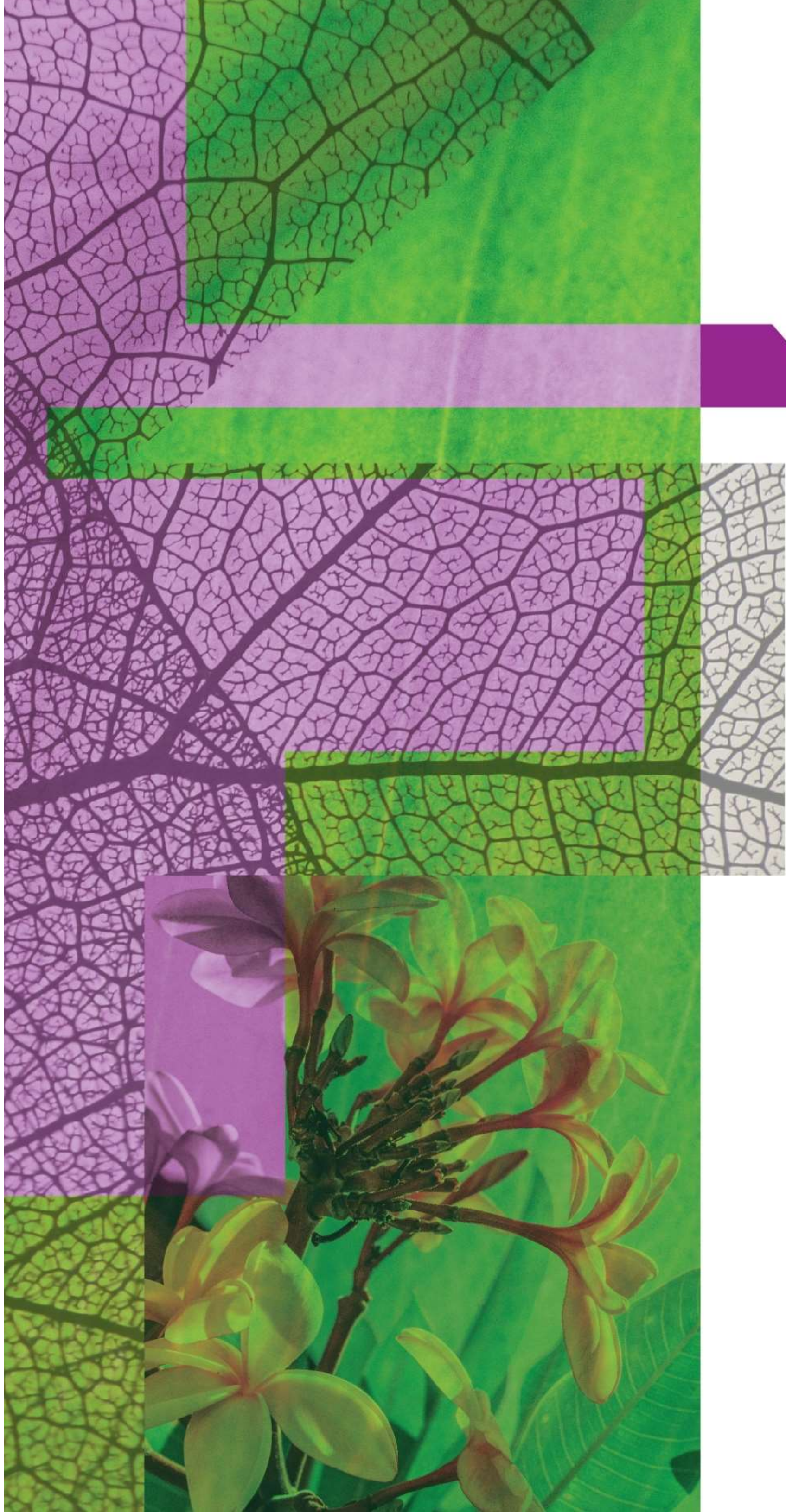


FINANCIAL SOUNDNESS INDICATORS OF THE COMMERCIAL BANKS

FOURTH QUARTER OF 2019

July 31, 2020

CENTRALE BANK VAN ARUBA

Capital adequacy

The commercial banks' aggregated regulatory Tier I capital to risk-weighted assets' ratio contracted by 2.2 percentage points to 23.8 percent. This decrease was largely due to a fall of approximately Afl. 57.7 million in the regulatory Tier I capital, which was mainly related to a shrinkage in retained earnings. The retained earnings dropped by an Afl. 57.8 million or 8.3 percent. In addition, the commercial banks' risk-weighted assets expanded with Afl. 55.9 million or 1.7 percent.

The aggregated regulatory capital (Tier I + Tier II) to risk-weighted assets' ratio declined by 2.4 percentage points to 30.9 percent. This drop is mainly due to an Afl. 59.6 million or 5.5 percent contraction in the aggregated regulatory capital (Tier I + Tier II). The latter was mostly associated with the aforementioned decrease in retained earnings, combined with a decrease of approximately Afl. 17.9 million in the (general) unallocated loan loss provision (ULLP). As mentioned above the commercial banks' risk-weighted assets expanded during the last quarter of 2019 which further encouraged the overall decline of the ratio. The commercial banks continued to comply with the required minimum capital adequacy ratio of 16.0 percent.

Table 1: Summary Financial Soundness Indicators-Commercial Banks

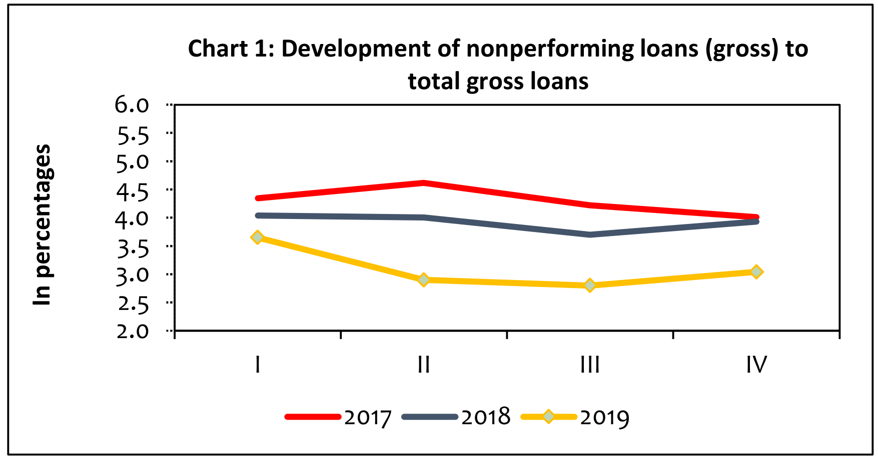
	Q3 2019	Q4 2019
Capital adequacy		
Regulatory capital (Tier I + Tier II) to risk-weighted assets (minimum 16.0%)	33.3	30.9
Regulatory Tier I capital to risk-weighted assets	26.0	23.8
Asset quality		
Nonperforming loans to gross loans	2.8	3.0
Nonperforming loans (net of allocated loan loss provisions) to gross loans	0.7	0.7
Provisions to nonperforming loans (gross)	225.1	198.1
Large exposures to regulatory capital	37.9	33.0
Earnings and profitability		
Return on assets (before taxes)	0.6	0.4
Interest margin to gross income	56.8	55.1
Noninterest expenses to gross income	75.6	85.2
Liquidity		
Loans to deposits ratio (maximum 80.0%)	72.5	68.3
Liquid assets to total assets (minimum 18.0%) 1)	26.5	29.3
Source: Centrale Bank van Aruba		
1) This is the Prudential Liquidity Ratio (PLR). As of January 1, 2019, the CBA increased the minimum PLR from 16.0 percent to 18.0 percent.		

Source: Centrale Bank van Aruba

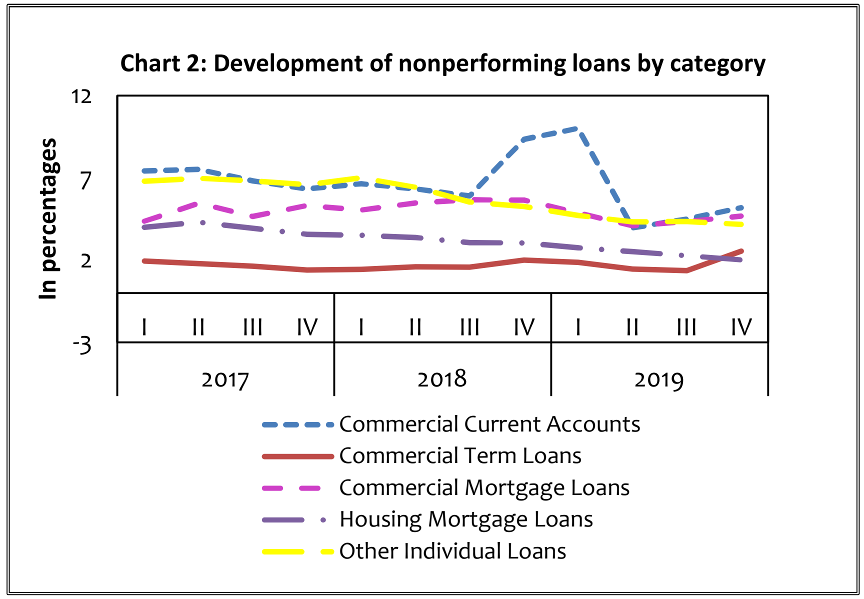
Asset Quality

The Nonperforming loans (NPLs) ratio slightly increased during the fourth quarter of 2019. The NPLs-to-gross-loans ratio increased by 0.2 percentage point to 3.0 percent at the end of December 2019 (Chart 1). This was mainly due to an Afl. 8.4 million or 8.5 percent growth in total NPLs, offset by a rise in total gross loans of Afl. 11.6 million or 0.3 percent. The overall expansion was mainly reflected in the categories of the commercial current accounts and commercial term loans (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 consistent at 0.7 percent for the end of December 2019. The total provisions[1] to NPLs (gross) dropped by 27.0 percentage points to 198.1 percent mainly due to a stronger upsurge in NPLs (8.5 percent) compared to the decrease in total provisions (4.5 percent). The large exposures to regulatory capital of the commercial banks further contracted by 4.9 percentage points to 33.0 percent, as a result of an Afl. 73.6 million (17.8 percent) decline in large exposures and Afl. 59.6 million (5.5 percent) decrease in regulatory capital.



Source: Centrale Bank van Aruba

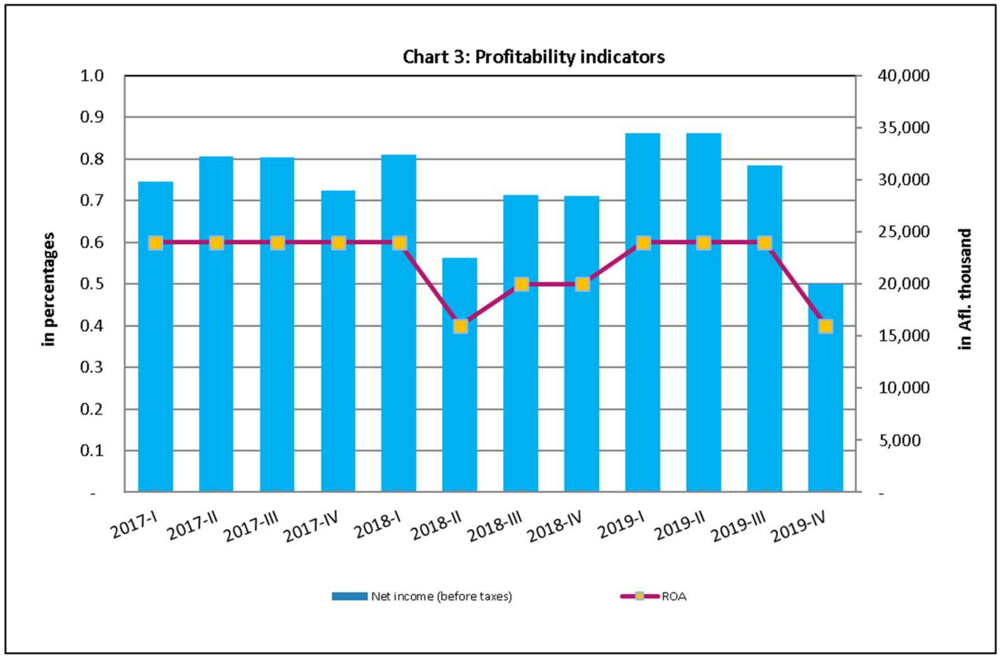


Source: Centrale Bank van Aruba

[1] The total provisions includes allocated loan loss provisions (ALLP) and unallocated loan loss provisions (ULLP).

Profitability

Growth in operating expenses outweighed the increase in operating income during the quarter under review. Net income (before taxes) contracted by Afl. 11.4 million (36.2 percent) during the last quarter of 2019 compared to the previous quarter. This was largely attributed to an increase of Afl. 15.1 million (21.7 percent) in operating expenses, which entirely offset the total operating income that rose by Afl. 3.7 million (3.6 percent). The return on assets (before taxes) declined by 0.2 percentage point to 0.4 percent as per end-December 2019 (Chart 3). Non-interest expenses to gross income expanded by 9.6 percentage points to 85.2 percent, mainly because of the non-interest expenses that increased by Afl. 12.8 million (16.8 percent). The aforementioned was a result of additions to the loan loss provisions which strongly grew by Afl. 8.0 million. The growth of the gross income (Afl. 3.7 million or 3.6 percent) was greater compared to the rise in net interest income (Afl. 0.3 million or 0.5 percent). Therefore, the interest margin to gross income shrank by 1.7 percentage points to 55.1 percent.

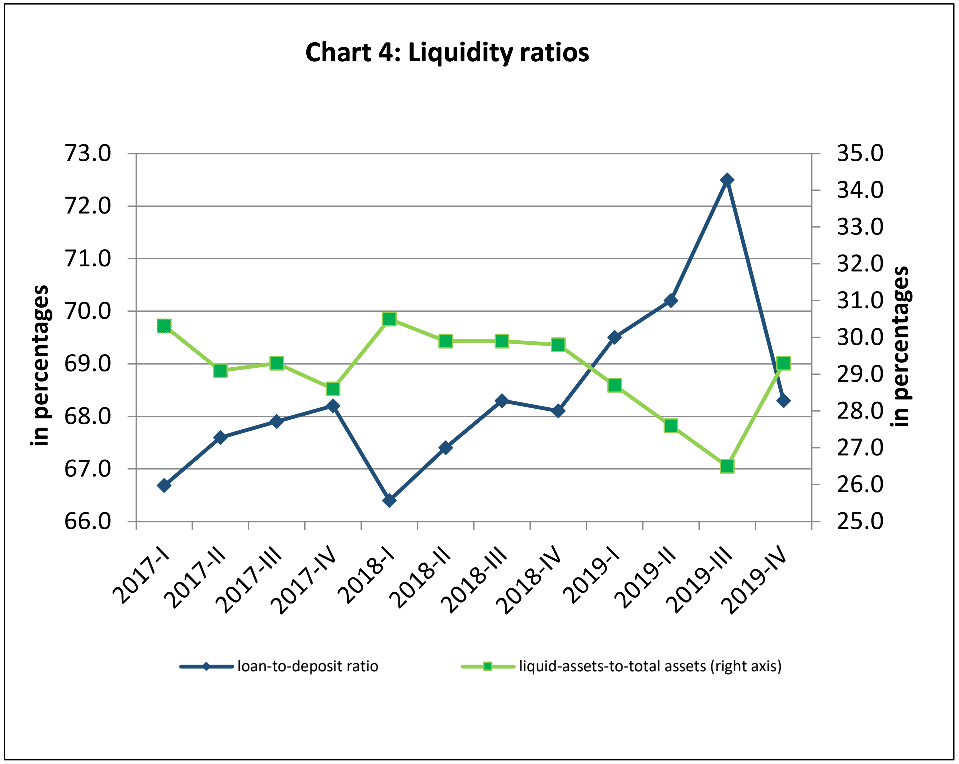


Source: Centrale Bank van Aruba

Liquidity

The Loan-to-deposit (Ltd) ratio shrank while the prudential liquidity ratio increased. Both remained in compliance with the maximum and minimum requirements[2]. The Ltd ratio contracted by 4.2 percentage points to 68.3 percent and remained below the 80.0 percent maximum (Chart 4). This was largely caused by an expansion in total deposits of Afl. 309.6 million or 6.8 percent. The shrinkage of the ratio was partially offset by a rise in total loans (net of provisions) of Afl. 21.8 million or 0.7 percent.

The commercial banks' aggregated prudential liquidity ratio grew by 2.8 percentage points to 29.3 percent at end-December 2019, compared to end-September 2019 (chart 4). This was caused by an expansion in total liquid assets (excluding reserve requirement) of Afl. 221.0 million (14.6 percent). The increase of Afl. 205.8 million (3.6 percent) in net assets partially offset the growth of said ratio.



Source: Centrale Bank van Aruba

[2] As of January 1, 2019, the minimum liquidity ratio was set at 18.0 percent.

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