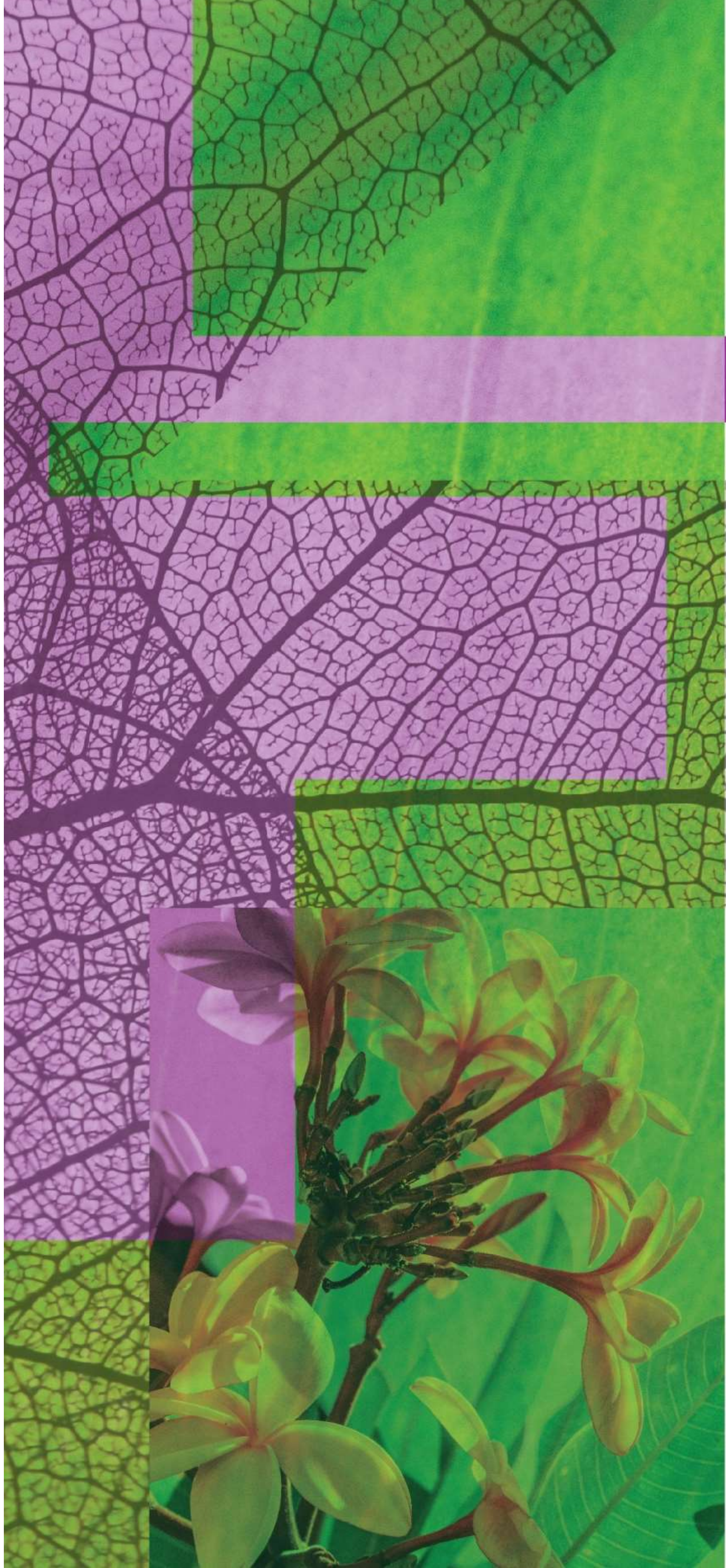


FINANCIAL SOUNDNESS INDICATORS OF THE COMMERCIAL BANKS

SECOND QUARTER OF 2020

December 11, 2020

CENTRALE BANK VAN ARUBA

Capital adequacy

The commercial banks' core capital (Tier I) slightly expanded during the second quarter of 2020. The aggregated regulatory Tier I capital to risk-weighted assets' ratio increased by 0.4 percentage point to 27.1 percent in Q2 2020, which was largely due to a rise of Afl. 2.5 million or 0.4 percent in retained earnings.

The aggregated regulatory capital (Tier I + Tier II) to risk-weighted assets' ratio remained quite stable and rose by 0.2 percentage point to 31.9 percent in the second quarter of 2020. This increase can be mainly attributed to an Afl. 42.0 million or 1.3 percent shrinkage in the commercial banks' risk-weighted assets. The decrease in the risk-weighted assets was mainly due to a decline of Afl. 83.8 million or 79.9 percent in non-resident time deposits held at other commercial banks. In addition, non-resident demand deposits of other commercial banks decreased by Afl. 38.6 million or 13.2 percent. Furthermore, the regulatory capital (Tier I + Tier II) declined by Afl. 5.2 million or 0.5 percent. The commercial banks complied with the required minimum capital adequacy ratio during the second quarter of 2020.

Table 1: Summary Financial Soundness Indicators - Commercial Banks

	Q1 2020	Q2 2020
Capital adequacy		
Regulatory capital (Tier I + Tier II) to risk-weighted assets (minimum 14.0%) 1)	31.7	31.9
Regulatory Tier I capital to risk-weighted assets	26.7	27.1
Asset quality		
Nonperforming loans to gross loans	2.9	3.7
Nonperforming loans (net of allocated loan loss provisions) to gross loans	0.6	0.7
Provisions to nonperforming loans (gross)	213.9	181.3
Large exposures to regulatory capital	50.2	51.7
Earnings and profitability		
Return on assets (before taxes)	0.4	-0.1
Interest margin to gross income	55.9	71.9
Noninterest expenses to gross income	79.7	107.2
Liquidity		
Loan-to-deposits ratio (maximum 85.0%) 2)	68.2	68.1
Liquid assets to total assets (minimum 15.0%) 3)	29.7	32.5
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.		

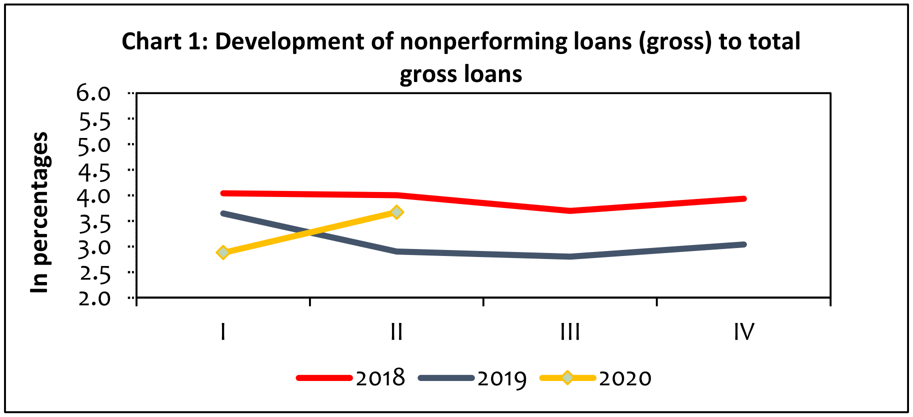
Source: Centrale Bank van Aruba

Asset Quality

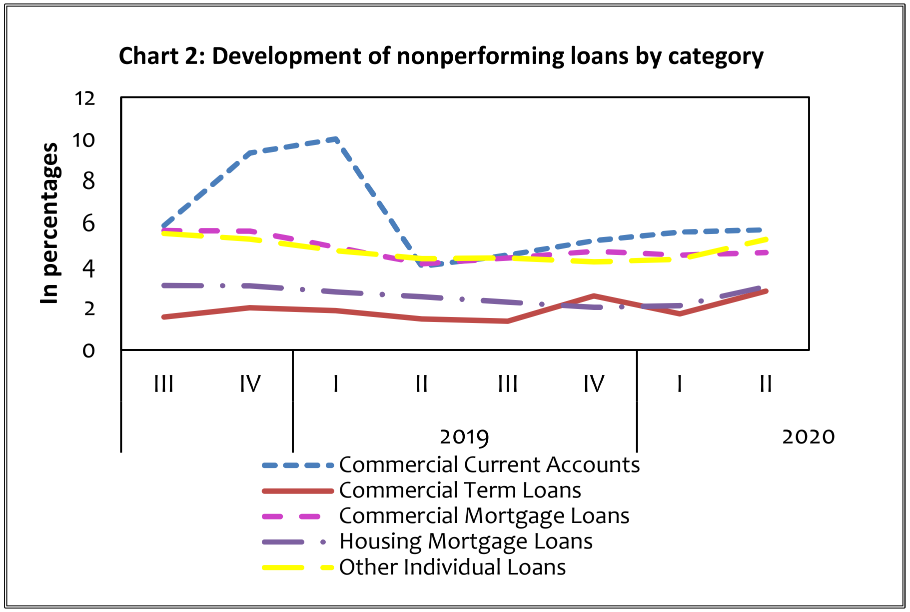
The Nonperforming loan (NPL)-to-gross-loans ratio (NPL ratio) expanded during the second quarter of 2020. Said ratio increased by 0.8 percentage point to 3.7 percent at end-June 2020 (Chart 1). This was largely due to an upsurge in total NPLs of Afl. 29.2 million or 28.8 percent, which was mitigated by a rise in total gross loans of Afl. 44.1 million or 1.3 percent. The overall expansion of that ratio was reflected in all of the categories, especially in the commercial term loans, other individual loans and housing mortgage loans (Chart 2).

The total provisions[1]-to-NPLs (gross) contracted by 32.6 percentage points to 181.3 percent, mainly due to the aforementioned increase in NPLs. The NPLs-(net of allocated loan loss provisions)-to-gross-loans ratio increased by 0.1 percentage point to 0.7 percent in the second quarter of 2020.

The large exposures to regulatory capital of the commercial banks increased by 1.5 percentage points to 51.7 percent, as the result of an Afl. 13.0 million (2.5 percent) rise in large exposures in Q2 2020. In addition, the decline in the regulatory capital also contributed to the expansion of the aforementioned ratio.



Source: Centrale Bank van Aruba



Source: Centrale Bank van Aruba

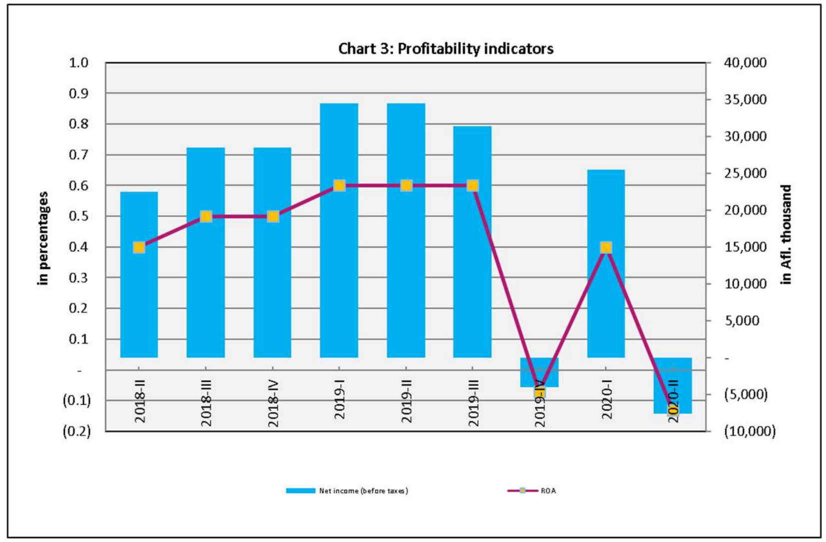
[1] The total provisions includes allocated loan loss provisions (ALLP) and unallocated loan loss provisions (ULLP).

Profitability

The non-interest expenses to gross income rose during the quarter under review. Net income (before taxes) contracted by Afl. 33.1 million (129.8 percent) during the second quarter of 2020, compared to the first quarter of 2020. The main drivers behind this shrinkage were a significantly lower operating income of Afl. 23.7 million (24.3 percent). This was mostly associated with decreases in fees and commissions (Afl. 17.8 million) and in the net revenue of foreign exchange (Afl. 4.6 million), mainly due to the decrease in economic activities as a result of the COVID-19 pandemic. Therefore, gross income contracted by Afl. 23.7 million (24.3 percent).

In contrast, the non-interest expenses experienced a growth in the second quarter of 2020, which further contributed to the expansion in the non-interest expenses to gross income ratio. Other operating expenses expanded by Afl. 9.4 million (13.1 percent), which was mostly related to additions in the amount of Afl. 21.8 million (3,616.3 percent) to the provision for loan losses by the end of June 2020. The overall expansion of the other operating expenses was mitigated by decreases in general expenses (Afl. 10.9 million) and in salaries and employees benefits (Afl. 1.2 million). As a result, the applicable profit tax declined by Afl. 8.0 million (140.8 percent).

The return on assets (before taxes) declined by 0.5 percentage point to -0.1 percent as per end-June 2020 (Chart 3). The interest margin to gross income increased by 15.9 percentage points to 71.9 percent, due mainly to the decrease in gross income as mentioned above. The rise in this ratio was partly mitigated by the decline of Afl. 1.5 million (2.8 percent) in net interest income.

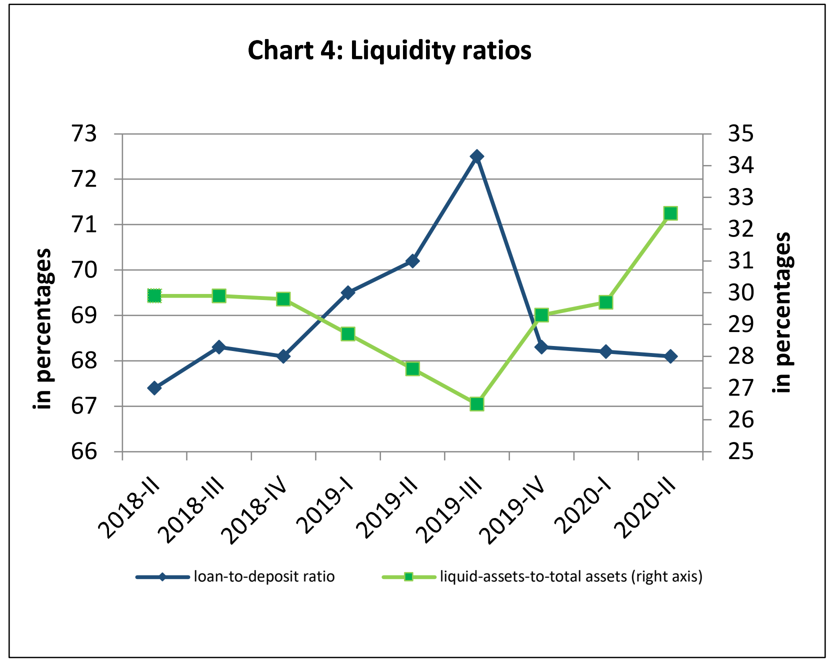


Source: Centrale Bank van Aruba

Liquidity

The Loan-to-deposit (Ltd) ratio declined, while the prudential liquidity ratio increased, both complying with the maximum and minimum prudential requirements[2]. The Ltd ratio shrank by 0.1 percentage point to 68.1 percent and remained below the maximum requirement of 85.0 percent (Chart 4). This was mainly due to a rise in total deposits of Afl. 48.7 million or 1.0 percent. Said increase was largely reflected in the expansion in government demand deposits (Afl. 30.5 million or 87.6 percent) and in the demand deposits of the private sector (Afl. 46.8 million or 1.8 percent). The overall shrinkage of the ratio was mitigated by an increase in total loans (net of provisions) of Afl. 24.3 million or 0.7 percent.

The commercial banks' aggregated prudential liquidity ratio expanded by 2.8 percentage points to 32.5 percent at the end of the second quarter of 2020, compared to first quarter of 2020 (Chart 4). This is mainly attributable to the upsurge in total liquid assets (excluding reserve requirement) of Afl. 175.0 million (10.0 percent), mostly related to the increases in current accounts held at the CBA of Afl. 463.0 million (68.7 percent) and short-term securities of Afl. 24.4 million (22.6 percent). The increases in current accounts held at the CBA and the short-term securities were offset in part by the decreases in government bonds short-term time deposits and demand deposits held at other banks.



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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