Statistical News Release
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Financial soundness Indicators of the commercial banks: Aggregated capital adequacy ratio of the commercial banks continued to grow during the third quarter of 2017

Aggregated Capital Adequacy Ratio

The aggregated regulatory capital (Tier I + II)\(^1\) to risk-weighted assets' ratio rose by 0.3 percentage point to 31.4 percent at end-September 2017, compared to end-June 2017. This was primarily due to a growth of approximately Afl. 24.2 million in the regulatory capital (Tier I + II), related mostly to profits recorded during the third quarter of 2017. The commercial banks' buffer to absorb unexpected losses remained adequate as the commercial banks continued to comply with the required minimum capital adequacy ratio of 16 percent. The aggregated regulatory Tier I capital to risk-weighted assets' ratio dropped by 0.6 percentage point to 24.0 percent. This was caused by an Afl. 52.9 million or 1.8 percent expansion in the risk-weighted assets and an Afl. 2.9 million or 0.4 percent decrease in the core capital (Tier I). The expansion in the risk-weighted assets was mainly due to growth in commercial loans.

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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)

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\(^1\) 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 declined by 0.4 percentage point to 4.2 percent at end-September 2017, compared to end-June 2017 (Chart 1). The overall NPLs portfolio improved mainly due to a decrease of Afl. 9.2 million or 6.4 percent in total NPLs. All NPLs categories showed declines during the quarter under review. However, the nonperforming commercial mortgage loans contributed the most to the overall decrease 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 1.3 percent at the end of September 2017.
**Profitability**

Net income (before taxes) contracted by approximately Afl. 0.1 million (0.2 percent) during the third quarter of 2017, compared to the second quarter of 2017 (chart 3). The return on assets (before taxes) remained unchanged at 0.6 percent at the end of September 2017. Net interest income to gross income also remained unchanged at 58.6 percent as the increase in net interest income of Afl. 0.8 million (1.5 percent), was almost completely offset by an increase in gross income of Afl. 1.3 million (1.4 percent). Non-interest expenses rose by Afl. 1.7 million (2.5 percent) during the third quarter of 2017 compared to the previous quarter. This was mainly related to higher general expenses, depreciation and provision for loan losses, largely offset by lower personnel expenses. Consequently, the non-interest expenses to gross income ratio grew by 0.8 percentage point to 74.1 percent at end-September 2017, compared to end-June 2017.

**Liquidity**

The commercial banks’ aggregated prudential liquidity ratio expanded slightly by 0.2 percentage point to 29.3 percent at the end of September 2017, compared to end-June 2017 (Chart 4). This growth was due to an Afl. 44.4 million increase in total liquid assets (2.9 percent), which was partially offset by a larger increase in total net assets of Afl. 115.8 million (2.2 percent). The aforementioned ratio remained far above the minimum prudential liquidity requirement of 15 percent, which as of January 1, 2018 has been raised to 16 percent. The increase in liquid assets was mainly reflected in deposits of the commercial banks held at the CBA and other commercial banks. The loan-to-deposit ratio rose by 0.3 percentage point to 67.9 percent and remained well below the 80 percent maximum (Chart 4). This expansion was mostly caused by a growth in total loans (net) of Afl. 74.1 million.
Chart 4: Liquidity ratios

Source: Centrale Bank van Aruba