



CENTRALE BANK VAN ARUBA

Statistical News Release

Date: October 26, 2017

Financial soundness Indicators of the commercial banks: Aggregated capital adequacy ratio of the commercial banks continued to grow during the second quarter of 2017

Aggregated Capital Adequacy Ratio

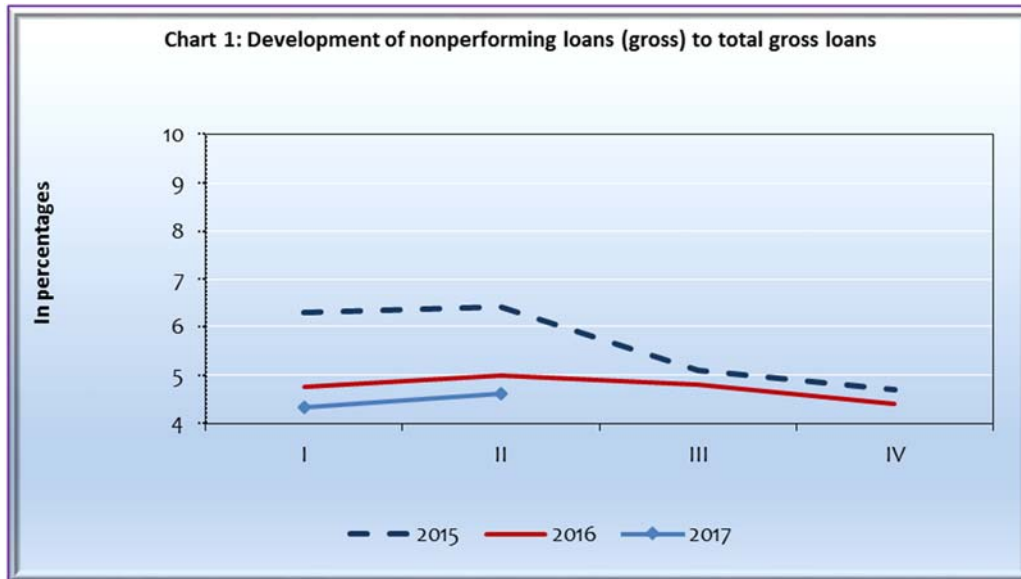
The aggregated regulatory capital (Tier I + II)¹ to risk-weighted assets ratio rose by 0.9 percentage point to 31.1 percent at end-June 2017 compared to end-March 2017. This was primarily due to a growth of approximately Afl. 24.4 million in the supplementary capital (Tier II), related mostly to profits recorded during the second quarter of 2017. The CBA increased the minimum capital adequacy ratio from 14 percent to 16 percent on January 1, 2017. The commercial banks' buffer to absorb unexpected losses remained adequate as the commercial banks continue to comply with the aforementioned requirement. The aggregated regulatory Tier I capital to risk-weighted assets ratio edged up slightly by 0.1 percentage point to 24.6 percent. This was caused by a marginal decrease of Afl. 0.6 million in the core capital (Tier I), while the risk-weighted assets declined by Afl. 11.5 million or 0.4 percent.

Table 1: Summary Financial Soundness Indicators- Commercial Banks		
	2017Q1	2017Q2
Capital adequacy		
Regulatory capital (Tier I + II) to risk-weighted assets (minimum 16%) ¹⁾	30.2	31.1
Regulatory Tier I capital to risk-weighted assets	24.5	24.6
Asset quality		
Nonperforming loans to gross loans	4.2	4.6
Nonperforming loans (net of allocated loan loss provisions) to gross loans	1.3	1.7
Earnings and profitability		
Return on assets (before taxes)	0.6	0.6
Interest margin to gross income	56.4	58.6
Noninterest expenses to gross income	75.5	73.3
Liquidity		
Loans to deposits ratio (maximum 80%)	66.7	67.6
Liquid assets to total assets (minimum 15%) ²⁾	30.3	29.1
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)		

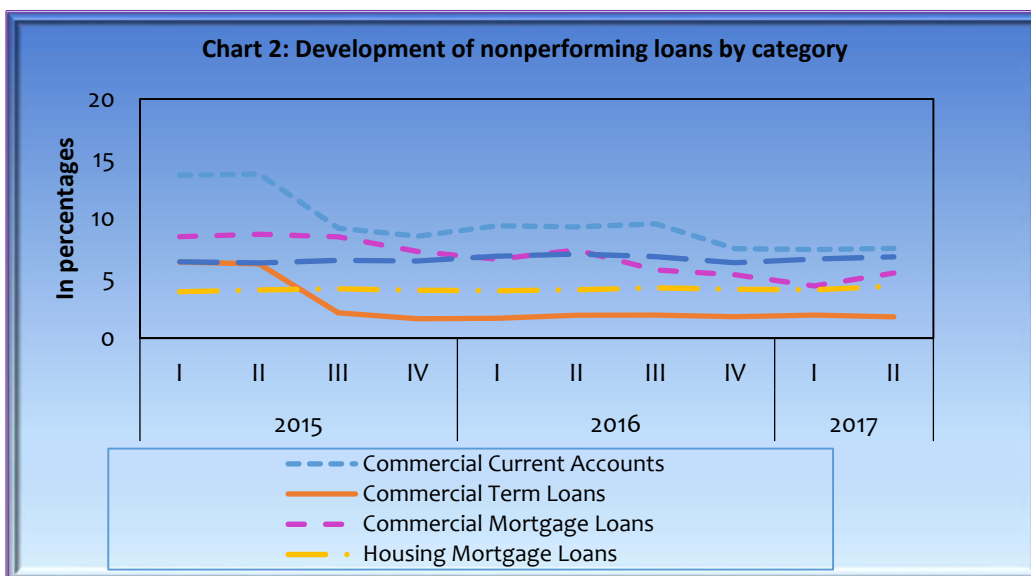
¹ Core capital (Tier I) components: paid in capital (excl. cumulative preferred share capital), statutory and general reserves, and retained earnings. Goodwill and other intangible assets, and equity investments in subsidiaries are deducted from Tier I capital. Supplementary Capital (Tier II) components: 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.

Asset Quality

The nonperforming loans (NPLs) to gross loans ratio rose by 0.4 percentage point to 4.6 percent at end-June 2017 compared to end-March 2017 (Chart 1). The overall NPLs portfolio deteriorated due to a growth of Afl. 14.1 million in total NPLs. With the exception of nonperforming commercial term loans, all NPLs categories showed increases during the quarter under review. However, the nonperforming commercial mortgage loans contributed the most to the overall increase in NPLs (Chart 2). The commercial banks' level of provisions formed against NPLs seemed sufficient as evidenced by the relatively low NPLs (net of allocated loan loss provisions) to gross loans ratio, which stood at 1.7 percent at the end of June 2017.



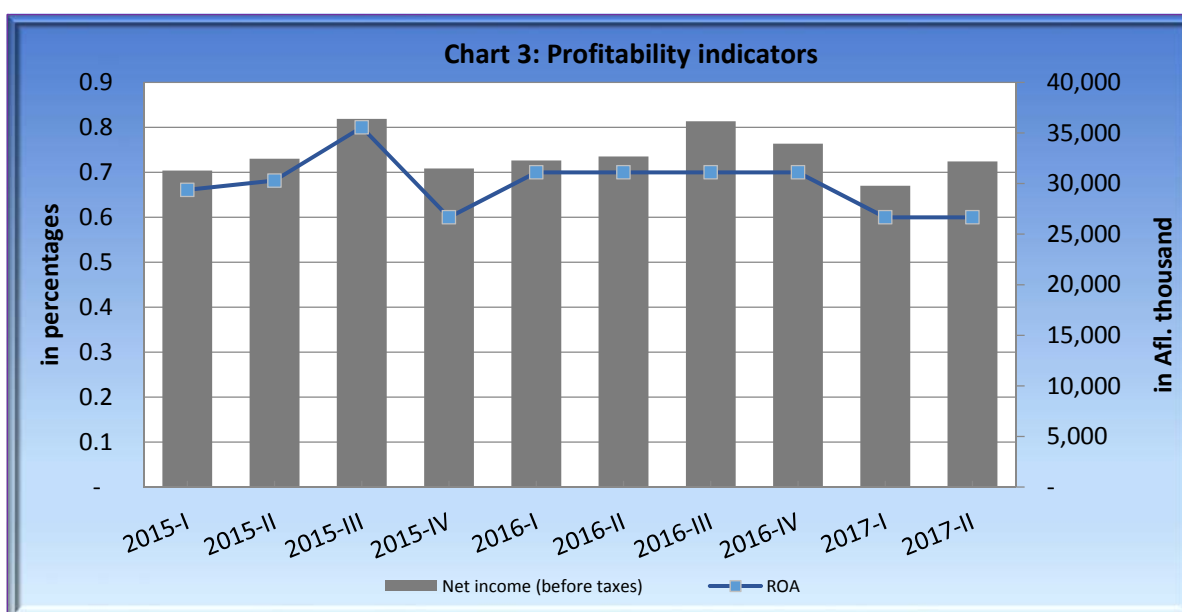
Source: Centrale Bank van Aruba



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Profitability

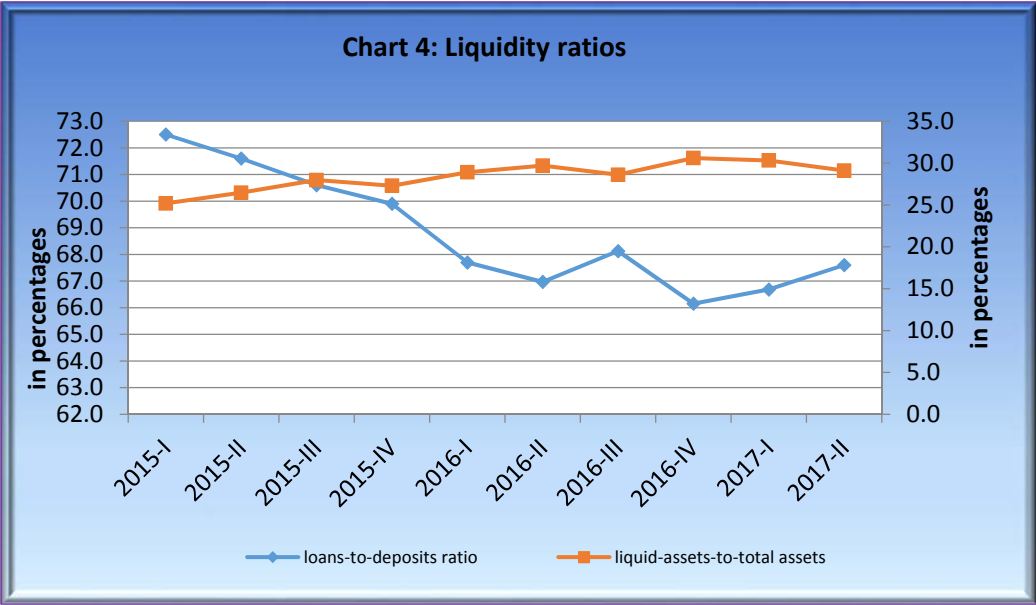
Net income (before taxes) grew by Afl. 2.4 million (8.1 percent) during the second quarter of 2017, compared to the first quarter of 2017 (chart 3). The return on assets (before taxes) remained virtually unchanged at 0.6 percent at the end of June 2017. The interest margin to gross income ratio climbed by 2.2 percentage points to 58.6 percent, due largely to an Afl. 1.8 million or 2.8 percent growth in interest income. Non-interest expenses contracted by Afl. 2.1 million (3.1 percent) during the second quarter of 2017 compared to the previous quarter. This was mainly related to lower personnel expenses and general expenses, partially offset by increases in loan loss provisions and profit tax expenses. As a result, the non-interest expenses to gross income ratio shrank by 2.2 percentage points to 73.3 percent at end-June 2017 compared to end-March 2017.



Source: Centrale Bank van Aruba

Liquidity

The commercial banks' aggregated prudential liquidity ratio contracted by 1.2 percentage points to 29.1 percent at the end of June 2017 compared to end-March 2017, 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 and other commercial banks, as well as increases in the banks' investment portfolio. Conversely, the loan-to-deposit ratio grew by 0.9 percentage point to 67.6 percent and remained well below the 80 percent maximum (Chart 4). This expansion was mostly caused by a decline of Afl. 59.2 million or 1.4 percent in the commercial banks' total deposits (denominator), showing mostly declines in the time deposits of the private sector held at the commercial banks.



Source: Centrale Bank van Aruba