Centrale Bank van Aruba

FINANCIAL SOUNDNESS INDICATORS OF THE COMMERCIAL BANKS

THIRD QUARTER OF 2019

February 27, 2020

Capital adequacy

The commercial banks' regulatory Tier I capital to the risk-weighted assets' ratio expanded by 0.6 percentage point to 26.0 percent. This increase was largely due to an Afl. 10.1 million rise in the regulatory Tier I capital, which was mainly related to a growth in statutory and general reserves.

The aggregated regulatory capital (Tier I + Tier II) to the risk-weighted assets' ratio increased by 1.4 percentage points to 33.3 percent. This upsurge in the regulatory capital (Tier I + Tier II) to the risk-weighted assets' ratio was mainly due to an Afl. 33.2 million or 3.1 percent growth in the regulatory capital (Tier I + Tier II). The latter is mostly associated with the allocation of net profits to the retained earnings. In addition, the commercial banks' risk-weighted assets declined by Afl. 33.0 million or 1.0 percent during the third quarter of 2019, which further strengthened this ratio. The commercial banks remained in compliance with the required minimum capital adequacy ratio of 16.0 percent.

Table 1: Summary Financial Soundness Indicators- Commercial Banks

	Q2 2019	Q3 2019
Capital adequacy		
Regulatory capital (Tier I + Tier II) to risk-weighted assets (minimum 16%)	31.9	33.3
Regulatory Tier I capital to risk-weighted assets	25.4	26.0
Asset quality		
Nonperforming loans to gross loans	2.9	2.8
Nonperforming loans (net of allocated loan loss provision) (ALLP) to gross loans	0.8	0.7
Provisions to nonperforming loans (gross)	223.9	225.1
Large exposures to regulatory capital (Tier I + Tier II)	40.3	37.9
Earnings and profitability		
Return on assets (before taxes)	0.6	0.6
Interest margin to gross income	57.6	56.8
Noninterest expenses to gross income	72.9	75.6
Liquidity		
Loan-to-deposit ratio (maximum 80%)	70.2	72.5
Liquid assets to total assets (minimum 18%) [1)]	27.6	26.5
1) This is the Prudential Liquidity Ratio (PLR). As of January 1, 2019, the CBA increased the minimum PLR from 16 percent to 18 percent.		

Source: Centrale Bank van Aruba

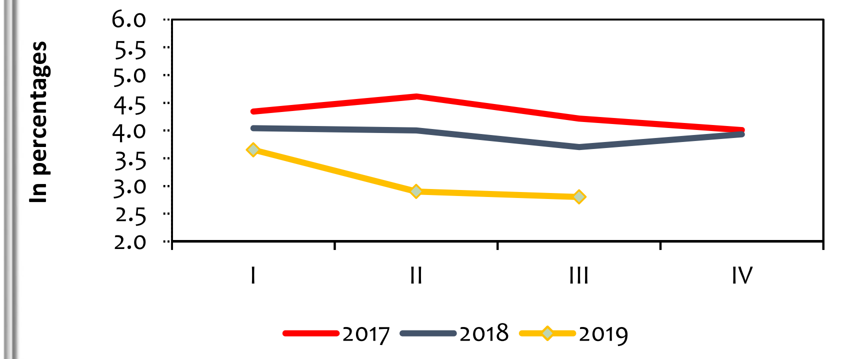
Asset Quality

The Nonperforming loans (NPLs) ratio slightly improved during the third quarter of 2019. The NPLs-to-gross-loans ratio decreased by 0.1 percentage point to 2.8 percent at end-September 2019 (Chart 1). This was mainly due to a contraction in total NPLs of Afl. 1.0 million or 1.0 percent, combined with a growth in total gross loans of Afl. 32.5 million or 0.9 percent. The overall decrease was largely reflected in the categories of the commercial term loans and housing mortgage loans (chart 2).

The commercial banks' level of provisions formed against NPLs seemed sufficient as evidenced by the relatively low NPLs-(net of ALLP)-to-gross-loans ratio, which declined further to 0.7 percent at the end of September 2019.

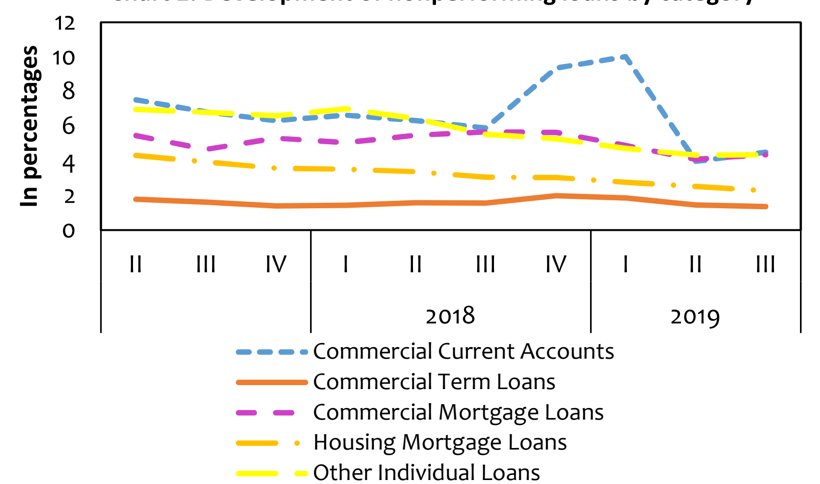
The total provisions to NPLs (gross) rose by 1.2 percentage points to 225.1 percent, mainly the result of a stronger decline in NPLs (1.0 percent) compared to the decrease in total provisions (0.5 percent). The large exposures to regulatory capital (Tier I + Tier II) of the commercial banks contracted by 2.4 percentage points to 37.9 percent, as a result of an Afl. 33.2 million (3.1 percent) increase in regulatory capital and an Afl. 12.5 million (2.9 percent) decline in large exposures.

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



Source: Centrale Bank van Aruba

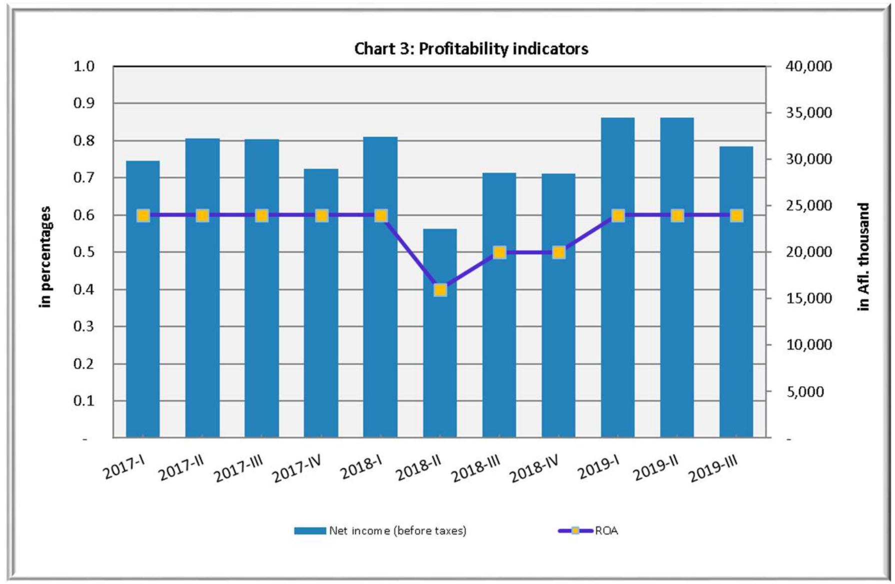
Chart 2: Development of nonperforming loans by category



Source: Centrale Bank van Aruba

Profitability

Growth in operating expenses outweighed the increase in operating income during the quarter under review. Net income (before taxes) contracted by Afl. 3.1 million (8.9 percent) during the third quarter of 2019, compared to the second quarter of 2019. This can be largely attributed to the Afl. 2.7 million (4.0 percent) increase in operating expenses, while total operating income declined with Afl. 0.3 million (0.3 percent). The return on assets (before taxes) remained unchanged at 0.6 percent as per end-September 2019 (chart 3). Non-interest expenses to gross income expanded by 2.7 percentage points to 75.6 percent, mainly because of movements in the loan loss provisions. The growth in interest expenses (Afl. 2.8 million or 28.1 percent) was larger compared to the rise in interest income (Afl. 1.8 million or 2.7 percent). Consequently, the interest margin to gross income shrank by 0.8 percentage point to 56.8 percent.

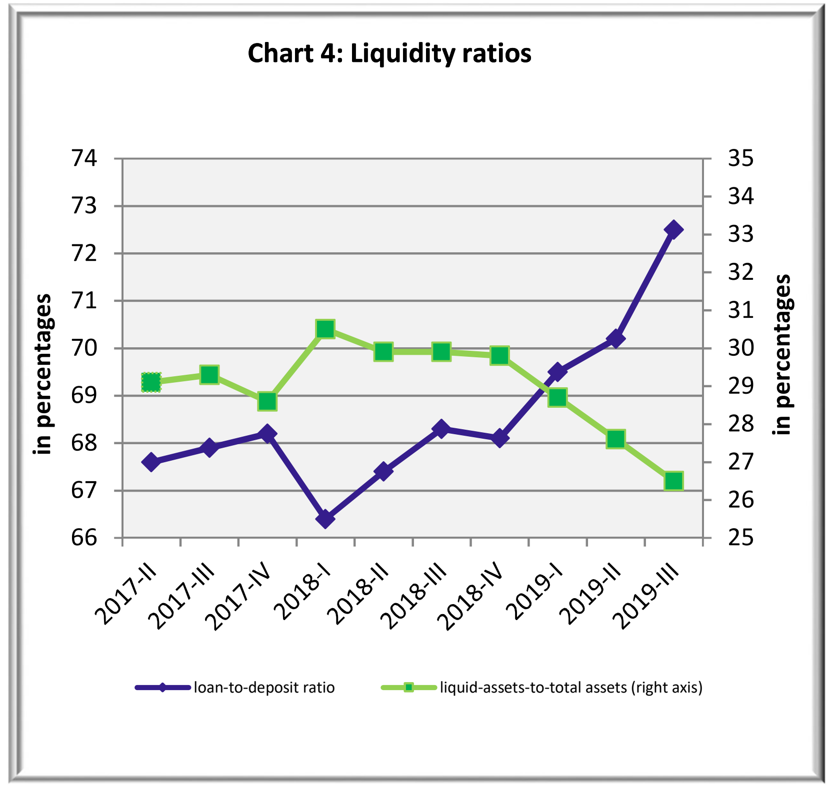


Source: Centrale Bank van Aruba

Liquidity

The Loan-to-deposit (Ltd) ratio rose, while the prudential liquidity ratio decreased. Both remained in compliance with the, respectively, maximum and minimum requirements[1].
The Ltd ratio increased by 2.3 percentage points to 72.5 percent and remained below the maximum requirement of 80.0 percent (Chart 4). This was largely caused by a decline in total deposits of Afl. 101.3 million or 2.2 percent and a rise in total loans (net of ALLP) of Afl. 33.8 million or 1.0 percent.

The commercial banks' aggregated prudential liquidity ratio decreased by 1.1 percentage points to 26.5 percent at end-September 2019, compared to end-June 2019 (chart 4). This was caused by a contraction in total liquid assets (excluding the reserve requirement) of Afl. 87.0 million. The decrease in net assets of Afl. 88.4 million partially offset the decline in this ratio.



Source: Centrale Bank van Aruba

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

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