



CENTRALE BANK VAN ARUBA

Statistical News Release

Date: August 8, 2017

Financial soundness Indicators of the commercial banks: Aggregated capital adequacy ratio of the commercial banks rose during the first quarter of 2017

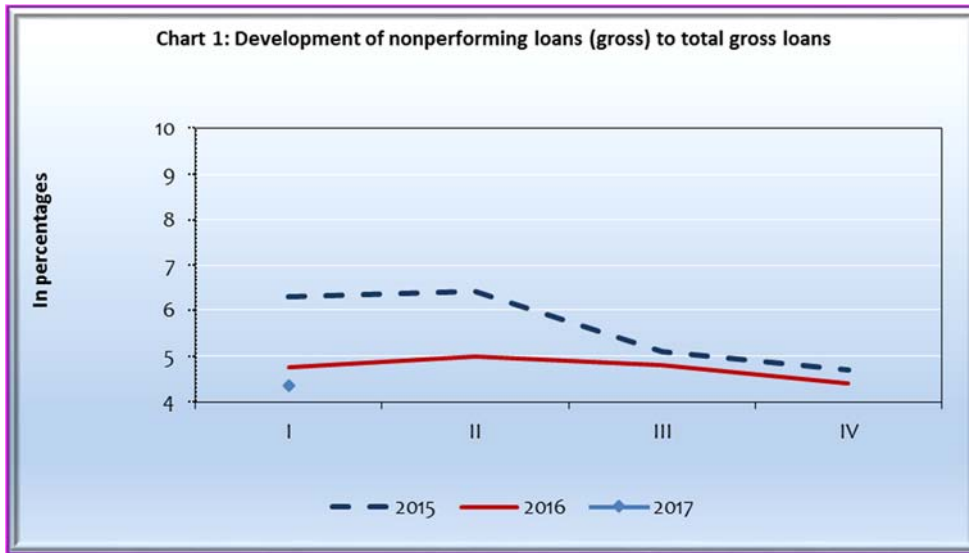
Aggregated Capital Adequacy Ratio

The aggregated regulatory Tier I capital to risk-weighted assets ratio rose by 5.0 percentage points to 24.4 percent at end-March 2017, compared to end-December 2016. This was primarily associated with additions of profits earned during 2016. The aggregated regulatory capital (Tier I + II)¹ to risk-weighted assets ratio recorded a growth of 2.1 percentage points to 30.0 percent, largely due to the profits recorded during the first quarter of 2017. The CBA increased the minimum regulatory capital (Tier I + II) ratio from 14 percent to 16 percent as per January 1, 2017. The commercial banks' buffer to absorb unexpected losses remained adequate as the banks continue to comply with the revised required minimum.

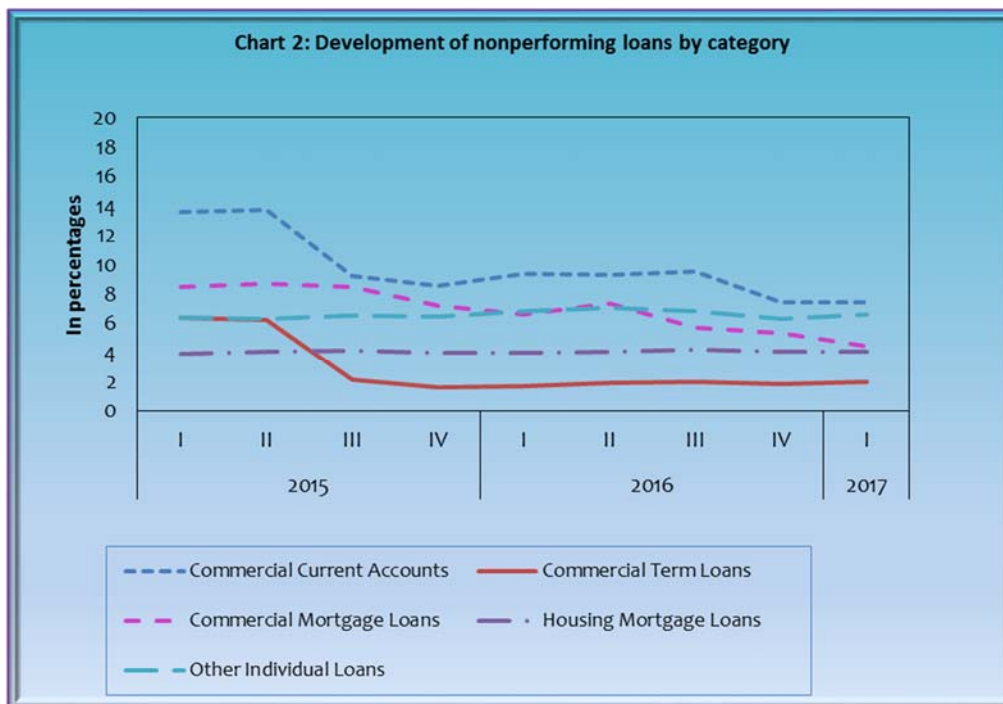
Asset Quality

The nonperforming loans (NPLs) to gross loans ratio was fairly stable during the first quarter of 2017 and hovered around 4 percent (Chart 1). Notwithstanding the aforementioned, a movement in nonperforming loans was observed between categories or age classes. The substandard NPLs (>90-180 days past due) declined by Afl. 3.6 million, while the doubtful NPLs (> 181-365 days past due) rose by approximately the same amount. This indicates that the substandard NPLs deteriorated further during the first quarter of 2017. Overall, the outstanding NPLs declined by Afl. 1.7 million or 1.2 percent due to a contraction reported in the loss NPLs (> 365 days past due). The decline in the overall NPLs was mainly reflected in the commercial mortgage NPL category (Chart 2). On aggregate, the commercial banks' level of provisions formed against NPLs was sufficient as evidenced by the relatively low NPLs (net of allocated loan loss provisions) to gross loans ratio, which stood at 1.4 percent at the end of March 2017.

¹ Core capital (Tier I) components: paid in capital (excl. cumulative preferred share capital), statutory and general reserves, and retained earnings. Goodwill and other intangible assets, and equity investments in subsidiaries are deducted from Tier I capital. Supplementary Capital (Tier II) components: cumulative preferred share capital, asset revaluation reserves, balance of income and expenditure, unallocated loan loss provisions and subordinated debt. Certain limitations and deductions apply for subordinated debt and investment in debt capital of subsidiaries.



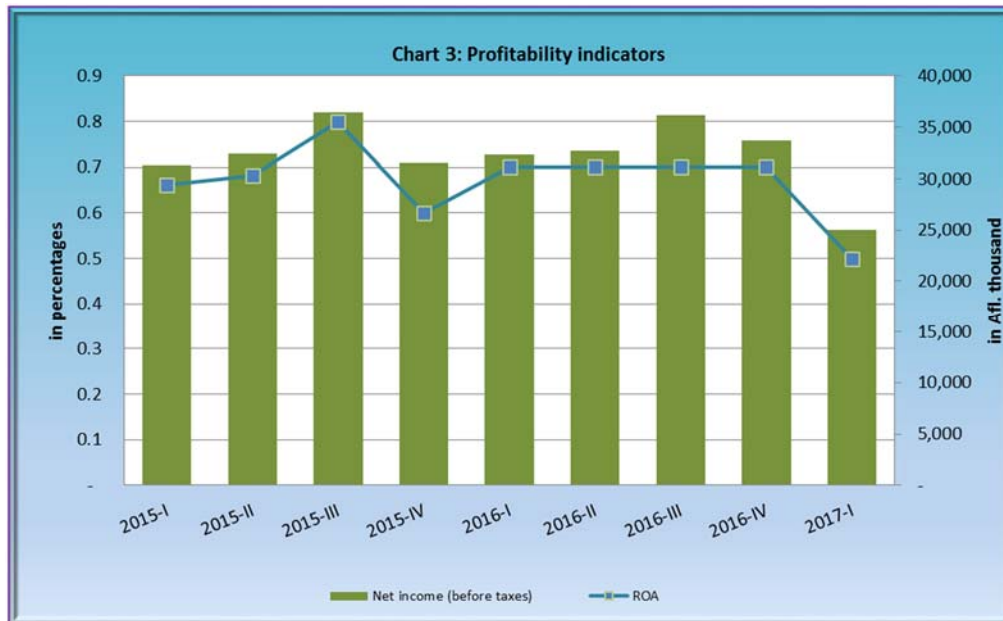
Source: Centrale Bank van Aruba



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Profitability

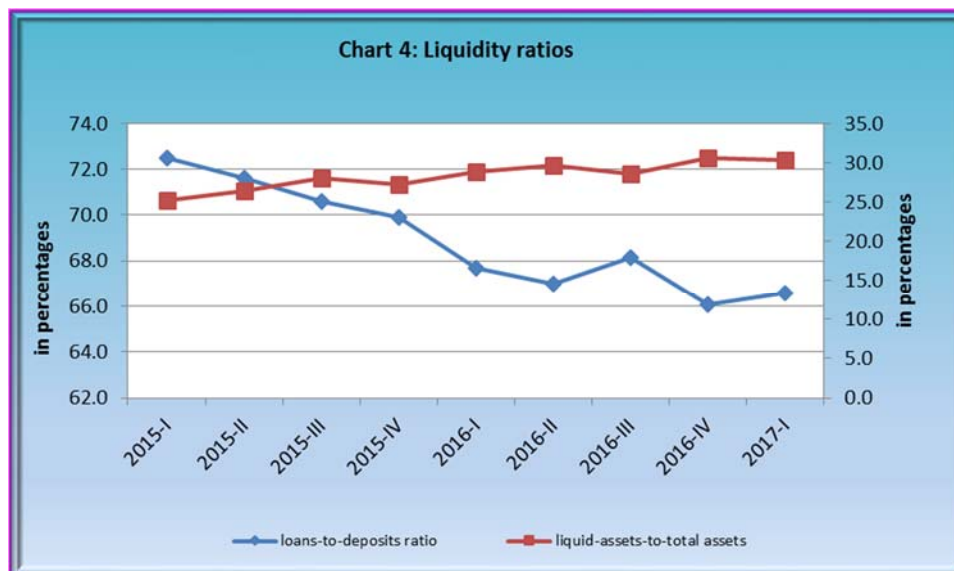
The commercial banking sector's profitability contracted during the quarter under review (Chart 3). During the first quarter of 2017, net income (before taxes) was Afl. 8.7 million lower compared to the fourth quarter of 2016, reflecting a decline of 0.2 percentage point in the banking sectors' return on assets (before taxes). Non-interest expenses rose by Afl. 2.3 million (3.3 percent) during the first quarter of 2017, compared to the previous quarter. This was largely related to additions to provisions for loan losses and higher personnel costs, partially offset by lower profit tax expenses. As a result, the non-interest expenses to gross income ratio surged by 5.0 percentage points to 79.4 percent at end-March 2017, compared to end-December 2016. The interest margin to gross income ratio went down by 1.8 percentage points to 56.4 percent, due largely to a decline in interest income of Afl. 3.7 million or 5.5 percent.



Source: Centrale Bank van Aruba

Liquidity

The commercial banks' aggregated prudential liquidity ratio shrank by 0.2 percentage point to 30.4 percent at the end of March 2017, compared to end-December 2016 but remained far above the minimum requirement of 15 percent (Chart 4). This decrease was mainly reflected in deposits of the commercial banks held at the CBA. Conversely, the loan-to-deposit ratio grew by 0.5 percentage point to 66.6 percent and remained well below the 80 percent maximum (Chart 4). This increase was mostly caused by a decline of Afl. 30.6 million or 0.7 percent in the commercial banks' total deposits (denominator).



Source: Centrale Bank van Aruba

Table 1: Summary Financial Soundness Indicators- Commercial Banks		
	2016Q4	2017Q1
Capital adequacy		
Regulatory capital (Tier I + II) to risk-weighted assets (minimum 16%) ¹⁾	27.9	30.0
Regulatory Tier I capital to risk-weighted assets	19.4	24.4
Asset quality		
Nonperforming loans to gross loans	4.4	4.4
Nonperforming loans (net of allocated loan loss provisions) to gross loans	1.3	1.4
Earnings and profitability		
Return on assets (before taxes)	0.7	0.5
Interest margin to gross income	58.2	56.4
Noninterest expenses to gross income	74.4	79.4
Liquidity		
Loans to deposits ratio (maximum 80%)	66.1	66.6
Liquid assets to total assets (minimum 15%) ²⁾	30.6	30.4
Source: Centrale Bank van Aruba		
1) As per January 1, 2017, the CBA increased the minimum risk-weighted capital ratio from 14 percent to 16 percent		
2) This is the Prudential Liquidity Ratio (PLR)		