STATISTICAL NEWS RELEASE

FINANCIAL SOUNDNESS INDICATORS Q2 2018
Date: August 8, 2018
Capital adequacy

The commercial banks strengthened their capital adequacy during the second quarter of 2018. The aggregated regulatory capital (Tier I + II) to risk-weighted assets' ratio rose by 0.7 percentage point to 31.8 percent. The profits recorded during the second quarter of 2018 were mostly responsible for the aforementioned growth. The aggregated regulatory Tier I capital to risk-weighted assets' ratio edged up slightly by 0.1 percentage point to 25.5 percent at end-June 2018, compared to end-March 2018. A stronger decline in risk-weighted assets' of 0.2 percent compared to a contraction of 0.1 percent in the core capital (Tier I)\(^1\) was responsible for the aforementioned increase. 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 16.0 percent.

---

\(^1\) 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) ratio remained flat during the second quarter of 2018. The NPLs to gross loans ratio continued unchanged at 4.0 percent at end-June 2018, compared to end of March 2018 (Chart 1). This was largely because movements in both total NPLs and total gross loans were less pronounced during the second quarter of 2018. Nevertheless, the overall NPLs portfolio shrank by Afl. 1.3 million or 1.0 percent, mainly due to declines in nonperforming consumer credit loans (other individual loans) and...
commercial current accounts. Conversely, the nonperforming commercial mortgage loans rose during the quarter under review (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 remained at 1.5 percent at the end of June 2018.

**Profitability**

Non-interest expenses to gross income surged by 5.3 percentage points during the quarter under review. Net income (before taxes) contracted by Afl. 9.9 million (30.5 percent) during the second quarter of 2018, compared to the first quarter of 2018, resulting in an 0.2 percentage point decline in the return on assets (before taxes) (chart 3). This was largely because of a surge in other operating expenses of Afl. 7.4 million (excluding interest expenses) and an Afl. 2.3 million decline in other operating income. Net interest income to gross income rose by 1.3 percentage points to 57.0 percent, because of a stronger decline in gross income compared to the decrease in interest income. In fact, the decline in gross income was mostly related to a contraction in the fees and commissions of Afl. 2.1 million. Non-interest expenses to gross income ratio surged by 5.3 percentage points to 80.5 percent,
following an increase in non-interest expenses of Afl. 3.3 million or 4.5 percent and an Afl. 2.4 million or 2.5 percent decline in gross income. The former was mainly related to higher provision for loan losses and general expenses, which were largely offset by lower profit tax expenses.

Liquidity

The prudential liquidity ratio declined while loan-to-deposit ratio grew, both complying with the minimum and maximum requirements. The commercial banks’ aggregated prudential liquidity ratio declined by 0.6 percentage point to 29.9 percent at the end of June 2018, compared to end-March 2018 (Chart 4). This contraction was mostly attributed to an Afl. 39.7 million drop in total liquid assets, mainly reflected in the deposits of the commercial banks held at the CBA, which were partially offset by expansions in their investment portfolio. The aforementioned ratio remained far above the minimum prudential liquidity requirement of 16.0 percent, which as of January 1, 2018 has been raised to 16.0 percent. The loan-to-deposit ratio grew by 1.0 percentage point to 67.4 percent and remained well below the 80.0 percent maximum (Chart 4). This growth was caused by a decline in total deposits (liabilities) of Afl. 44.6 million or 1.0 percent and an Afl. 15.4 million or 0.5 percent increase in total loans (net of provisions). The contraction in total deposits (liabilities) was mostly due to decreases in demand deposits and short-term time deposits of the private sector, which were largely offset by an increase in government deposits.