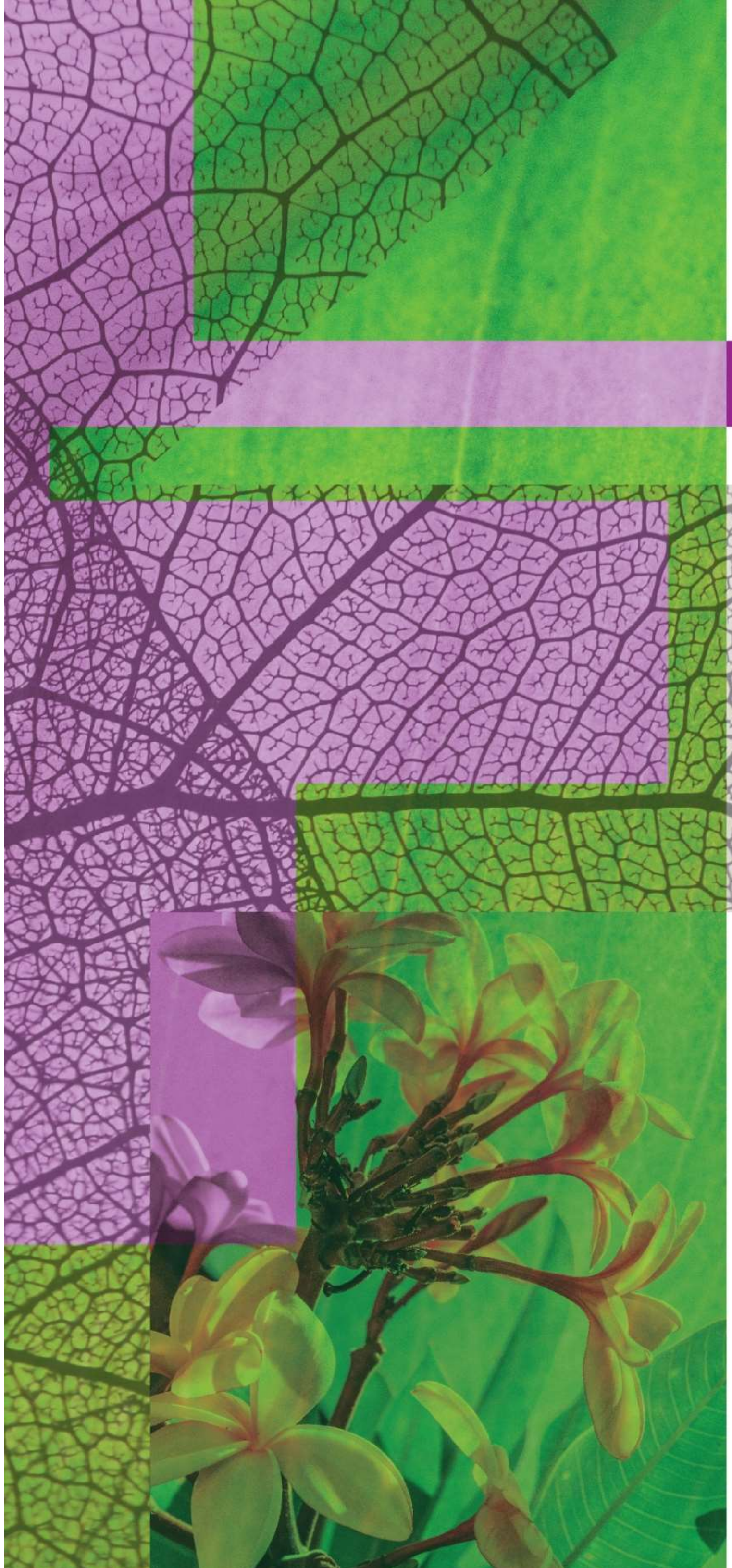


FINANCIAL SOUNDNESS INDICATORS OF THE COMMERCIAL BANKS

THIRD QUARTER OF 2020

March 25, 2021

CENTRALE BANK VAN ARUBA

Capital adequacy

The commercial banks' core capital (Tier I) expanded slightly during the third quarter of 2020. The aggregated regulatory Tier I capital to risk-weighted assets' ratio increased by 0.3 percentage point to 27.4 percent in Q3 2020, mainly due to a decrease of Afl. 24.1 million or 0.7 percent in risk-weighted assets. The decline in the risk-weighted assets of the commercial banks at the end of the third quarter of 2020 was caused by a decrease in undisbursed loan funds and an increase in the allocated loan loss provision (ALLP) of Afl. 26.0 million (4.6 percent) and Afl. 25.4 million (24.3 percent), respectively.

The aggregated regulatory capital (Tier I + Tier II) to risk-weighted assets' ratio experienced a slight rise of 0.1 percentage point to 32.0 percent. The regulatory capital (Tier I + Tier II) declined by Afl. 6.6 million or 0.6 percent, mainly attributable to the Afl. 7.6 million or 52.2 percent shrinkage in Profit & Loss and the Afl. 1.9 million or 1.4 percent decrease in the unallocated loan loss provision (ULLP). The decline in the risk-weighted assets and decrease of the regulatory capital (Tier I + II) resulted in a modest growth in the capital (Tier I + II) adequacy ratio. The commercial banks continued to comply with the required minimum capital adequacy ratio of 14.0 percent during the third quarter of 2020.

Table 1: Summary Financial Soundness Indicators - Commercial Banks

	Q2 2020	Q3 2020
Capital adequacy		
Regulatory capital (Tier I + Tier II) to risk-weighted assets (minimum 14.0%) 1)	31.9	32.0
Regulatory Tier I capital to risk-weighted assets	27.1	27.4
Asset quality		
Nonperforming loans to gross loans	3.7	4.1
Nonperforming loans (net of allocated loan loss provisions) to gross loans	0.7	0.5
Provisions to nonperforming loans (gross)	181.3	177.5
Large exposures to regulatory capital	51.7	53.9
Earnings and profitability		
Return on assets (before taxes)	-0.1	-0.2
Interest margin to gross income	71.9	65.8
Noninterest expenses to gross income	107.2	109.5
Liquidity		
Loan-to-deposits ratio (maximum 85.0%) 2)	68.1	69.8
Liquid assets to total assets (minimum 15.0%) 3)	32.5	31.0
Source: Centrale Bank van Aruba		
1) As per March 17, 2020, the CBA temporarily decreased the minimum risk-weighted capital ratio from 16.0 percent to 14.0 percent in response to the COVID-19 pandemic. 2) As per March 17, 2020, the CBA temporarily increased the maximum Loan-to-deposit ratio from 80.0 percent to 85.0 percent in response to the COVID-19 pandemic. 3) This is the Prudential Liquidity Ratio (PLR). As per March 17, 2020, the CBA temporarily decreased the minimum PLR from 18.0 percent to 15.0 percent in response to the COVID-19 pandemic.		

Source: Centrale Bank van Aruba

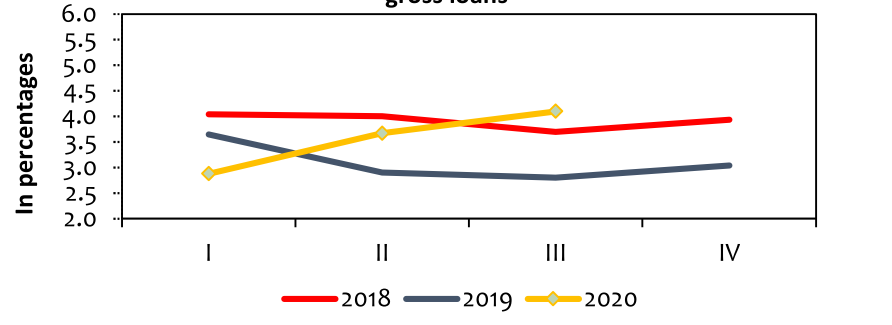
Asset Quality

The Nonperforming loan-to-gross-loans ratio (NPL ratio) expanded during the third quarter of 2020. Said ratio increased by 0.4 percentage point to 4.1 percent (Chart 1). This was largely due to a growth in total NPLs of Afl. 16.0 million or 12.2 percent, which was mitigated by a rise in total gross loans of Afl. 42.6 million or 1.2 percent. The overall expansion in the ratio was mostly reflected in the category of commercial mortgage loans that increased by 2.5 percent (Chart 2).

The total provisions[1]-to-NPLs (gross) contracted by 3.8 percentage points to 177.5 percent at end-September 2020. The total provisions held increased by Afl. 23.5 million or 9.9 percent. The overall ratio decreased because the increase in NPLs was stronger than the increase in the allocated loan loss provisions. The NPLs-(net of allocated loan loss provisions)-to-gross-loans ratio declined by 0.2 percentage point to 0.5 percent .

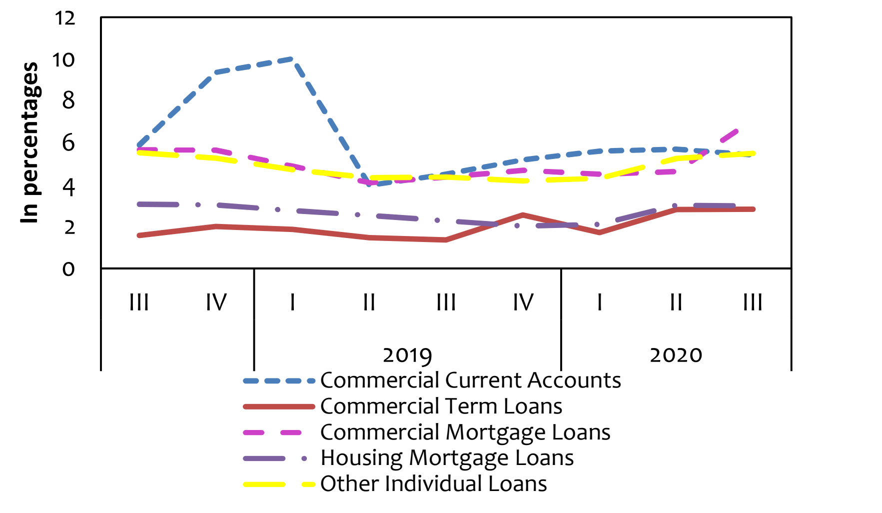
The large exposures to regulatory capital of the commercial banks increased by 2.2 percentage points to 53.9 percent, the result of an Afl. 19.5 million (3.6 percent) rise in large exposures in Q3 2020. In addition, the decline in the regulatory capital (Tier I + II) contributed to the expansion in the aforementioned ratio.

Chart 1: Development of nonperforming loans (gross) to total gross loans



Source: Centrale Bank van Aruba

Chart 2: Development of nonperforming loans by category



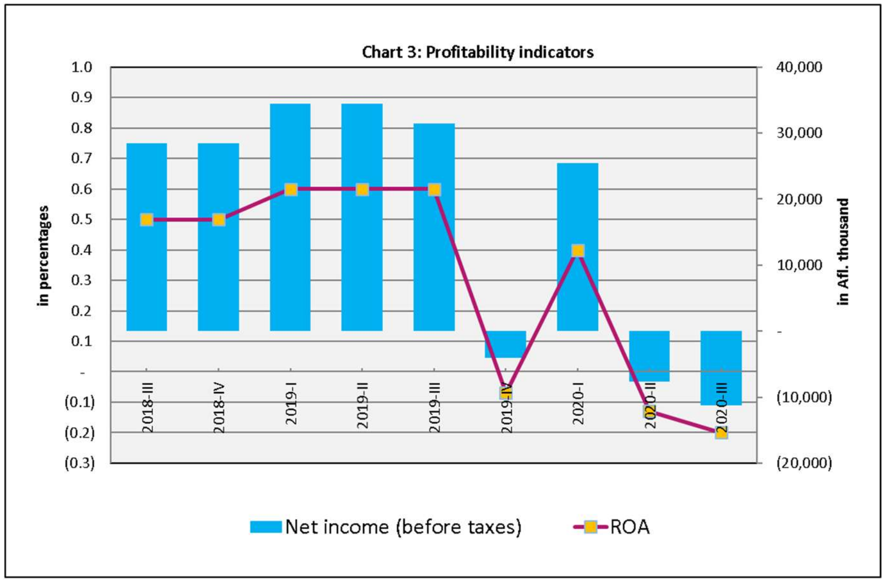
Source: Centrale Bank van Aruba

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

Profitability

The non-interest expenses to gross income increased during the quarter under review. Non-interest expenses grew by Afl. 8.2 million (10.3 percent), due to an Afl. 9.6 million (11.7 percent) growth in other operating expenses. This increase was mainly reflected in the increase in (i) provision for loan losses (Afl. 10.5 million), and (ii) salaries and employee benefits (Afl. 1.8 million). The growth in total operating income of Afl. 5.9 million (8.0 percent) was outweighed by the increase in non-interest expenses. Therefore the net loss (before taxes) expanded by Afl. 3.6 million (47.9 percent) during the third quarter of 2020 to Afl. 11.3 million compared to the second quarter of 2020.

The applicable profit tax went from negative Afl. 2.3 million in Q2 2020 to negative Afl. 3.6 million in Q3 2020. The return on assets (before taxes) slightly declined by 0.1 percentage point to -0.2 percent as per end-September 2020 (Chart 3). The interest margin to gross income declined by 6.1 percentage points to 65.8 percent, due mainly to the rise in gross income as mentioned above.

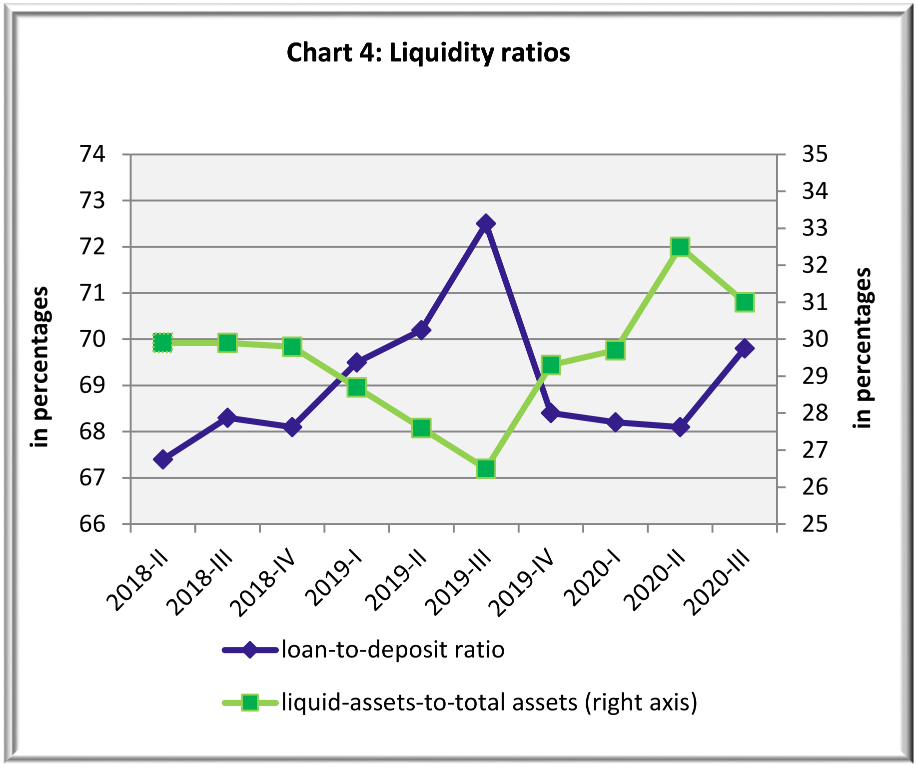


Source: Centrale Bank van Aruba

Liquidity

The Loan-to-deposit (Ltd) ratio rose in the third quarter of 2020, while the prudential liquidity ratio declined. The Ltd ratio increased by 1.7 percentage points to 69.8 percent and remained below the maximum requirement of 85.0 percent (Chart 4). This growth was mainly due to a shrinkage in total deposits of Afl. 97.2 million or 2.0 percent. The decline in deposits was reflected mostly in decreases in following categories: demand deposits of the private sector (Afl. 179.5 million), government deposits (Afl. 8.6 million), demand deposits of deposit money banks (Afl. 8.2 million), and time deposits of the private sector (Afl. 2.2 million). The total loans (net of provisions) expanded by Afl. 19.1 million or 0.6 percent.

The commercial banks' aggregated prudential liquidity ratio slightly decreased by 1.5 percentage points to a strong 31.0 percent at the end of the third quarter of 2020, compared to the second quarter of 2020 (Chart 4). This is mainly attributable to a shrinkage in total liquid assets (excluding reserve requirement) of Afl. 118.1 million (6.1 percent), which was mostly related to drops in the current accounts held at the CBA (Afl. 119.4 million), cash (Afl. 17.6 million) and short-term securities (Afl. 12.4 million). The commercial banks complied with the prudential requirements[2] for end-September 2020.



Source: Centrale Bank van Aruba

[2] As of March 17, 2020, the minimum liquidity ratio was set at 15.0 percent and the maximum loan to deposit ratio was set at 85.0 percent.

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