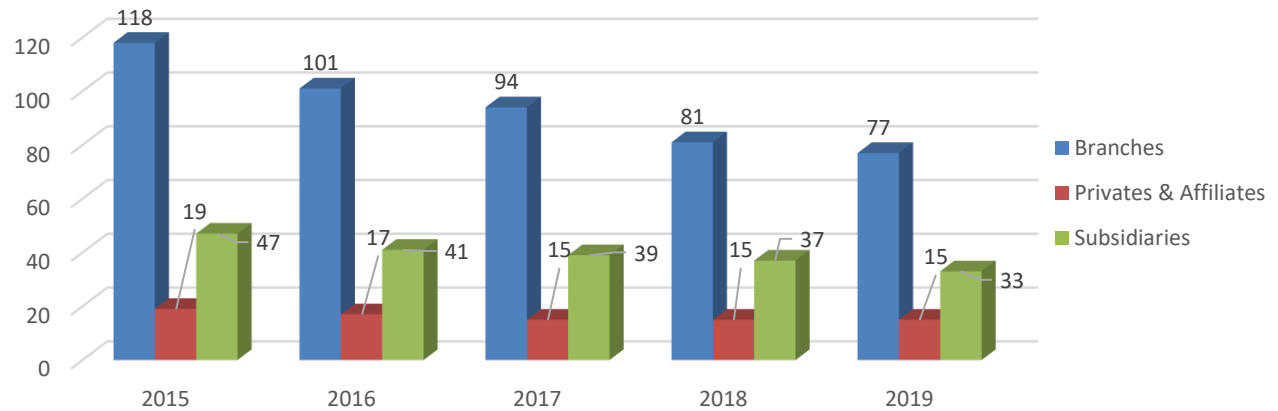
North America, Europe and South America. Due to global changes in laws and regulations, the number of banks licensed in the Cayman Islands has decreased over the last six years, as banks sought to consolidate and restructure to reduce cost, improve operational efficiencies and strengthen their risk management and corporate governance profiles.

The number of Category 'A' banks decreased by two (2) from 2018, as one entity surrendered its licence as part of its group's wider strategic goal to reduce complexity, increase efficiency and maximize the use of bank's capital, and another entity opted to transition to a Category 'B' bank due to a series of changes in the bank's international strategy which resulted in the downsizing of global operations.

The number of Category 'B' branches and subsidiaries declined by a net of four (4) and a net of two (2) respectively; notably, three (3) new Category 'B' licences for branches were granted in 2019. Of the nine (9) banks that surrendered their Category 'B' license during 2019, five (5) reported a decline in activity and changes in overall business strategy, three (3) banks were subject to merger or acquisition and one (1) divested its non-core unit.

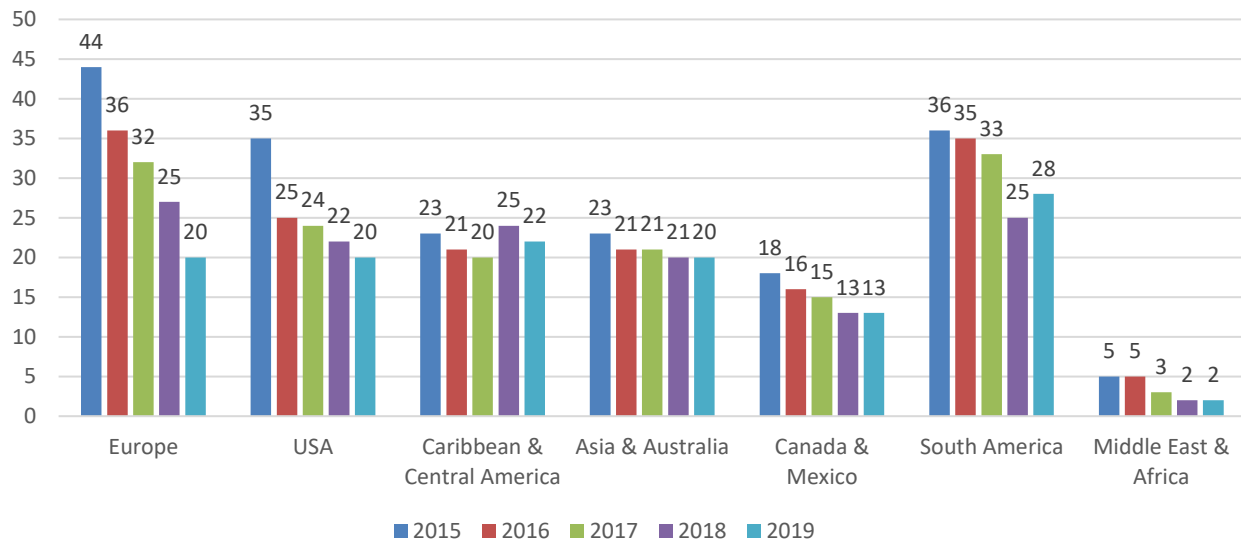
As at December 2019, total international assets and liabilities were reported at US\$663 billion (2018: US\$674 billion) and US\$662 billion (2018: US\$635 billion), respectively. The jurisdiction was ranked 14<sup>th</sup> internationally by the Bank of International Settlements based on the value of cross-border assets and liabilities. Though the decrease in activity resulted in a lowering of the jurisdiction's rank from 12<sup>th</sup> to 14<sup>th</sup>, Cayman Islands is still regarded as a major financial intermediary in the global financial arena.

**Figure 2: Distribution of Banks by Type**



As shown in Figure 3, the geographical distribution of banks either declined or remained the same in 2019. The noticeable decline of 5 banks from the Europe region included banks that were terminated.

**Figure 3: Regional Composition of Licensed Banks**



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

### **Category 'A' Banks**

There are two subcategories of Category 'A' banks: banks that provide services to non-retail clients and those that provide services to both retail and non-retail clients. Category 'A' banks may conduct business within and outside the islands without any restriction on the type of clients.

There are currently nine (9) Category 'A' banks namely, Butterfield Bank (Cayman) Limited, Cainvest Bank and Trust Limited, Cayman National Bank Ltd., FirstCaribbean International Bank and Trust Company (Cayman) Limited formerly CIBC Bank and Trust Company (Cayman) Limited, Fidelity Bank (Cayman) Limited, First Caribbean International Bank (Cayman) Limited, MUFG Alternative Fund Services (Cayman) Limited, RBC Royal Bank (Cayman) Limited and Scotiabank & Trust (Cayman) Ltd.

### **Category 'B' Banks**

Category 'B' banks primarily serve clients that are beyond the jurisdiction. These banks are owned by shareholders in North and South America, Europe, Asia and the Pacific region, Latin America and the Caribbean as well as the Cayman Islands. Category 'B' banks can be subsidiaries or branches of foreign banks or may be private or affiliate banks. At present, there are 116 banks holding Category 'B' licences.

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

### **Regulation and Supervision of Banks in the Cayman Islands**

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

Category 'A' banks employ 1,265 resident staff and 134 non-resident staff whereas the 'B' banks employ 237 staff in the Cayman Islands and 1,088 employees working beyond the borders of Cayman Islands. Banks that are neither branches nor subsidiaries of a foreign bank must demonstrate that they have sufficient operational and financial resources in the Cayman Islands to carry on their banking business. The BTCL stipulates that all banks must maintain specified records in the Cayman Islands.

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

## Statistical Trend Analysis

### Banking Sector - Balance Sheet Profile

Stemming from a continued decline in total asset balances over a 4-year period, total assets for the Banking Sector as at the end of 2019 closed at US\$667 billion, a 0.91% decline when compared to prior year. Notably, there was a shift in asset composition from Cash Items which reduced by US\$28 billion or 12.9%; to longer termed instruments such as Financial Assets, Investments and Loans and Advances. This shift will be discussed further below under asset distribution.

As at December 2019, total liabilities were US\$627 billion down by US\$8.4 billion or 1.3%. The significant contributors to the decline were total deposits which decreased by US\$27.7 billion and repurchase agreements by US\$ 0.62 billion and increases in other borrowings of US\$13.2 billion, other notes, bonds and commercial paper of US\$ 5.3 billion and creditors and other liabilities of US\$ 1.3 billion.

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

US\$'000,000'	2015	2016	2017	2018	2019
<b>ASSETS</b>					
Cash Items	584,104	501,311	412,137	219,856	191,444
Financial Assets at Fair Value	31,511	36,432	36,384	48,778	58,144
Investments - Held-to-Maturity	5,842	6,128	5,606	21,864	23,831
Investments - Available-for-Sale	48,673	47,400	53,142	2,525	-
Other Investments	43,128	59,921	61,470	69,797	68,553
Loans and Advances (Gross)	413,209	328,337	308,321	259,472	266,895
Net Loans	411,414	326,829	307,289	258,763	265,946
Other Assets	54,975	59,961	51,532	52,130	59,627
<b>TOTAL ASSETS</b>	<b>1,179,647</b>	<b>1,037,983</b>	<b>927,560</b>	<b>673,713</b>	<b>667,546</b>
<b>LIABILITIES</b>					
Deposits	958,833	812,490	732,340	520,407	492,732
Repurchase Agreements (REPOS)	14,903	16,267	17,090	14,898	14,243
Hybrid Debt and Subordinated Debt	16,171	12,407	13,305	12,365	12,692
Other Notes, Bonds and Commercial Paper	51,399	34,950	34,124	34,518	39,859
Other Borrowings	91,080	72,362	64,539	31,103	44,284
Creditors and Other Liabilities	42,524	38,492	23,461	21,205	22,469
Other Loss Provisions	769	754	627	689	536
<b>TOTAL LIABILITIES</b>	<b>1,175,679</b>	<b>987,722</b>	<b>885,486</b>	<b>635,185</b>	<b>626,815</b>
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>3,968</b>	<b>50,261</b>	<b>42,074</b>	<b>38,528</b>	<b>40,730</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS EQUITY</b>	<b>1,179,647</b>	<b>1,037,983</b>	<b>927,560</b>	<b>673,713</b>	<b>667,546</b>



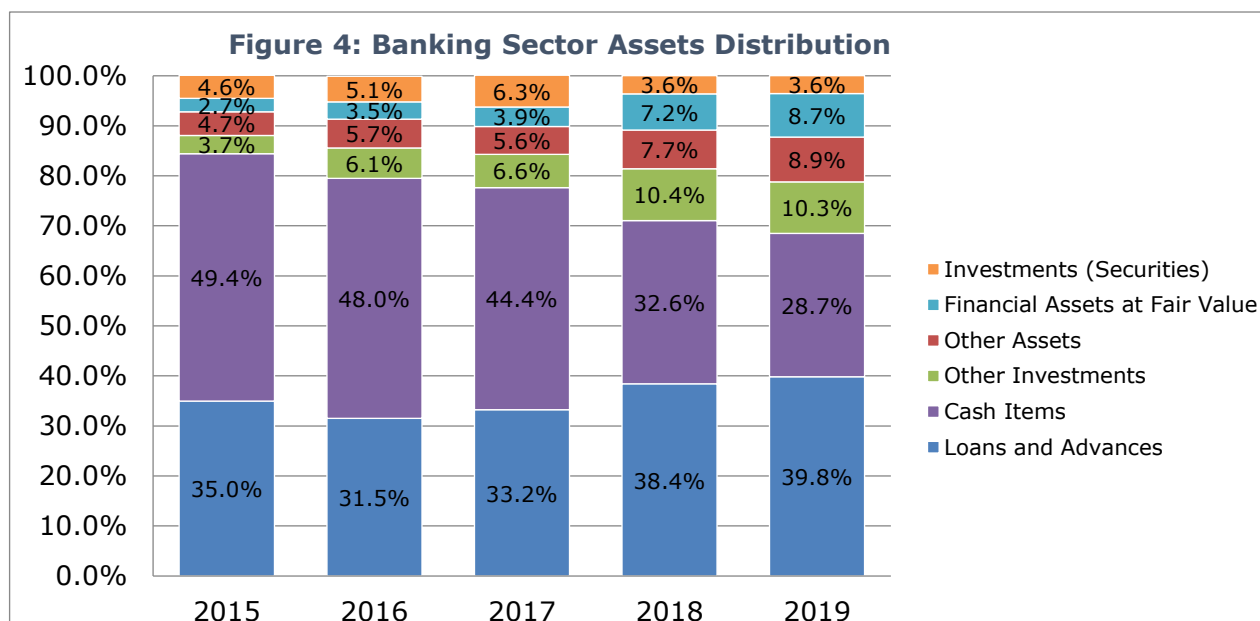
## Banking Sector - Asset Distribution

As depicted in Table 3 and Figure 4, the 2019 composition of total assets displayed likeness to the composition reported in 2018, where Loans and Advances and Cash Items accounted for the majority of total assets. At the end of 2019, 39.8% (2018: 38.4%) of total assets were reported as Loans & Advances whereas 28.7% (2018: 32.6%) were Cash Items.

Within the Banking Sector, Category 'B' Banks account for 97.2% of total assets as the size of operations allows for branches to provide funding to their group bank entities. The decrease in Cash Items over the year in review was mainly attributable to cash items within Category 'B' Banks.

**Table 3: Asset Distribution for the Banking Sector (USD millions)**

Assets	Category 'A' Banks	Category 'B' Banks	Total
Cash Items	7,927	183,517	191,444
Financial Assets at Fair Value	1,698	56,446	58,144
Investments - Held-to-Maturity	1,661	22,170	23,831
Investments - Available-for-Sale	0	0	0
Other Investments	633	67,920	68,553
Gross Loans and Advances	6,579	260,316	266,895
<i>Less Loan Loss Provisions</i>			
<i>Specific Loan Loss Reserves</i>	30	596	626
<i>Unearned Interest</i>	12	310	322
Net Loans and Advances	6,537	259,409	265,946
Other Assets	501	59,125	59,627
<b>TOTAL ASSETS</b>	<b>18,958</b>	<b>648,587</b>	<b>667,546</b>



## Banking Sector - Cash Items

Total cash of US\$ 191 billion at year-end 2019 decreased by US\$28 billion; 12.9% when compared to 2018.

With several major branches from the US and Europe exiting the Cayman Islands jurisdiction during the year this resulted in a decline in non-resident Group Bank Certificate of Deposits of US\$28.8 billion; demonstrating the balance sheet impact of non-resident branches trimming their operations and remitting funds back to their parent companies.

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

Cash Items	2015		2016		2017		2018		2019	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Cash	50	745	46	12	52	11	43	41	53	48
Gold and bullion	0	0	0	0	2	0	0	0	0	0
Cash items in process of collection	15	72	33	0	13	2	12	0	13	3
Certificates of Deposits (CD's): Group Bank - Parent, Branch, Subsidiary & Affiliate	7,399	573,961	1,316	498,630	2,031	409,240	330	218,428	388	189,776
Group Non-Bank entities	6,797	556,184	1,129	480,584	1,421	392,322	124	207,496	215	178,674
Other Banks	5	5,324	11	6,561	15	6,221	14	2,934	0	415
Due from financial institutions	597	12,453	176	11,485	595	10,697	192	7,998	173	10,688
	1	1,861	0	1,274	4	782	6	996	0	1,161
<b>TOTAL</b>	<b>7,465</b>	<b>576,639</b>	<b>1,395</b>	<b>499,916</b>	<b>2,102</b>	<b>410,035</b>	<b>391</b>	<b>219,465</b>	<b>455</b>	<b>190,988</b>

## Banking Sector – Investments

As of 31 December 2019, Financial Assets and Investments increased by US \$11.3 billion; 16%. The increase is attributable to the increased placements in the financial markets driven by the outstanding performance of the financial markets in 2019. No investments were recognised in 2019 under the Available-for-Sale category due to the implementation of IFRS 9 in 2018.

**Table 5: Banking Sector - Investments by Resident vs Non-Resident (USD millions)**

INVESTMENTS	2015		2016		2017		2018		2019	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
<b>Financial Assets at Fair Value</b>										
Sovereigns and Central Banks	0	2,682	0	1,187	0	1,193	11	4,519	12	9,593
Non-Central Government										
Public Sector Entities (PSEs)	0	336	0	252	0	506	4	3,771	0	6,110
Multilateral Development Banks (MDBs)	0	11	0	15	0	10	0	2,003	0	2,700
Group Bank - Parent, Branch, Subsidiary or Affiliate	0	7,274	0	3,286	0	2,503	8	2,429	3	1,628
Group non-banking entities	5	5,709	0	734	0	8	0	6,451	1,107	729
Other Banks	531	206	398	287	58	654	518	2,033	588	3,565
Non-financial Corporations - Commercial Private Sector	81	8,492	57	8,344	25	6,709	134	2,707	202	2,768
Other Financial Corporations	957	3,516	3,362	18,512	4,031	20,687	2,570	21,620	1,988	27,151
<b>TOTAL</b>	<b>1,573</b>	<b>28,227</b>	<b>3,816</b>	<b>32,617</b>	<b>4,114</b>	<b>32,270</b>	<b>3,245</b>	<b>45,532</b>	<b>3,900</b>	<b>54,244</b>
<b>Held-to-Maturity</b>										
Sovereigns and Central Banks	4	4,162	4	4,447	4	3,941	4	8,543	0	7,495
Non-Central Government										
Public Sector Entities (PSEs)	0	345	0	623	0	597	0	1,164	0	1,119
Multilateral Development Banks (MDBs)	0	26	0	18	0	41	0	311	0	222
Group Bank - Parent, Branch, Subsidiary or Affiliate	0	436	0	428	0	434	0	8,579	0	12,693
Group non-banking entities	0	0	0	0	0	0	0	0	0	0
Other Banks	17	170	22	123	25	87	24	1,034	26	577
Non-financial Corporations - Commercial Private Sector	92	335	8	431	9	447	134	2,040	205	1,465
Other Financial Corporations	18	28	3	21	0	22	0	29	0	30
<b>TOTAL</b>	<b>131</b>	<b>5,502</b>	<b>37</b>	<b>6,091</b>	<b>38</b>	<b>5,568</b>	<b>163</b>	<b>21,701</b>	<b>231</b>	<b>23,600</b>
<b>Available-for-Sale</b>										
Sovereigns and Central Banks	9	10,895	12	10,943	10	13,238	0	1,209	0	0
Non-Central Government										
Public Sector Entities (PSEs)	0	5,349	0	5,349	0	6,945	0	0	0	0
Multilateral Development Banks (MDBs)	0	1,1127	0	1,848	0	1,937	0	0	0	0
Group Bank - Parent, Branch, Subsidiary or Affiliate	63	8,175	62	9,447	34	9,347	0	802	0	0
Group non-banking entities	0	4,019	0	4,009	0	6,954	0	0	0	0
Other Banks	75	4,964	367	5,057	375	4,954	0	84	0	0
Non-financial Corporations - Commercial Private Sector	524	5,441	392	5,557	717	5,415	174	256	0	0
Other Financial Corporations	271	9,008	68	4,288	76	3,143	0	0	0	0
<b>TOTAL</b>	<b>942</b>	<b>48,978</b>	<b>902</b>	<b>46,498</b>	<b>1,212</b>	<b>51,931</b>	<b>174</b>	<b>2,351</b>	<b>0</b>	<b>0</b>

## Banking Sector - Loans & Advances

Loans & Advances which represent 39.8% of total assets of the Banking Sector increased by US\$7 billion or 2.8% when compared to 2018 primarily due to an increase in loans to non-resident group bank loans.

Resident loans to non-financial corporations – industrial and commercial private sector more than halved in 2019 to US\$1.1 billion from US\$2.8 billion whereas resident loans to other financial corporations – financial intermediaries increased to US\$2.4 billion.

**Table 6: Loans and Advances by Resident vs Non-Resident and Sector (USD millions)**

Loans and Advances (Gross)	2015		2016		2017		2018		2019	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Sovereigns and Central Banks	591	928	429	976	348	793	309	1,640	379	1,656
Non-Central Government Public Sector Entities	84	517	99	281	63	212	64	213	62	285
Multilateral Development Banks (MDBs)	0	0	0	0	0	0	0	0	0	0
Group Bank - Parent, Branch, Subsidiary or Affiliate	4,627	173,804	1	157,187	115	153,065	105	117,082	1	126,095
Group non-bank entities	432	139,428	1,930	88,240	1,870	78,079	1,633	62,805	4,773	51,019
Other banks	323	7,455	173	3,510	80	3,565	44	1,617	61	4,168
Non-financial Corporations - Industrial & Commercial Private Sector	1,733	45,821	1,540	37,286	1,505	31,325	2,896	27,211	1,120	31,588
Non-Financial Corporations - Commercial Mortgages	175	1,953	255	1,752	238	3,944	277	6,832	310	4,625
Other Financial Corporations - Financial Intermediaries	841	13,769	941	15,818	563	15,343	1,762	20,632	2,411	18,882
Retail Lending/Consumer Loans - Households	351	3,154	353	2,925	346	2,290	345	1,152	601	2,425
Residential Mortgages - Households	1,869	829	1,925	608	1,972	436	2,008	518	2,093	502
Other loans and advances	177	14,348	140	11,968	131	12,038	156	10,171	34	13,807
<b>TOTAL</b>	<b>11,203</b>	<b>402,006</b>	<b>7,786</b>	<b>320,551</b>	<b>7,231</b>	<b>301,090</b>	<b>9,599</b>	<b>249,873</b>	<b>11,845</b>	<b>255,052</b>

### Banking Sector - Loans to Funding and Liquidity Ratios

Loans-to-Deposit ratio (LTD), a measure of a Bank's funding capabilities and liquidity continued to increase in 2019. With the decline of US\$27.7 billion in Deposits and the increase in Loans by US\$7.4 billion, the LTD ratio was up 54.2% from 49.9% in 2018. Consequently, liquid asset ratios to short term liabilities and liquid asset ratios to total assets were both down compared to 2018 due to the banks holding lesser liquid assets (Cash Items) as shown in Table 4.

**Table 7: Banking Sector – Liquidity Ratios**

	2015	2016	2017	2018	2019
Liquid Assets (Cash Items) to Short-Term Liabilities (Deposits up to 90 days)	78.6%	97.7%	82.7%	62.1%	56.9%
Liquid Assets (Cash Items) to Total Assets (Liquid Assets Ratio)	49.5%	48.3%	44.4%	32.6%	28.7%
Loans to Deposits Ratio	43.1%	40.4%	42.1%	49.9%	54.2%
Total Assets	1,179,647	1,037,983	927,560	673,713	667,546
Loans	413,209	328,337	308,321	259,472	266,895
Liquid Assets	584,104	501,311	412,137	219,856	191,444
Deposits	958,833	812,490	732,340	520,407	492,732
Short-Term Liabilities	743,425	513,131	498,158	354,035	336,525

### Banking Sector - Non-Performing Loans and Provisioning

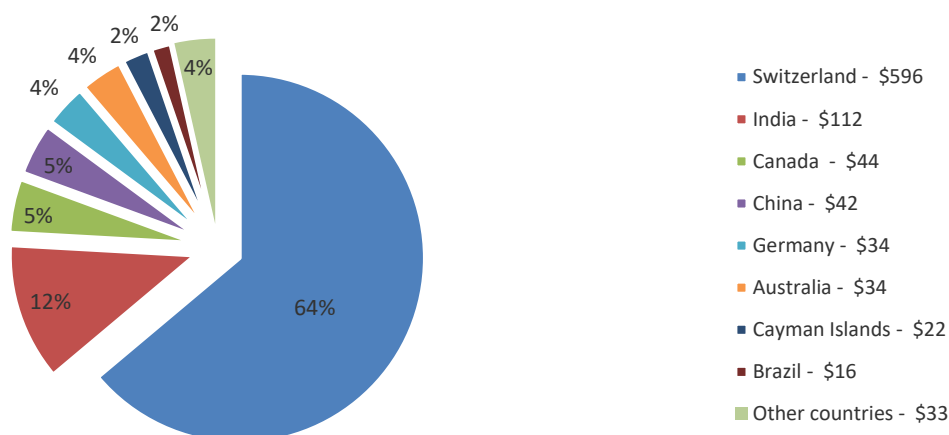
Total Non-Performing Loans (NPLs) increased in 2019 to US\$933 million from US\$549 million in 2018; with 70.5% (2018: 53.4%) of total NPLs classified as Substandard. The largest increase was reported by Class 'B' branches where non-resident NPLs increased from US\$427 million in 2018 to US\$ 838 million in 2019 as a result of increased allocations by a Switzerland bank. Figure 5 provides a breakdown of non-performing loans by jurisdiction reporting 64% of NPLs are by banks domiciled in Switzerland.

The NPL ratio for 2019 increased to 0.4% from 0.2% in 2018 as a result of higher PLLs and higher NPLs in 2019; however the total loan provisions to NPLs decreased from 238.6% in 2018 to 111.1% in 2019.

**Table 8: Banking Sector - Non-Performing Loan Ratios**

	2015	2016	2017	2018	2019
NPLs: Total Loans	0.6%	0.8%	0.4%	0.2%	0.4%
Total Loan Loss Provisions: NPLs	75.1%	68.9%	122.3%	238.6%	111.1%
Specific Loan Loss Provisions: NPLs	63.4%	54.4%	82.3%	129.1%	101.8%
General Loan Loss Provisions: NPLs	11.7%	14.5%	40.0%	109.5%	44.0%
NPLs	2,615	2,670	1,181	549	933
Total Loan Loss Provisions	1,964	1,840	1,444	1,310	1,037
Specific Loan Loss Provisions	1,659	1,453	972	709	627
General Loan Loss Provisions	305	387	472	601	411
<b>Total Loans</b>	<b>413,209</b>	<b>328,337</b>	<b>308,321</b>	<b>259,472</b>	<b>266,895</b>

**Figure 5: Non-Performing Loans by Country  
(in '000,000')**



### Banking Sector - Liabilities Distribution

Total deposits of US\$492 billion were down US\$27.7 billion or 5.3% between 2018 and 2019. The contraction in banking business and the decline in the number of licensed banks contributed to the decline in core deposits observed over a 5-year period. There was notably an increase in term debt and other borrowings which is further explained later in this report.

Total shareholders' equity of US\$40.7 billion (2018: US\$38.5 billion) was also up 5.6% when compared to 2018.

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

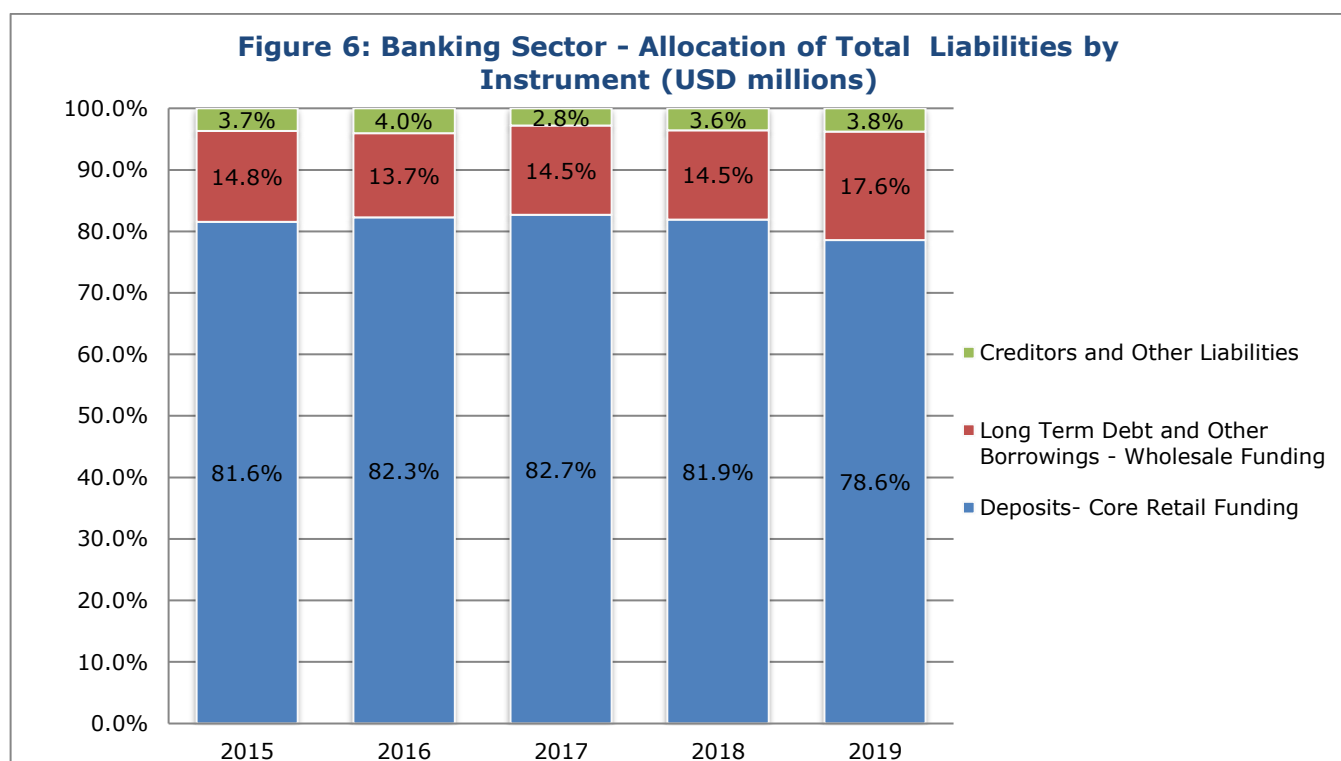
	Category 'A' Banks	Category 'B' Banks	Total
Deposits	16,064	476,669	492,732
Repurchase Agreements (REPOS)	0	14,243	14,243
Hybrid Debt and Subordinated Debt	0	12,692	12,692
Other Notes, Bonds and Commercial Paper	0	39,859	39,859
Other Borrowings	0	44,284	44,284
Creditors and Other Liabilities	387	22,082	22,469
Other Loss Provisions	37	499	536
<b>TOTAL LIABILITIES</b>	<b>16,487</b>	<b>610,328</b>	<b>626,815</b>
TOTAL SHAREHOLDERS EQUITY	2,471	38,260	40,730
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>18,958</b>	<b>654,588</b>	<b>667,546</b>



## Banking Sector - Funding Distribution

As captured in Table 10, Non-resident deposits account for 92.9% (2018: 93.4%) of the total deposits. The decrease of 5.3% over the prior year is consistent with the decline in banking business of Category 'B' branches and subsidiaries. Group bank non-resident deposits which make up 67% of total deposits were up US\$3.8 billion.

Deposits by resident group non bank entities were relatively unchanged from 2018, though deposits shifted from Group Banks and Non-financial Corporations to non Bank entities which increased by US\$4.6 billion.



**Table 10: Banking Sector – Allocation of Total Deposits by Sector (USD millions)**

Deposits	2015		2016		2017		2018		2019	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Sovereigns and Central Banks	767	2,777	700	2,306	716	953	1,053	965	1,059	341
Non-Central Government Public Sector Entities (PSEs)	230	1,035	247	1,080	387	822	212	223	203	924
Multilateral Development Banks (MDBs)	0	60	0	200	0	220	0	20	0	0
Group Bank: Parent, Branch, Subsidiary or Affiliate	10,033	498,053	4,672	471,402	5,063	444,099	4,646	325,498	3,393	329,383
Group non-bank entities	5,276	103,599	4,676	57,802	5,433	49,520	718	33,651	5,363	26,070
Other Banks	8,020	28,137	5,270	14,561	786	14,990	840	12,220	308	9,323
Non-financial Corporations: Commercial Private Sector	4,848	117,042	5,931	109,120	6,746	101,755	7,588	57,543	5,890	58,479
Other Financial Corporations: Financial Intermediaries & Auxiliaries	14,717	110,043	14,420	91,988	14,384	59,263	16,376	52,320	15,857	29,424
Individuals - Households	2,094	4,848	1,921	3,834	1,827	2,982	2,241	2,400	2,486	2,587
Other Deposits	3,466	43,788	3,008	19,352	2,616	19,778	430	1,463	277	1,364
<b>Total</b>	<b>49,451</b>	<b>909,382</b>	<b>40,845</b>	<b>771,645</b>	<b>37,958</b>	<b>694,382</b>	<b>34,104</b>	<b>486,303</b>	<b>34,836</b>	<b>457,895</b>

### ***Banking Sector – Term Debt and Other Borrowings***

Non-deposit funding of US\$111 billion (2018: US\$92.8 billion) which consists of REPOS, hybrid debt, notes, bonds and other borrowings increased by 19.6% in 2019 when compared to 2018.

As reported in Table 11, non-resident term debt and other borrowings account for 85.8% of total term debt and other borrowings and reported a Y-o-Y increase of 23.5%. This increase was driven primarily by additional credit facilities being extended to Group Bank – Parent, Branch, Subsidiary of Affiliate.

Resident borrowings increased modestly by US\$50 million with a increase in lending to Other Borrowing, Group non-bank entities by US\$1.3 billion. As at December 2019, Hybrid Debt and Subordinated were not issued by Resident Banks.

**Table 11: Banking Sector – Allocation of Term Debt and Other Borrowings by Sector (USD millions)**

TOTAL TERM DEBT AND OTHER BORROWINGS	2015		2016		2017		2018		2019	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
<b>Repurchase Agreements (REPOS)</b>	<b>5,076</b>	<b>9,827</b>	<b>5,849</b>	<b>10,418</b>	<b>8,609</b>	<b>8,481</b>	<b>6,669</b>	<b>8,229</b>	<b>6,039</b>	<b>8,205</b>
Group Bank - Parent, Branch, Subsidiary or Affiliate	4,502	3,146	1	6,010	0	4,776	123	4,377	0	4,038
Other Banks	574	5,166	624	866	819	1,859	826	3,784	0	3,604
Group non-bank entities	0	1,011	5,224	39	7,185	39	5,720	48	6,039	545
Other	0	504	0	3,503	605	1,807	0	20	0	18
<b>Hybrid Debt and Subordinated Debt</b>	<b>88</b>	<b>16,083</b>	<b>0</b>	<b>12,407</b>	<b>0</b>	<b>13,305</b>	<b>0</b>	<b>12,365</b>	<b>0</b>	<b>12,692</b>
Unsecured subordinated debt (over 5 years original term maturity)	88	8,648	0	5,259	0	6,155	0	5,925	0	6,251
Hybrid debt/equity instruments (over 5 years original term to maturity)	0	7,435	0	7,148	0	7,150	0	6,440	0	6,442
<b>Other Notes, Bonds and Commercial Paper</b>	<b>270</b>	<b>51,129</b>	<b>94</b>	<b>34,856</b>	<b>61</b>	<b>34,063</b>	<b>1,664</b>	<b>32,854</b>	<b>1,048</b>	<b>38,811</b>
Group Bank - Parent, Branch, Subsidiary or Affiliate	52	6,153	0	4,908	0	2,803	750	4,538	0	6,585
Group non-bank entities	60	12,465	0	301	0	1,046	0	2,561	0	2,912
Other Banks	158	18,806	94	17,345	44	15,270	914	13,563	645	16,247
Other	0	13,705	0	12,302	17	14,944	0	12,192	403	13,067
<b>Other Borrowings (loans, overdrafts, credit facilities, etc.)</b>	<b>9,109</b>	<b>81,971</b>	<b>10,299</b>	<b>62,063</b>	<b>12,008</b>	<b>52,531</b>	<b>7,369</b>	<b>23,734</b>	<b>8,664</b>	<b>35,620</b>
Group Bank - Parent, Branch, Subsidiary or Affiliate	300	54,925	1	44,240	45	38,191	233	11,125	41	20,852
Group non-bank entities	8,706	12,692	9,765	856	11,722	1,473	7,127	468	8,495	1,134
Other Banks	0	13,491	500	16,601	221	12,670	0	11,676	0	11,666
Other	103	863	33	366	20	197	9	465	128	1,968
<b>Total Term Debt and Other Borrowings</b>	<b>14,543</b>	<b>159,010</b>	<b>16,242</b>	<b>119,744</b>	<b>20,678</b>	<b>108,380</b>	<b>15,702</b>	<b>77,182</b>	<b>15,751</b>	<b>95,327</b>

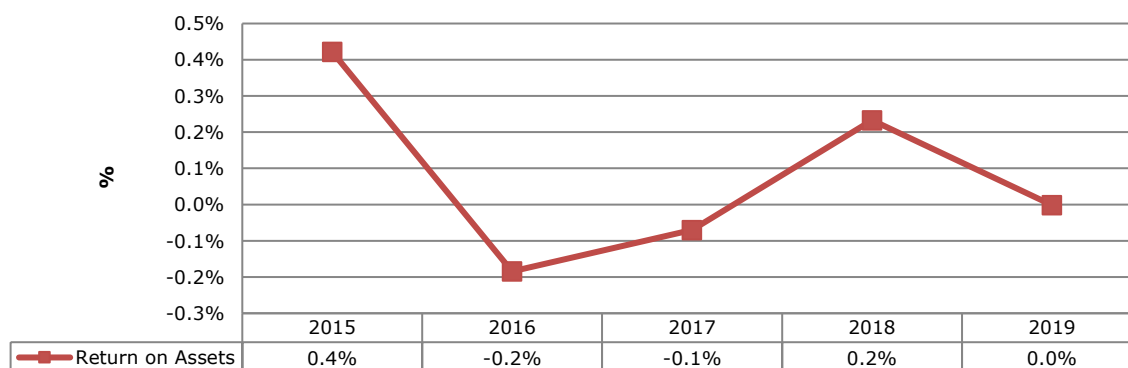
## Banking Sector - Earnings & Profitability

Following a loss of US\$984 million in 2017 and a gain of US\$1.358 billion in 2018, net income in 2019 was, once again, negative reporting a loss of US\$ 7 million. Other income fell substantially, reporting at US\$791 million compared to US\$8.3 billion in 2018. Though the industry was able to turn around the trading loss suffered in 2018, the significant reduction in other income offset any potential returns. The resulting operating income was US\$2.4 billion compared to US\$4.1 billion in 2018. With the decrease in total assets and a small net loss, ROAA was nil in 2019 compared to a positive rate of return of 0.23% in 2018. As at the end of 2019, ROAE produced a positive rate of return of 11.3% compared to a 10% in the prior year.

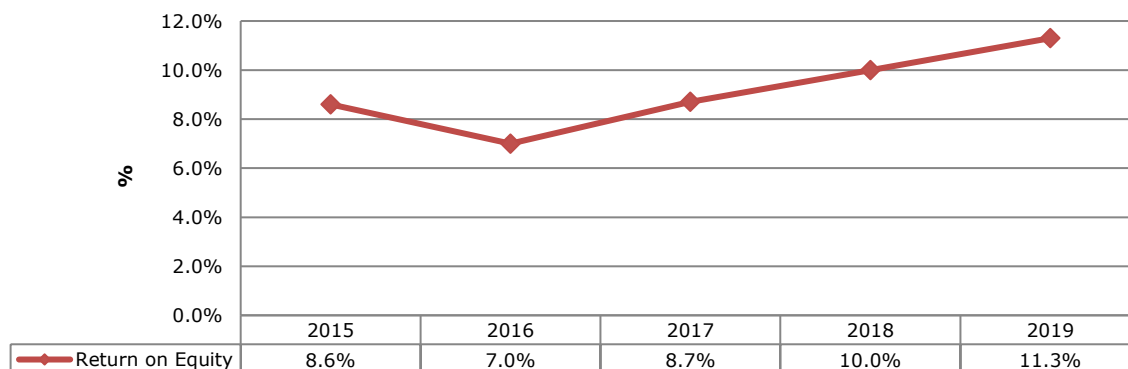
**Table 12: Banking Sector - Statement of Earnings (USD millions)**

	2015	2016	2017	2018	2019
Net Interest Income	3,120	4,344	1,735	518	659
Net Non-Interest Income	683	508	691	1,240	980
Provisions for Credit Losses /Recoveries	-302	-1,459	-355	- 315	-720
Other Income/(Losses)	1,644	-585	-1,621	8,356	791
Trading Income Gain/(Loss) on Financial Instruments)	1,957	-2,145	515	-5,691	744
Operating Income	7,102	663	965	4,108	2,454
Operating Expense	2,127	2,413	1,532	2,540	2,345
Applicable taxes & Dividends	106	213	417	210	-
<b>Net (Loss) Income Before Taxes and Dividends</b>	<b>4,869</b>	<b>(1,963)</b>	<b>(984)</b>	<b>1,358</b>	<b>109</b>

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



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



## Cross-border Assets & Liabilities

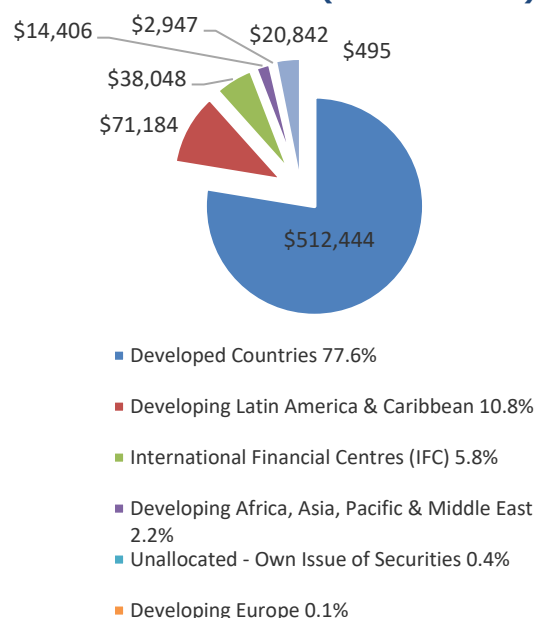
### Domestic & International Positions

The total positions booked by Cayman-based banks in 2019 declined to US\$662.6 billion (2018: US\$672.4 billion) and US\$662.2 billion (2018: US\$673.6 billion) in assets and liabilities, respectively. These movements followed the negative trend from 2018 and represented 1.5% (US\$9.8 billion) and 1.7% (US\$11.4 billion) declines in assets and liabilities year on year, respectively.

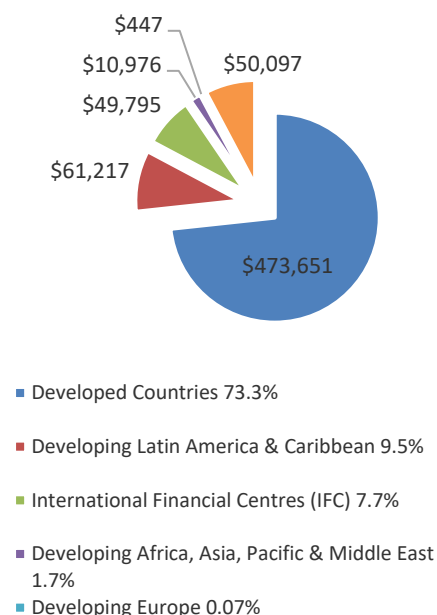
This contraction resulted in the decline in ranking of the Cayman Islands international banking position from 12<sup>th</sup> to 14<sup>th</sup> by BIS for both cross-border assets and liabilities. Notwithstanding, the Cayman Islands continues to be recognised as one of the top 10 international financial centres in the world, with over 40 of the top 50 banks globally holding licences.

In 2019, US\$22 billion (2018: US\$18 billion) and US\$51 billion (2018: US\$50 billion) of assets and liabilities, respectively, were booked in the domestic economy with other legally domiciled licensed entities considered as resident entities. The decline in total assets was a result of reduced flows by Banks of Developed Countries; liabilities remained largely unchanged.

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



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



## Domestic Positions - Foreign & Local Currency

During 2019, Category 'A' banks accounted for US\$ 4.1 billion in domestic assets and US\$ 10.8 billion in domestic liabilities. Category 'B' banks which exist to facilitate interbank and intergroup positions with other Cayman Islands licensed banks and exempt or ordinary non-resident companies, reported US\$ 18.2 billion in domestic assets and US\$ 40.3 billion in domestic liabilities.

**Table 13: Banking Sector - Domestic Assets & Liabilities by Instrument (USD millions)**

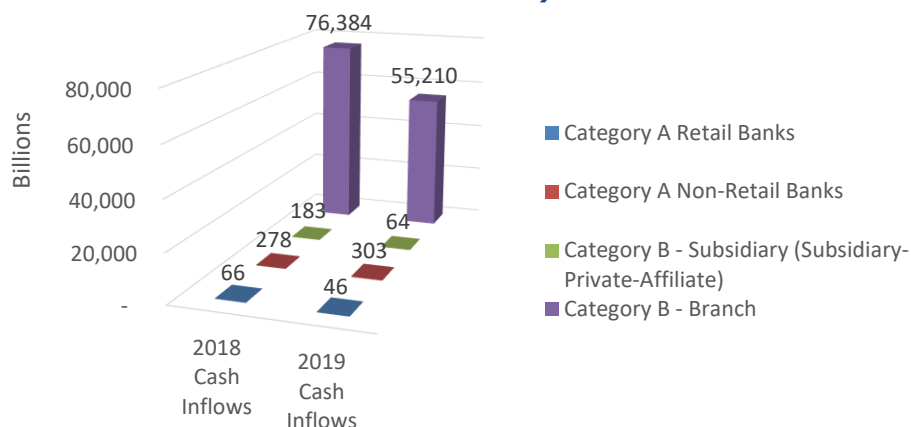
	Category 'A'		Category 'B'	Total
Domestic Assets	Retail	Non-Retail		
Cash Items	118	154	163	435
Financial Assets at Fair Value	0		3,797	3,798
Investments: Held-to-Maturity			322	322
Investments: Available-for-Sale			0	0
Other Investments	9	50	2,898	2,957
Loans and Advances	3,178	325	7,469	10,972
Less Loan Loss Provisions	17		0	17
Net Loans and Advances	3,161	325	7,469	10,955
Other Assets	246	114	3,639	3,999
<b>TOTAL ASSETS</b>	<b>3,535</b>	<b>642</b>	<b>18,288</b>	<b>22,465</b>
Domestic Liabilities				
Deposits	7,581	2,979	23,137	33,697
Repurchase Agreements (REPOS)			6,039	6,039
Hybrid Debt & Subordinated Debt			0	0
Other Notes, Bond & Commercial Paper			1,048	1,048
Other Borrowings			8,664	8,664
Creditors & Other Liabilities	143	128	1,482	1,752
Other Loss Provisions	23		4	27
<b>TOTAL LIABILITIES</b>	<b>7,747</b>	<b>3,106</b>	<b>40,374</b>	<b>51,227</b>

## Cross-Border Cash Flows

The Cash Flows Return are submitted quarterly by all Category "A", "B", or Restricted "B" Banking licensees. Cross-border payments reported include wire transfer and remittances but may also include other forms of electronic transfers and payment systems where monies are transferred into and out of the Cayman Islands. Category 'B' Banks largely contribute to the cross-border flows accounting for 99.4% of total inflows and 99.3% of total outflows. There was a net inflow of US\$ 5.3 trillion in 2019 compared to a net outflow of US\$ 706 billion in 2018.

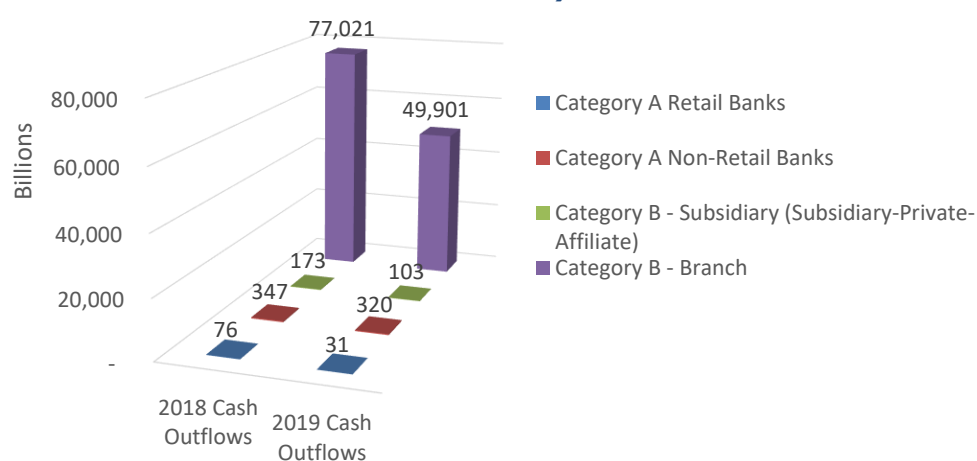
In 2019, as shown in Figure 11, total inflows were reported at US\$55.6 trillion, decreasing by 27.7% when compared to the inflows reported for 2018. There was a decrease observed across all categories except Category 'A' non-retail Banks which increased by US\$24.6 billion.

**Figure 11: Comparative Total Inflows amount in (US\$ billions)**



Total outflows in 2019 were reported at US\$ 50 trillion, decreasing by 35.1% when compared to the outflows reported for 2018. There was a decrease observed across all categories with the largest decrease seen in Category 'B' Branches which decreased by 35.2%.

**Figure 12: Comparative Total Outflows amount in (US\$ billions)**





## Banking Digest 2019

Cash flows are monitored on a jurisdictional basis to identify exposure to high-risk countries as identified by the Global Terrorism Index, Financial Action Task Force ("FATF") monitored jurisdictions, Her Majesty's Treasury's ("HMT") Sanctions list and the Basel Institute of Governance. Table 14 and 15 captures the Top 10 countries for both inflows and outflows with the top three jurisdictions being the United States, Canada and the United Kingdom. Collectively these three countries account for 91.89% of inflows (US\$ billions) and 91.52% of outflows (US\$ billions) demonstrating the low exposure to high-risk countries identified by global indices.

**Table 14: Top 10 Inflows by Jurisdiction**

Country	Inflows (US\$ billions)	% of inflows	Volumes	% of inflows
1 United States	35,915.5	64.55%	594,319	33.42%
2 Canada	9,577.7	17.21%	599,155	33.70%
3 United Kingdom	5,641.8	10.14%	117,933	6.63%
4 Cayman Islands <sup>4</sup>	980.2	1.76%	97,390	5.48%
5 Ireland	591.3	1.06%	18,013	1.01%
6 China	591.1	1.06%	12,460	0.70%
7 Luxembourg	476.3	0.86%	18,547	1.04%
8 Belgium	231.4	0.42%	4,493	0.25%
9 Germany	205.0	0.37%	34,943	1.97%
10 Switzerland	200.3	0.36%	19,183	1.08%
	54,411.3	97.8%	1,516,436	85.3%

**Table 15: Top 10 Outflows by Jurisdiction**

Country	Outflows (US\$ billions)	% of outflows	Volumes	% of outflows
1 United States	35,776.1	71.05%	1,408,274	53.22%
2 Canada	6,261.0	12.43%	128,437	4.85%
3 United Kingdom	4,047.3	8.04%	169,916	6.42%
4 Cayman Islands	985.8	1.96%	348,490	13.17%
5 China	589.3	1.17%	18,816	0.71%
6 Ireland	555.8	1.10%	25,833	0.98%
7 Germany	328.4	0.65%	84,846	3.21%
8 Belgium	200.3	0.40%	5,179	0.20%
9 Switzerland	195.3	0.39%	19,548	0.74%
10 Luxembourg	135.6	0.27%	27,123	1.02%
	49,075.3	97.46%	2,236,462	84.52%

<sup>4</sup> These flows include intragroup and sweep transactions

## Box 2: Banking Sector Developments

Following the impact of the 2008 global financial crisis, the Basel Committee on Banking Supervision continues in its efforts to improve banks' ability to withstand financial shocks by encouraging transparency within the industry through the implementation of the Basel III accord.

Due to the ramifications of the COVID-19 pandemic, the Basel Committee announced that Basel III measures will be deferred by one year to 1 January 2023. In 2019, the Authority released a roadmap for the implementation of Basel III in four (4) phases. Phase 1 will include implementation of the following key standards: Domestic Systemically Important Banks (D-SIBs) Framework (excluding capital charge) which is already in progress, large exposures framework and the Interest Rate Risk in the Banking Book (IRRBB) framework. The roadmap is well underway, with staggered implementation expected to occur over the course of the 2021 year.

In June 2019, the Authority rolled out new reporting requirements in accordance with revised liquidity risk measures and the Basel III Framework. Category 'B' Banks and non-retail Category 'A' banks were required to submit Minimum Liquidity Ratios and Category 'A' Retail Banks were required to report Liquidity Coverage and Net Stable Funding Ratios. These ratios continue to be monitored in conjunction with the other requirements of Basel III and will be made available to stakeholders in future publications.

In line with the international standards for combating money laundering, terrorist financing, proliferation financing and other threats to the integrity of the domestic and international financial system, the Authority continues to enhance its legislation and guidance to promote the effective implementation of legal, regulatory and operational measures by licensed banks in Cayman Islands.

One key measure has been the enhancement to the Authority's Risk-Based Supervisory framework to assess the licensee's impact on the financial system should regulatory risk materialize. Additionally, both inherent risk and controls were assessed taking into consideration the findings from on-site inspections, internal audit reports and discussions with home supervisory agencies.

Moreover, further process enhancements were made with the introduction of quarterly international Cash Flow Reporting to assist in determining the origin and destination of financial flows and details on the payment providers utilized for these transactions to strengthen the AML/CFT monitoring process in accordance with CFATF.

Though significant progress was made in 2018, the threat of de-risking remains a challenge for the jurisdiction, with smaller banks unable to acquire additional correspondent banking relationships due to major US Banks safeguarding themselves from non-compliance by discontinuing services to overseas financial organizations and businesses, and also considering the cost/benefit of doing business. During 2019, a few retail banks terminated their correspondent banking relationship for some non-traditional currencies citing that these accounts were deemed uneconomical to maintain.

The potential loss of correspondent banking relationships and the impact in the Cayman Islands continues to be actively monitored by the Authority through open and active dialogues with local industry stakeholders and the correspondent banks and participation in regional and international panel discussions such as with the US Department of State and the US Department of Commerce in Miami.

## Category 'A' Retail Banks

### Financial Soundness Indicators

#### Capital Adequacy Ratio

The CAR of 13.3% for the six retail banks remained above the 8.0% threshold prescribed by the Basel II Accord and the minimum 10.0% requirement of the Cayman Islands Banks and Trust Companies Law.

#### Asset Quality

The NPL ratio of 1.4% was marginally lower than in 2018 due to better performing loans as a result of improvements in the economic environment over the review period.

#### Earnings and Profitability

Return on equity showed an improvement to 18.1% in 2019 up from 15.3% in 2018 due to higher net income and improvement in shareholders' equity.

#### Liquidity

Liquidity ratios across the retail banks was reported at 31.8% (2018: 32.7%). A similar trend was observed in the liquid assets to short-term liabilities ratio which decreased from 53.8% to 52.7%.

**Table 16: Core Financial Soundness Indicators for Category 'A' Retail Banks**

Core Financial Soundness Indicators Indicator (%)	2015	2016	2017	2018	2019
<b>Capital Adequacy</b>					
Regulatory Capital to risk-weighted assets	18.9	19.0	22.2	25.5	28.5
Regulatory Tier 1 Capital to risk-weighted assets	17.1	16.8	19.8	22.4	24.5
Regulatory Tier II Capital to risk-weighted assets	1.8	2.2	2.4	3.1	4.0
Total Regulatory Capital to Total assets	10.5	10.8	11.5	12.9	13.3
Non-performing loans (net of provisions) to capital	7.5	6.1	3.8	2.6	2.1
<b>Asset Quality</b>					
Non-performing loans to total Gross Loans	2.5	2.1	1.8	1.6	1.4
Specific provisions to non-performing loans	33.5	34.7	42.1	50.0	48.8
<b>Earnings and Profitability</b>					
Return on equity	11.2	13.3	13.0	15.3	18.1
Return on assets	1.3	1.5	1.6	2.0	2.6
Interest margin to gross income	69.7	69.9	70.0	73.1	71.5
Non-interest expenses to gross income	54.0	50.2	48.7	43.9	41.5
<b>Liquidity</b>					
Liquid assets (core) to total assets	25.7	24.5	33.5	32.7	31.8
Liquid assets (core) to short-term liabilities	39.2	38.2	53.4	53.8	52.7

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

Total assets for the retail sector increased by US\$87 million or 0.6% in 2019. During 2018, there was a reallocation of investments from Available-for-Sale to Financial Assets at Fair Value for all the banks due to the adoption of IFRS 9. This new standard was in response to the financial crisis and aims to improve the accounting and reporting of financial assets and liabilities which came into effect for periods beginning on or after January 1, 2018. Total Investments increased by US\$487 million and Loans & Advances steadily declined over the 5-year period, decreasing by 4.7%. Loan and advances amounted to US\$5.9 million as at the end of 2019.

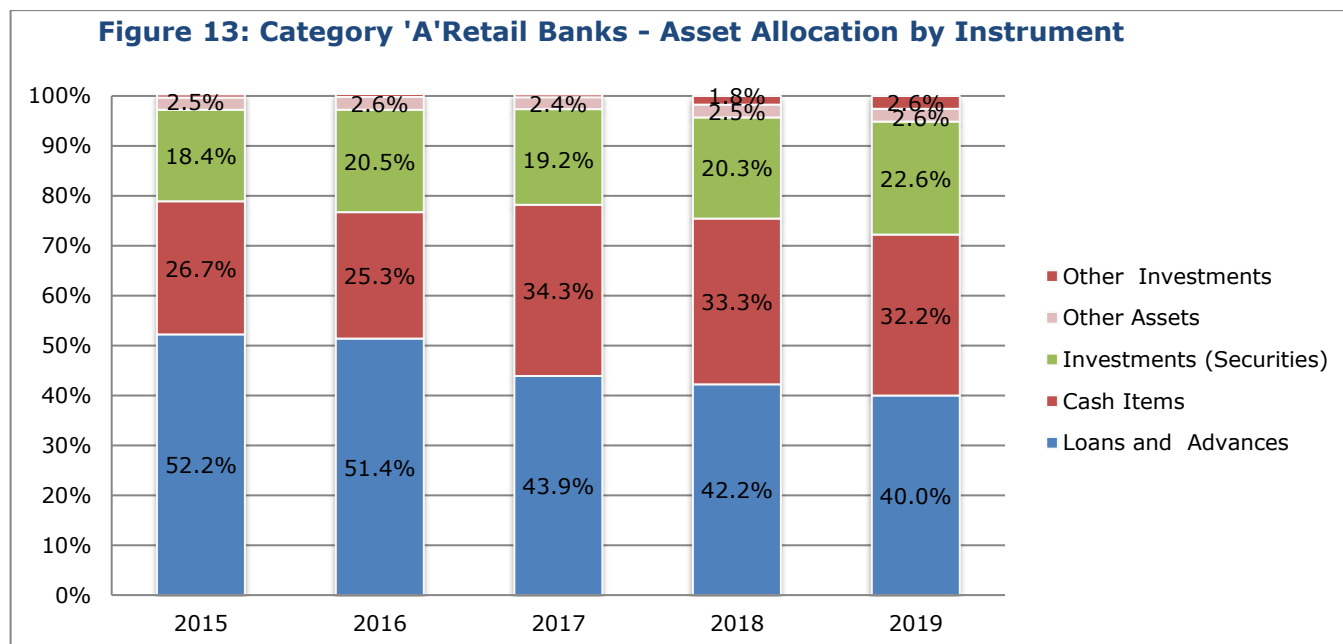
Total Liabilities decreased by 0.4% due to a decrease in other borrowings and other liabilities. Shareholders' equity grew by US\$140 million as a result of improved financial performance and income retained for the year.

**Table 17: Balance Sheet Profile for Category 'A' Retail Banks by Instrument (USD millions)**

	2015	2016	2017	2018	2019
<b>ASSETS</b>					
Cash Items	3,753	3,648	5,189	4,909	4,784
Financial Assets at Fair Value	14	8	4	1,537	1,698
Investments - Held-to-Maturity	641	912	906	1,455	1,661
Investments - Available-for-Sale	1,931	2,032	1,999	0	0
Other Investments	88	88	88	259	379
Loans and Advances	7,332	7,394	6,636	6,279	5,983
Net Loans	7,273	7,340	6,585	6,229	5,941
Other Assets	342	369	358	373	385
<b>TOTAL ASSETS</b>	<b>14,042</b>	<b>14,397</b>	<b>15,129</b>	<b>14,762</b>	<b>14,849</b>
<b>LIABILITIES</b>					
Deposits	12,271	12,493	13,054	12,511	12,530
Repurchase Agreements (REPOS)	0	0	0	0	0
Hybrid Debt and Subordinates Debt	0	0	0	0	0
Other Notes, Bonds and Commercial Paper	0	0	0	0	0
Other Borrowings	0	55	50	26	0
Creditors and Other Liabilities	186	202	202	228	182
Other Loss Provisions	31	28	27	38	37
<b>TOTAL LIABILITIES</b>	<b>12,488</b>	<b>12,778</b>	<b>13,333</b>	<b>12,803</b>	<b>12,750</b>
<b>SHAREHOLDERS' EQUITY</b>	1,554	1,619	1,796	1,959	2,099
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>14,042</b>	<b>14,397</b>	<b>15,129</b>	<b>14,762</b>	<b>14,849</b>

## Retail 'A' Banks - Asset Distribution

As depicted in Figure 13, the majority or 40% (2018: 42.2%) of total assets held by the retail 'A' banks are Loans & Advances followed by Cash at 32.2% (2018: 33.3%) and Investments at 22.6% (2018: 20.3%).



## Retail 'A' Banks - Cash Items

Table 18 reveals that 97% of total cash items were held by non-resident banks, with US\$4.6 million being group balances held in CDs.

**Table 18: Category 'A' Retail Banks - Cash by Resident vs Non-Resident (USD millions)**

Cash Items	2015		2016		2017		2018		2019	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Cash	46	6	46	7	52	8	42	12	53	13
Cash items in process of collection	15	1	33	-3	13	2	12	0	13	3
Balances & CDs : Group Bank - Parent, Branch, Subsidiary, Affiliate	28	3,657	28	3,537	177	4,937	56	4,787	72	4,630
Other Banks	7	2,229	4	2,531	100	3,639	0	2,925	29	2,964
Due from financial institutions	21	1,428	24	1,006	77	1,298	56	1,862	43	1,666
	0	0	0	0	0	0	0	0	0	0
<b>TOTAL</b>	<b>89</b>	<b>3,664</b>	<b>107</b>	<b>3,541</b>	<b>242</b>	<b>4,947</b>	<b>110</b>	<b>4,799</b>	<b>139</b>	<b>4,645</b>

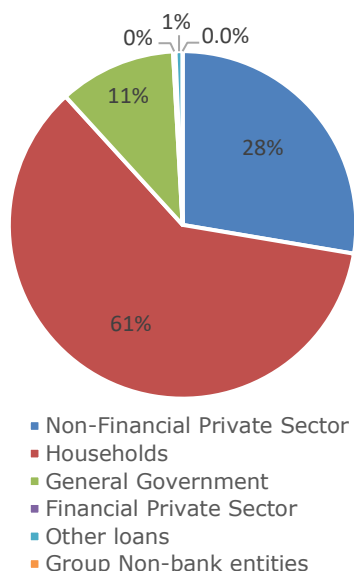
## Retail 'A' Banks – Investments

Total investments increased from US\$2.99 billion to US\$3.359 billion in 2019; an increase of 12.3%. This increase was due to an increase in holdings with Non-Central Government Public Sector entities. Additionally, there was a reclassification of investments from Investments – Held to Maturity to Available-for-sale to Financial Assets at Fair Value by all the retail banks due to a change in accounting policy and the adoption of IFRS 9.

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

INVESTMENTS	2015		2016		2017		2018		2019	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
<b>Financial Assets at Fair Value</b>										
Sovereigns and Central Banks	0	0	0	0	0	0	11	172	12	169
Non-Central Government Public Sector Entities (PSEs)	0	0	0	0	0	0	0	762	0	1,055
Multilateral Development Banks (MDBs)	0	0	0	0	0	0	0	115	0	185
Group Bank - Parent, Branch, Subsidiary or Affiliate	0	0	0	0	0	0	0	0	0	0
Group non-banking entities	0	0	0	0	0	0	0	0	0	0
Other Banks	0	0	0	0	0	0	0	320	0	191
Non-financial Corporations - Commercial Private Sector	9	5	8	0	0	4	0	98	0	41
Other Financial Corporations	0	0	0	0	0	0	1	58	0	45
<b>TOTAL</b>	<b>9</b>	<b>5</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>12</b>	<b>1,525</b>	<b>12</b>	<b>1,686</b>
<b>Held-to-Maturity</b>										
Sovereigns and Central Banks	0	6	0	17	0	8	0	0	0	0
Non-Central Government Public Sector Entities (PSEs)	0	279	0	554	0	531	0	818	0	924
Multilateral Development Banks (MDBs)	0	26	0	18	0	41	0	0	0	0
Group Bank - Parent, Branch, Subsidiary or Affiliate	0	306	0	298	0	304	0	637	0	659
Other Banks	0	11	0	17	0	17	0	0	0	78
Non-financial Corporations - Commercial Private Sector	0	13	0	8	0	5	0	0	0	0
<b>TOTAL</b>	<b>0</b>	<b>641</b>	<b>0</b>	<b>912</b>	<b>0</b>	<b>906</b>	<b>0</b>	<b>1,455</b>	<b>0</b>	<b>1,661</b>
<b>Available-for-Sale</b>										
Sovereigns and Central Banks	9	552	12	323	10	406	0	0	0	0
Non-Central Government Public Sector Entities (PSEs)	0	753	0	848	0	825	0	0	0	0
Multilateral Development Banks (MDBs)	0	78	0	99	0	55	0	0	0	0
Other Banks	0	418	0	582	0	549	0	0	0	0
Non-financial Corporations - Commercial Private Sector	0	109	0	156	0	142	0	0	0	0
Other financial Corporations - Financial Intermediaries	0	12	0	12	0	12	0	0	0	0
<b>TOTAL</b>	<b>9</b>	<b>1,922</b>	<b>12</b>	<b>2,020</b>	<b>10</b>	<b>1,989</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Figure 14: Category 'A' Retail Banks Resident Loans by Sector**



## **Retail 'A' Banks – Loans & Advances**

During 2019, Loans & Advances in both the resident domestic market and the non-resident market decreased by US\$296 million. Of the US\$5.94 billion in Loans & Advances, 67.7% (US\$4 billion) were resident loans.

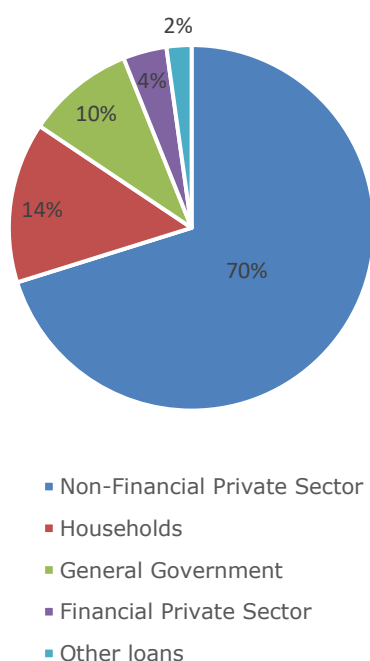
There was an increase of US\$ 65 million in loans to Sovereigns & Central Banks and an increase of US\$ 49 million in loans to Non-Central Government Public Sector Entities (PSE).

As at December 2019, loans to resident retail consumer lending and residential mortgages of US\$2.4 billion accounted for 41% (2018: 37%) of total loans, indicating the increasing exposure to this sector. (Table 20). Credit to the resident private sector accounted for 18.8% (2018: 19.2%) of total loans.

As reported in Figure 15, non-resident Loans & Advances comprised of facilities to non-financial private sector corporations, representing 70% (2018: 72%) of total non-residential loans.

There was a decrease of US\$229 million in loans to non-resident Non-Financial Corporations – Commercial Private Sector and a decrease of US\$24 million in loans to Non-Financial Corporations – Commercial Mortgages.

**Figure 15: Category 'A' Retail Banks Non-Resident Loans by Sector**





**Table 20: Category 'A' Retail Banks - Loans & Advances by Resident vs Non-Resident and Sector (USD millions)**

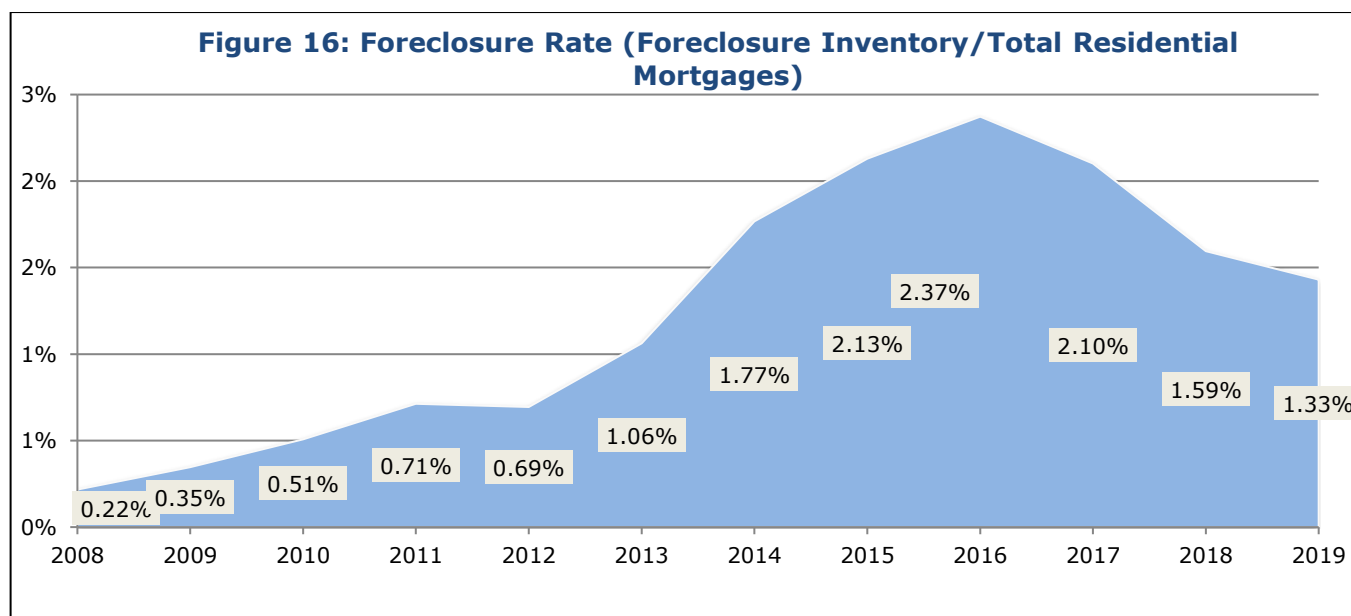
Loans and Advances	2015		2016		2017		2018		2019	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Sovereigns & Central Banks	476	74	430	71	348	37	309	22	379	17
Non-Central Government Public Sector Entities (PSEs)	90	58	99	53	63	49	64	113	62	164
Multilateral Development Banks (MDBs)	0	0	0	0	0	0	0	0	0	0
Group Bank - Parent, Branch, Subsidiary or Affiliate	7	40	0	40	0	0	0	0	1	33
Group non-bank entities	8	0	6	0	8	0	4	0	0	0
Non-Financial Corporations - Commercial Private Sector	684	2,625	613	2,537	603	2,132	841	1,341	810	1,112
Non-Financial Corporations - Commercial Mortgages	181	238	255	221	238	224	277	243	310	219
Other Financial Corporations - Financial Intermediaries	103	76	120	124	86	120	93	126	9	73
Retail Lending/Consumer Loans - Households	346	36	352	46	346	53	343	72	362	73
Residential Mortgages - Households	1,865	277	1,925	359	1,972	187	2,008	178	2,092	199
Other Loans and Advances	86	62	86	57	95	75	134	110	26	42
<b>TOTAL</b>	<b>3,846</b>	<b>3,486</b>	<b>3,886</b>	<b>3,508</b>	<b>3,759</b>	<b>2,877</b>	<b>4,073</b>	<b>2,206</b>	<b>4,051</b>	<b>1,932</b>

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

Non-Performing Loans as a proportion of Total Assets declined from 1.6% in 2018 to 1.4% in 2019 reflecting improvements in asset quality due to continued improvements in macroeconomic conditions such as increased employment and an overall improvement in economic activity in the Cayman Islands. Foreclosure rates on residential mortgages, which includes data from the retail 'A' banks, Cayman Islands Development Bank and JN Cayman, declined to 1.33% from 1.59% in 2018. During each quarter of 2019, the foreclosure rate decreased as the number and value of foreclosed loans decreased. During the quarter ended 31 December 2019, there were 15 completed foreclosures and 95 in process.

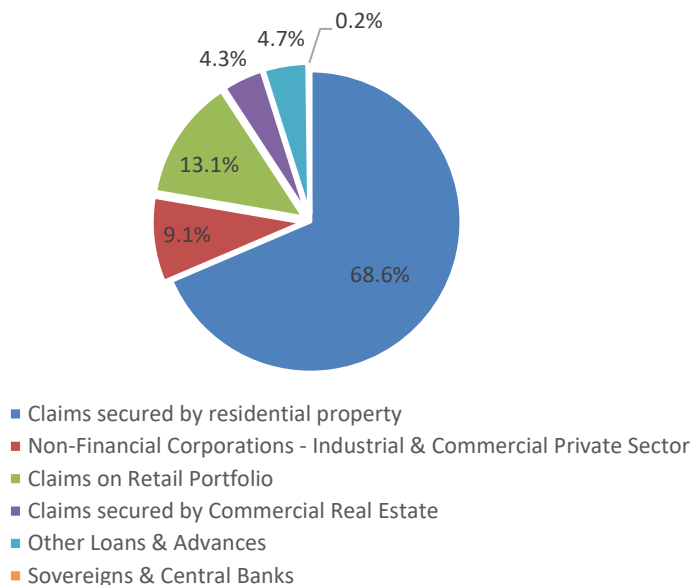
**Table 21: Category 'A' Retail Banks - Non-Performing Loan Ratios**

	2015	2016	2017	2018	2019
%					
NPLs: Total Loans	2.7%	2.0%	1.9%	1.6%	1.4%
Total Loan Loss Provisions: NPLs	39.6%	47.6%	54.8%	87.8%	102.2%
\$					
NPLs	199	149	124	98	89
Total Loan Loss Provisions	79	71	68	86	66
Specific Loan Loss Provisions	48	43	40	49	30
General Loan Loss Provisions	31	28	28	37	36
Total Loans	7,332	7,394	6,636	6,279	5,983



As shown in Figure 17, NPLs were highly concentrated in the residential mortgage portfolio, which represented 68.6% (2018: 59.8%) of total NPLs, followed by Claims on Retail Portfolio, which represented 13.1% (2018: 20.7%).

**Figure 17: Sectoral Profile of Non-Performing Loans for Category 'A' Retail Banks**



### ***Retail 'A' Banks - Funding Distribution***

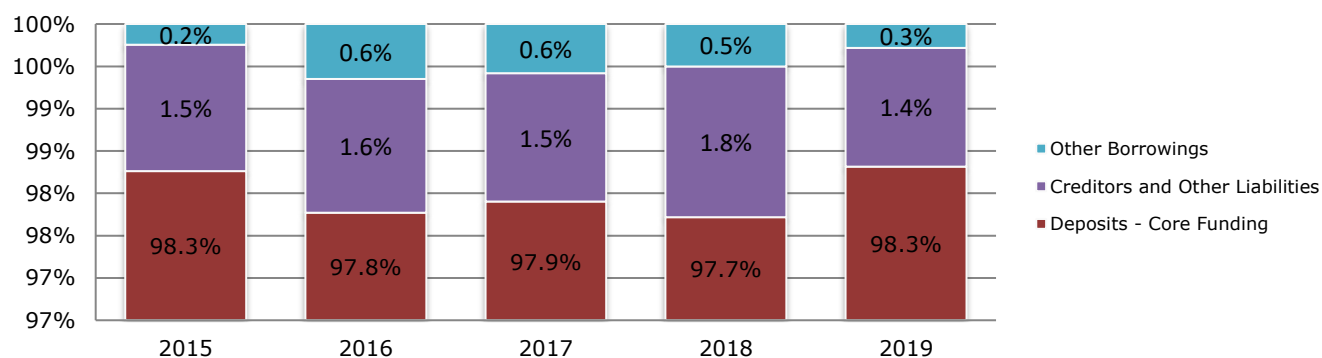
Core deposits continued to account for 84% of total funding for the retail banks. Resident deposits which represented 69.6% (2018: 66.9%) of total deposits, increased by US\$353 million in 2019. Resident deposits comprised mainly of deposits from Other Financial Corporations – Financial Intermediaries (US\$2.7 billion), Non-Financial Corporations – Commercial Private Sector (US\$2.3 billion), and Households (US\$1.9 billion).

Non-resident deposits accounted for 30.3% (2018: 33.1%) of total deposits, a contraction of 8% (US\$334 million) from prior year. Deposits by Group Banks of US\$1.863 billion continued to account for most of the non-resident deposits – 48.9% (2018: 54.2%); followed by deposits from Non-Financial Corporations of US\$788 million, which represented 20.7% (2018: 19.7%) of total deposits.

**Table 22: Category 'A' Retail Banks - Deposits for Resident vs Non-Resident and Sector (USD millions)**

Deposits	2015		2016		2017		2018		2019	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Sovereigns & Central Banks	544	28	701	12	716	11	1,053	49	1,059	54
Non-Central Government Public Sector Entities (PSEs)	175	16	247	14	387	9	212	36	203	24
Multilateral Development Banks (MDBs)	0	0	0	0	0	0	0	0	0	0
Group Bank - Parent, Branch, Subsidiary or Affiliate	77	3,364	45	3,310	64	3,078	93	2,246	142	1,863
Group non-bank entities	31	0	10	6	1	0	3	0	0	0
Other entities	105	1	132	6	83	10	103	18	57	7
Non-Financial Corporations - Commercial Private Sector	2,016	1,106	2,195	981	2,328	947	2,063	820	2,343	788
Other Financial Corporations - Financial Intermediaries	1,874	345	1,741	367	2,161	463	2,645	294	2,740	456
Individual - Households	1,738	555	1,913	531	1,791	427	1,903	407	1,974	390
Other Deposits	228	68	221	61	321	257	293	273	204	227
<b>TOTAL</b>	<b>6,788</b>	<b>5,483</b>	<b>7,205</b>	<b>5,288</b>	<b>7,852</b>	<b>5,202</b>	<b>8,368</b>	<b>4,143</b>	<b>8,721</b>	<b>3,809</b>

**Figure 18: Category 'A' Retail Banks - Allocation of Total Liabilities by Instrument**



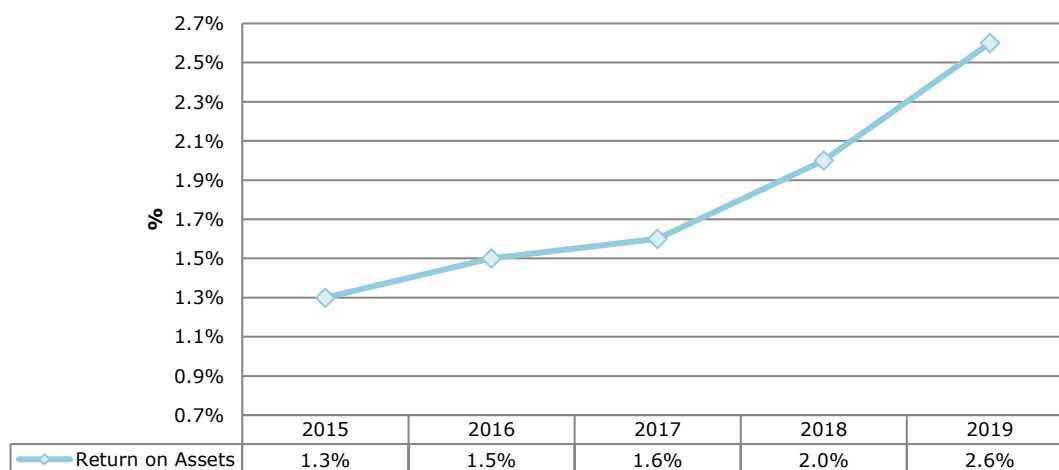
### **Retail 'A' Banks - Earnings & Profitability**

Retail banks reported a US\$118 million increase in Operating Income from US\$527 million in 2018 to US\$645 million in 2019. The increase in operating income was offset by higher operating expenses of US\$28 million but overall income retained increased by US\$52 million. As depicted in Figures 19 and 20, the 2019 return on assets of 2.6% and return on equity of 18.1% improved on the results of 2018.

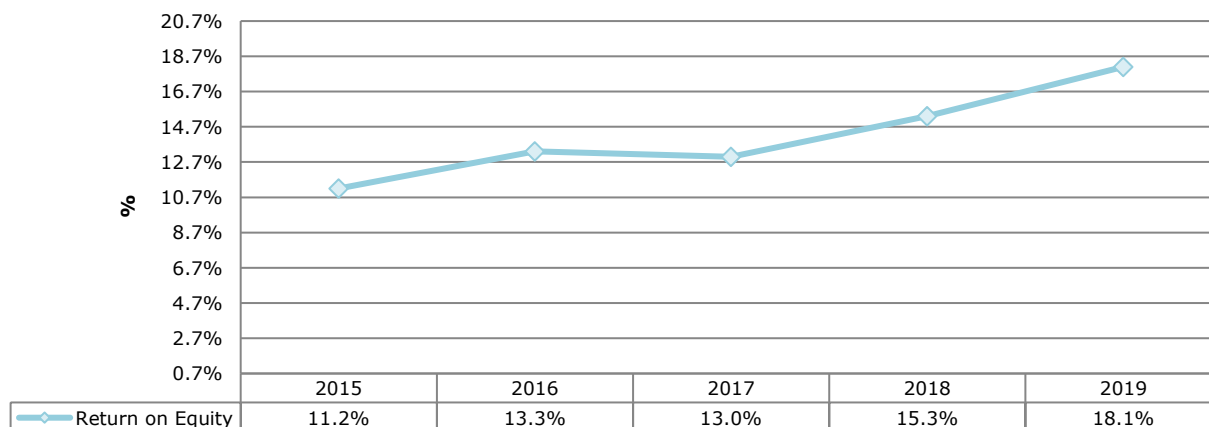
**Table 23: Category 'A' Retail Banks - Statement of Earnings (USD millions)**

	2015	2016	2017	2018	2019
Net Interest Income	279	312	328	394	464
Net Non-Interest Income	79	95	104	103	141
Provisions for Credit Losses /Recoveries	-9	-8	-11	- 9	-1
Other Income/(Losses)	3	3	3	4	4
Trading Income Gain/(Loss) on Financial Instruments)	34	32	35	35	36
Operating Income	386	434	459	527	645
Operating Expense	210	218	229	237	265
Applicable taxes & Dividends	50	45	55	69	108
<b>Net (Loss) Income After Taxes</b>	<b>125</b>	<b>171</b>	<b>174</b>	<b>221</b>	<b>273</b>

**Figure 19: Return on Assets for Category 'A' Retail Banks**



**Figure 20: Return on Equity for Category 'A' Retail Banks**



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

During 2019, liquid assets to short-term liabilities was 52.7%; relatively unchanged from 2018. This rate was in line with the results of 2018 while the results for 2017 were influenced by an increase in cash.

The cash to total assets ratio of 31.8% and the loans to deposits ratio of 47.7% exhibited slight deterioration due to lower cash being held by the retail banks in 2019.

**Table 24: Category 'A' Retail Banks – Liquidity Ratios**

<b>Liquidity Ratios</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Liquid Assets (Cash Items) to Short-Term Liabilities (Deposits up to 90 days)	42.2%	41.7%	71.3%	53.8%	52.7%
Liquid Assets (Cash Items) to Total Assets (Liquid Assets Ratio)	26.7%	25.3%	34.3%	33.2%	31.8%
Loans to Deposits Ratio	59.8%	59.2%	50.8%	50.2%	47.7%
Total Assets	14,042	14,397	15,129	14,762	14,849
Loans	7,332	7,394	6,636	6,279	5,983
Liquid Assets	3,753	3,648	5,189	4,909	4,784
Deposits	12,271	12,493	13,054	12,511	12,530
Short-Term Liabilities	8,890	8,742	7,281	9,124	9,170

## Category 'A' Non-Retail Banks

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

In line with expectations, the overall balance sheet profile saw a reduction due to the closure and downsizing of two Non-Retail Class 'A' Banks.

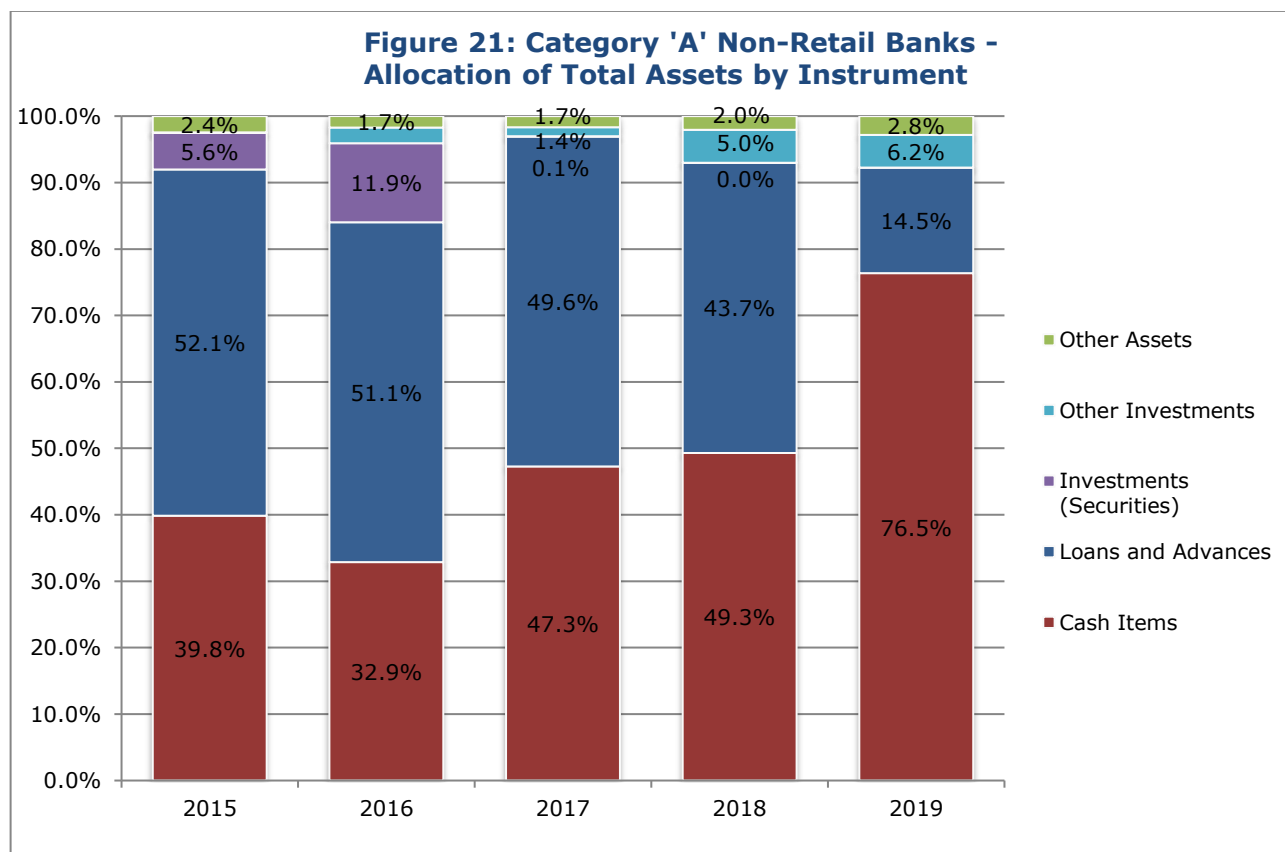
Total assets of Category 'A' non-retail banks decreased by US\$2.66 billion or 39.3%; while liabilities were down US\$2.21 billion or 37.2%. From a balance sheet perspective, the decline in assets was largely the result of decreases observed in Loans & Advances which were down 79.8% or US\$2.36 billion and Cash Items of 5.84% or US\$195 million. The decrease in liabilities was due to the decline in core deposits by US\$1.25 billion and Other Borrowings by US\$562 million.

**Table 25: Balance Sheet Profile for Category 'A' Non-Retail (USD millions)**

	2015	2016	2017	2018	2019
<b>ASSETS</b>					
Cash Items	3,630	2,773	4,078	3,338	3,143
Financial Assets at Fair Value	0	1	0	1	1
Investments - Held-to-Maturity	500	999	0	0	0
Investments -Available-for-sale	6	6	5	0	0
Other Investments	4	199	117	337	254
Loans and Advances	4,749	4,312	4,279	2,956	596
Net Loans	4,749	4,312	4,279	2,956	596
Other Assets	221	144	145	138	116
<b>TOTAL ASSETS</b>	<b>9,110</b>	<b>8,434</b>	<b>8,624</b>	<b>6,770</b>	<b>4,109</b>
<b>LIABILITIES</b>					
Deposits	6,271	5,750	5,910	4,791	3,534
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	1,707	1,645	1,554	562	0
Creditors and Other Liabilities	425	482	404	601	204
Other Loss Provisions	0	0	0	0	0
<b>TOTAL LIABILITIES</b>	<b>8,403</b>	<b>7,877</b>	<b>7,868</b>	<b>5,954</b>	<b>3,738</b>
SHAREHOLDERS' EQUITY	707	557	756	816	372
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>9,110</b>	<b>8,434</b>	<b>8,624</b>	<b>6,770</b>	<b>4,109</b>

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

In 2019, Cash represented 76.5% (2018: 49.3%) and Loans & Advances was 14.5% (2018: 43.7%) of total assets.



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

Of the total assets of US\$4.1 billion of Category 'A' Non-Retail banks, Cash Items account for US\$3.1 billion or 76.5%. Cash placement with non-resident Group Bank represents 94.7% of total cash held and decreased by US\$202 million year on year.

**Table 26: Category 'A' Non-Retail Banks - Cash by Resident vs Non-Resident (USD millions)**

Cash Items <sup>i</sup>	2015		2016		2017		2018		2019	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Balances & CDs:										
Group Bank - Parent, Branch, Subsidiary, Affiliate	20	3,564	29	2,744	56	4,022	114	3,224	154	2,989
Other Banks	10	3,470	13	2,724	49	3,972	100	3,180	141	2,978
Due from financial institutions	10	94	16	20	7	50	14	44	12	10
	0	46	0	0	0	0	0	0	0	0
<b>TOTAL</b>	<b>20</b>	<b>3,610</b>	<b>29</b>	<b>2,744</b>	<b>56</b>	<b>4,022</b>	<b>114</b>	<b>3,224</b>	<b>154</b>	<b>2,989</b>



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

Loans & Advances which account for 14.5% (2018: 43.7%) of total assets declined by US\$ 2.36 billion in 2019 due to the movement of balances by an entity which transitioned to a Category 'B' license. This decline due to the transitioning entity was mainly in the categories of Non-Resident Retail Lending/Consumer Loans and Non-Resident Non-Financial Corporation – Commercial Private Sector.

**Table 27: Category 'A' Non-Retail Banks – Loans and Advances by Resident vs Non-Resident and Sector (USD millions)**

Loans and Advances	2015		2016		2017		2018		2019	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Group Bank - Parent, Branch, Subsidiary or Affiliate	0	0	0	1	0	0	0	0	0	0
Group non-bank entities	0	0	0	0	0	0	0	0	0	0
Non-Financial Corporations - Commercial Private Sector	0	2,761	0	2,527	0	2,410	0	2,191	0	0
Other Financial Corporations - Financial Intermediaries	132	46	123	19	193	78	65	26	325	271
Retail Lending/Consumer Loans - Households	0	1,791	0	1,637	0	1,587	0	667	0	0
Residential Mortgages - Households	0	0	0	0	0	0	0	0	0	0
Other Loans and Advances	0	19	0	5	0	11	0	7	0	0
<b>TOTAL</b>	<b>132</b>	<b>4,617</b>	<b>123</b>	<b>4,189</b>	<b>193</b>	<b>4,086</b>	<b>65</b>	<b>2,891</b>	<b>325</b>	<b>271</b>

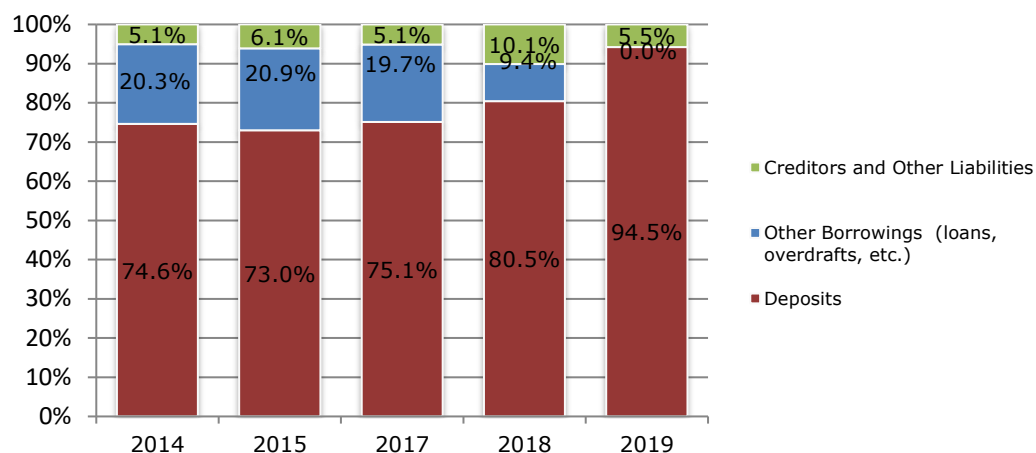
## Non-Retail 'A' Banks - Funding Distribution

Category 'A' Non-Retail banks' are predominantly funded by core deposits, which accounted for 94.5% of total liabilities. As at the end of December 2019, total deposits were US\$3.5 billion, decreasing by US\$1.257 billion. This decrease was due to a decrease of US\$981 million in non-resident Non-Financial Corporations: Commercial Private Sector deposits and a decrease of US\$580 million in non-resident Individuals - Households deposits in 2019.

**Table 28: Category 'A' Non-Retail Banks - Deposits by Resident vs Non-Resident and Sector (USD millions)**

	2015		2016		2017		2018		2019	
DEPOSITS	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Sovereign	0	0	0	0	0	0	0	0	0	0
Non-Central Government Public Sector Entities (PSEs)	0	0	0	0	0	0	0	0	0	0
Multilateral Development Banks (MDBs)	0	0	0	0	0	0	0	0	0	0
Group Bank - Parent, Branch, Subsidiary or Affiliate	0	0	93	0	78	0	0	0	0	0
Group non-bank entities	0	0	0	0	0	0	0	0	0	0
Other Banks	0	7	0	0	0	1	0	2	0	0
Non-Financial Corporations: Commercial Private Sector	0	646	0	886	0	949	0	981	0	0
Other Financial Corporations: Financial Intermediaries	3,505	516	3,155	481	3,291	608	2,634	482	2,979	555
Individuals - Households	16	956	7	1,098	11	946	0	580	0	0
Other Deposits	0	625	0	30	0	26	0	112	0	0
<b>TOTAL</b>	<b>3,521</b>	<b>2,750</b>	<b>3,255</b>	<b>2,495</b>	<b>3,380</b>	<b>2,530</b>	<b>2,634</b>	<b>2,157</b>	<b>2,979</b>	<b>555</b>

**Figure 22: Category 'A' Non-Retail Banks - Allocation of Total Liabilities by Instrument**



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

Non-Retail 'A' banks reported diminished earnings and profitability largely attributable to the loss of an entity which reported high net profit margins in 2018. As of 31 December 2019, Non-Retail 'A' banks recorded a US\$78 million decrease in Operating Income from US\$221 million in 2018 to US\$143 million in 2019. With a decrease in Operating Expenses of US\$ 15 million, the sector reported Net Retained Income of US\$41 million in 2019, a US\$46 million decrease from 2018 net earnings.

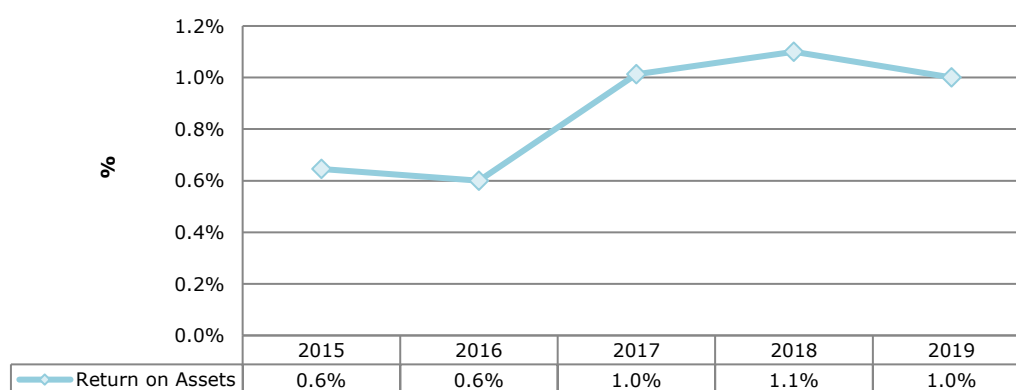
**Table 29: Category 'A' Non-Retail Banks - Statement of Earnings (USD millions)**

	2015	2016	2017	2018	2019
Net Interest Income	41	67	81	99	29
Net Non-Interest Income	136	107	106	97	97
Provisions for Credit Losses /Recoveries	0	0	0	0	0
Other Income/(Losses)	4	5	7	8	8
Trading Income Gain/(Loss) on Financial Instruments)	8	12	11	17	7
Operating Income	189	191	205	221	143
Operating Expense	131	113	114	117	102
Applicable taxes & Dividends	23	19	37	17	0
<b>Net (Loss) Income After Taxes</b>	<b>35</b>	<b>59</b>	<b>54</b>	<b>87</b>	<b>41</b>

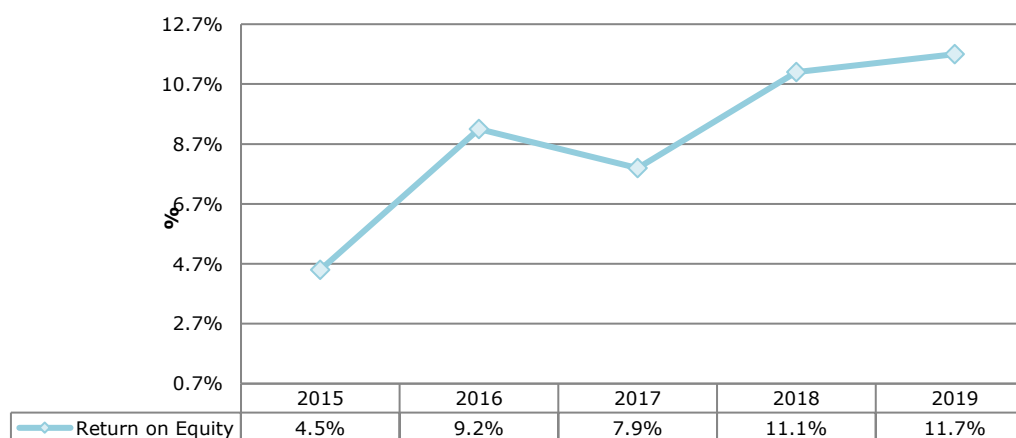
## Banking Digest 2019

As of 31 December 2019, ROAA and ROAE was 1% and 11.7% respectively, displaying marginal deteriorations when compared to 2018.

**Figure 23: Return on Assets for Category 'A' Non-Retail Banks**



**Figure 24: Return on Equity for Category 'A' Non-Retail Banks**



## Category 'B' Banks

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

The primary activities of Category 'B' Banks are to facilitate intergroup funding and services. Total assets for Category 'B' Banks accounted for 97.2% of total assets of the banking sector in 2019. Over a 5-year period assets balance have been steadily declining as banks respond to the global changes in laws by downsizing and closing non-core branches; total assets of US\$648.6 billion were down from the US\$652.1 billion reported in 2018.

As at December 2019, total liabilities totaled US\$610.3 billion decreasing by US\$6.1 billion from 2018 mainly attributable to a decline in Deposits by US\$26.4 billion. However, other instruments of funding were utilized to counteract the loss of deposits such as Hybrid and Subordinate Debt, Bonds, Commercial Paper and Other Borrowings which increased by US\$19 billion in 2019.

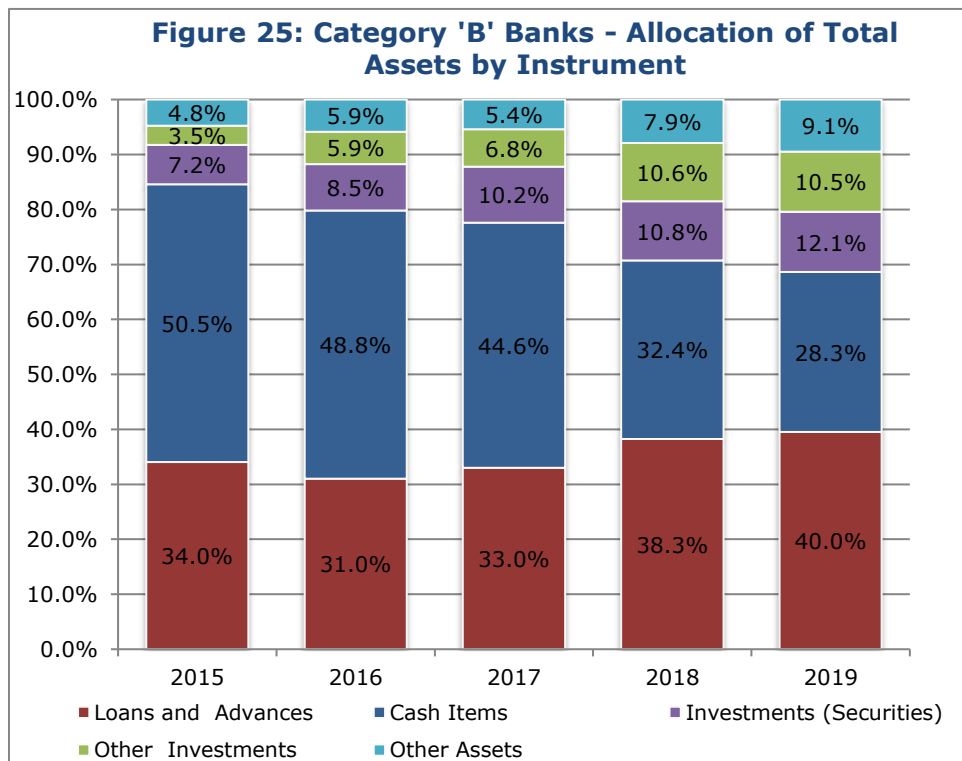
**Table 30: Balance Sheet Profile for Category 'B' Banks by Instrument (USD millions)**

	2015	2016	2017	2018	2019
<b>ASSETS</b>					
Cash Items	576,465	494,890	402,870	211,609	183,517
Financial Assets at Fair Value	629,786	36,424	36,380	47,240	56,446
Investments - Held-to-Maturity	4,493	4,216	4,701	20,409	22,170
Investments -Available-for-sale	47,983	45,362	51,138	2,525	0
Other Investments	39,538	59,633	61,264	69,201	67,920
Loans and Advances	390,147	316,631	297,406	250,237	260,316
Net Loans	388,420	315,177	296,425	249,578	259,409
Other Assets	54,352	59,450	51,029	51,619	59,125
<b>TOTAL ASSETS</b>	<b>1,141,037</b>	<b>1,015,152</b>	<b>903,807</b>	<b>652,181</b>	<b>648,588</b>
<b>LIABILITIES</b>					
Deposits	968,041	794,247	713,375	503,105	476,669
Repurchase Agreements (REPOS)	14,821	16,267	17,090	14,898	14,243
Hybrid Debt and Subordinates Debt	16,171	12,407	13,305	12,365	12,692
Other Notes, Bonds and Commercial Paper	49,674	34,950	34,124	34,518	39,859
Other Borrowings	48,822	70,662	62,936	30,515	44,284
Creditors and Other Liabilities	41,448	37,809	22,855	20,376	22,082
Other Loss Provisions	705	725	599	651	499
<b>TOTAL LIABILITIES</b>	<b>1,139,682</b>	<b>967,067</b>	<b>864,284</b>	<b>616,428</b>	<b>610,328</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,355</b>	<b>48,085</b>	<b>39,523</b>	<b>35,753</b>	<b>38,260</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,141,037</b>	<b>1,015,152</b>	<b>903,807</b>	<b>652,181</b>	<b>648,588</b>

## Category 'B' Banks – Asset Distribution

As depicted in Figure 25, assets across Category 'B' banks were concentrated in Loans & Advances and Cash Items, representing 40.0% and 28.3%, respectively of total assets. The US\$3.59 billion; (2018: US\$253 billion) contraction in assets was noted in the reduction of Cash Items.

In 2019, there was a shift from Cash as the major asset item, to Loans & Advances, as new loans were issued to Other Banks and Non-financial Corporations.



### Category 'B' Banks – Cash Items

Total Cash Items declined by US\$28 billion in 2019 to US\$183.5 billion. This was largely attributable to a decline in Certificate of Deposits, and more specifically, Group Bank CDs which declined by 13.4% or US\$28.6 billion.

**Table 31: Category 'B' Banks - Cash Items by Resident and Non-Resident (USD millions)**

CASH ITEMS	2015		2016		2017		2018		2019	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Cash	0	6	0	5	0	3	0	29	0	30
Gold and bullion	0	0	0	0	2	0	0	0	0	0
Cash items in process of collection	0	72	0	0	0	0	0	0	0	0
Balances and CDs:	7,294	567,262	1,258	492,351	1,798	400,281	160	210,417	163	182,164
Group Bank: Parent, Branch, Subsidiary or Affiliate	6,722	551,208	1,111	475,329	1,273	384,712	24	201,391	45	172,737
Group non - banking entities	0	5,230	11	6,561	15	6,221	14	2,934	0	415
Other banks	572	10,824	136	10,461	510	9,348	122	6,092	118	9,011
Due from financial institutions	1	1,830	0	1,276	4	782	6	997	0	1,161
<b>Total</b>	<b>7,295</b>	<b>569,170</b>	<b>1,258</b>	<b>493,632</b>	<b>1,804</b>	<b>401,066</b>	<b>166</b>	<b>211,443</b>	<b>163</b>	<b>183,354</b>

### Category 'B' Banks – Investments

Total investments in 2019 were US\$78.6 billion up from US\$70.2 billion in 2018; 94.7% of Investment are held with Non-resident entities. The increase in total investments was primarily due to increase in Financial Assets at Fair Value which increased by US\$9.2 billion.

**Table 32: Category 'B' Banks - Investments by Resident vs Non-Resident (USD millions)**

INVESTMENTS	2015		2016		2017		2018		2019	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
<b>Financial Assets at Fair Value</b>										
Sovereigns and Central Banks	0	2,682	0	1,186	0	1,193	1	4,346	0	9,424
Non-Central Government Public Sector Entities (PSEs)	0	336	0	252	0	506	4	3,009	0	5,055
Multilateral Development Banks (MDBs)	0	12	0	15	0	10	0	1,888	0	2,515
Group Bank - Parent, Branch, Subsidiary or Affiliate	0	7,274	0	3,286	0	2,503	8	2,428	3	1,550
Group non-banking entities	4	5,709	0	734	0	8	0	6,451	1,107	729
Other Banks	531	206	398	287	58	654	518	1,713	588	3,452
Non-financial Corporations - Commercial Private Sector	72	8,487	48	8,344	21	6,709	134	2,609	202	2,726
Other Financial Corporations	957	3,516	3,362	18,512	4,031	20,687	2,569	21,562	1,988	27,107
<b>TOTAL</b>	<b>1,564</b>	<b>28,222</b>	<b>3,808</b>	<b>32,616</b>	<b>4,110</b>	<b>32,270</b>	<b>3,233</b>	<b>44,006</b>	<b>3,888</b>	<b>52,558</b>
<b>Held-to-Maturity</b>										
Sovereigns and Central Banks	4	3,657	4	3,431	4	3,933	4	8,543	0	7,495
Non-Central Government Public Sector Entities (PSEs)	0	66	0	68	0	66	0	347	0	195
Multilateral Development Banks (MDBs)	0	0	0	0	0	0	0	311	0	222
Group Bank - Parent, Branch, Subsidiary or Affiliate	0	130	0	130	0	130	0	7,942	0	12,034
Group non-banking entities	0	0	0	0	0	0	0	0	0	0
Other Banks	17	159	22	106	25	70	25	1,034	26	499
Non-financial Corporations - Commercial Private Sector	92	322	8	423	9	442	134	2,040	205	1,465
Other Financial Corporations	18	28	3	21	0	22	0	29	0	30
<b>TOTAL</b>	<b>131</b>	<b>4,362</b>	<b>37</b>	<b>4,179</b>	<b>38</b>	<b>4,663</b>	<b>163</b>	<b>20,246</b>	<b>231</b>	<b>21,940</b>
<b>Available-for-Sale</b>										
Sovereigns and Central Banks	0	10,338	1	10,614	0	12,827	0	1,209	0	0
Non-Central Government Public Sector Entities (PSEs)	0	4,596	0	4,501	0	6,120	0	0	0	0
Multilateral Development Banks (MDBs)	0	1,049	0	1,749	0	1,882	0	0	0	0
Group Bank - Parent, Branch, Subsidiary or Affiliate	63	8,175	62	9,447	34	9,347	0	802	0	0
Group non-banking entities	0	4,019	0	4,009	0	6,954	0	0	0	0
Other Banks	75	4,545	367	4,475	375	4,402	0	84	0	0
Non-financial Corporations - Commercial Private Sector	524	5,332	392	5,400	717	5,273	174	256	0	0
Other Financial Corporations	271	8,996	68	4,277	76	3,131	0	0	0	0
<b>TOTAL</b>	<b>933</b>	<b>47,050</b>	<b>890</b>	<b>44,472</b>	<b>1,202</b>	<b>49,936</b>	<b>174</b>	<b>2,351</b>	<b>0</b>	<b>0</b>



## Category 'B' Banks – Loans & Advances

Total Loans & Advances of Category 'B' banks showed notable decreases since 2015, recording an overall reduction of 33.2% (US\$129 billion) over the five-year period.

During 2019, Category 'B' banks recorded an increase in Total Loans and Advances by US\$10 billion. This increase was attributable to Non-resident Loans & Advances to Group Bank – Parent, Branch, Subsidiary or Affiliate and Non-financial Corporations – Commercial private sector which increased by US\$ 8.9 billion and US\$4.4 billion respectively.

**Table 33: Category 'B' Banks - Loans & Advances by Resident vs Non-Resident and Sector (USD millions)**

LOANS & ADVANCES	2015		2016		2017		2018		2019	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Sovereigns and Central Banks	0	857	0	905	0	756	0	1,618	0	1,639
Non-Central Government Public Sector Entities (PSEs)	0	465	0	228	0	163	0	100	0	121
Multilateral Development Banks (MDBs)	0	0	0	0	0	0	0	0	0	0
Group Bank - Parent, Branch, Subsidiary or Affiliate	4,619	164,448	1	157,145	115	153,064	105	117,081	0	126,061
Group non - Banking Entities	431	140,076	1,925	88,240	1,862	78,079	1,629	62,805	4,773	51,019
Other banks	323	7,453	173	3,510	80	3,565	44	1,617	61	4,168
Non-financial Corporations - Commercial private sector	1,083	40,086	927	32,222	902	26,783	2,055	23,679	311	30,476
Non-Financial Corporations - Commercial Mortgages	0	1,333	0	1,531	0	3,720	0	6,589	0	4,406
Other financial Corporations - Financial Intermediaries	752	12,502	698	15,675	284	15,145	1,605	20,480	2,077	18,538
Retail Lending/Consumer										
Loans - Households	2	1,284	0	1,241	0	650	2	413	239	2,350
Residential Mortgages - Households	0	319	0	249	0	249	0	340	0	303
Other loans and advances	106	14,008	54	11,907	36	11,953	21	10,054	8	13,765
<b>Total</b>	<b>7,316</b>	<b>382,831</b>	<b>3,778</b>	<b>312,853</b>	<b>3,279</b>	<b>294,127</b>	<b>5,461</b>	<b>244,776</b>	<b>7,469</b>	<b>252,846</b>

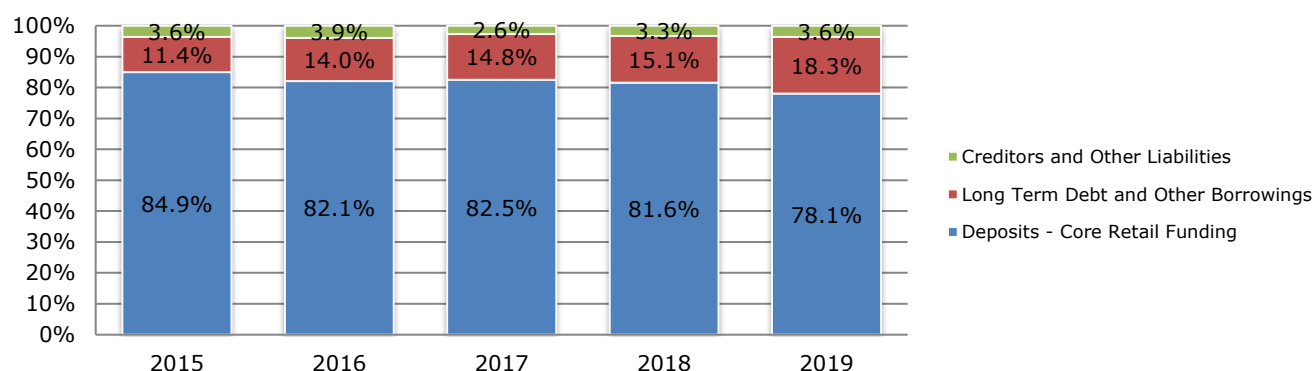
### Category 'B' Banks – Funding Distribution

Category 'B' banks' total liabilities of US\$610 billion consist of core Deposits of US\$476 billion representing 78.1% (2018: 81.6%) of total liabilities and Other Borrowings of US\$111 billion accounting for 18.3%. Total Deposits decreased by US\$26.4 billion or 5.2% from 2018 due to the decline in the number of banks conducting business in the Cayman Islands, particularly a decrease in deposits from Other Financial Corporations – Financial Intermediaries.

**Table 34: Category 'B' Banks - Deposits by Resident vs Non-Resident and Sector (USD millions)**

Deposits	2015		2016		2017		2018		2019	
	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident	Resident	Non-Resident
Sovereigns and Central Banks	0	2,889	0	2,294	0	941	0	916	0	287
Non-Central Government Public Sector Entities (PSEs)	0	1,021	0	1,066	0	813	0	187	0	900
Multilateral Development Banks (MDBs)	0	62	0	200	0	220	0	20	0	0
Group Bank: Parent, Branch, Subsidiary or Affiliate	9,991	527,125	4,535	468,092	4,920	441,021	4,553	323,252	3,251	327,665
Group non-bank entities	5,074	106,334	4,666	57,795	5,432	49,520	715	33,651	5,363	26,070
Other Banks	6,593	26,480	5,138	14,554	703	14,980	737	12,200	251	9,316
Non-financial Corporations: Commercial Private Sector	3,366	110,967	3,736	107,253	4,418	99,858	5,525	55,742	3,548	57,690
Other Financial Corporations: Financial Intermediaries & Auxiliaries	9,073	110,153	9,524	91,140	8,932	58,193	11,097	51,544	10,138	28,413
Individuals – Households	0	2,724	0	2,205	25	1,609	338	1,413	512	2,198
Other Deposits	3,218	42,971	2,787	19,262	2,295	19,495	136	1,079	73	992
<b>Total</b>	<b>37,315</b>	<b>930,726</b>	<b>30,386</b>	<b>763,861</b>	<b>26,725</b>	<b>686,650</b>	<b>23,101</b>	<b>480,004</b>	<b>23,137</b>	<b>453,531</b>

**Figure 26: Distribution of Liabilities for Category 'B' Retail Banks**



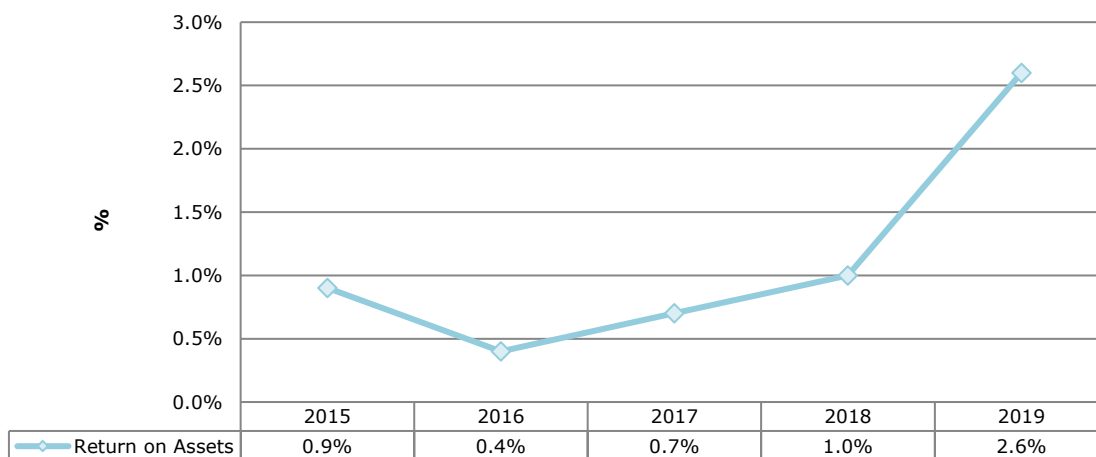
### Category 'B' Banks – Earnings & Profitability

Though presenting a strong balance sheet profile, Category 'B' banks with no physical presence reported a loss of US\$125 billion. Gains on financial instruments were in excess of US\$698 million, and other income of US\$778 million as at the end of 2019. The weak performance resulted in a decrease in ROAA which decreased from 1.9% in 2018 to 1.2% in 2019. The ROAE for 2019 also eroded, dropping from 8.1% in 2018 to 4.8% in 2019.

**Table 35: Category 'B' Banks - Summary of Earnings (USD millions)**

	2015	2016	2017	2018	2019
Net Interest Income	2,800	3,965	1,326	25	166
Net Non-Interest Income	468	306	481	1,040	742
Provisions for Credit Losses /Recoveries	-293	-1,451	-344	- 306	-719
Other Income/(Losses)	1,637	-593	-1,631	8,344	778
Trading Income Gain/(Loss) on Financial Instruments)	1,915	-2,189	469	-5,743	698
Operating Income	6,527	38	301	3,360	1,666
Operating Expense	1,785	2,082	1,189	2,186	1,978
Applicable taxes & Dividends	33	149	324	124	303
<b>Net (Loss) Income After Taxes</b>	<b>4,709</b>	<b>-2,193</b>	<b>-1,212</b>	<b>1,050</b>	<b>-9</b>

**Figure 27: Return on Assets for Category 'B' Banks**



**Figure 28: Return on Equity for Category 'B' Banks**

