CENTRALE BANK VAN ARUBA

FINANCIAL SOUNDNESS INDICATORS OF THE COMMERCIAL BANKS

SECOND QUARTER OF 2019

August 16, 2019

Capital adequacy

The commercial banks' risk-weighted assets surged with Afl. 130.9 million during the second quarter of 2019. The aggregated regulatory Tier I capital to the risk-weighted assets' ratio contracted by 1.3 percentage points to 25.4 percent, largely due to an Afl. 130.9 million or 4.1 percent rise in the risk-weighted assets. The latter reflects mostly large loan disbursements and off-balance sheet activities (undisbursed loans and guarantees issued), which increased the overall risk-weighted assets of the commercial banks.

The aggregated regulatory capital (Tier I + Tier II) to the risk-weighted assets' ratio declined by 0.5 percentage point to 31.9 percent. This relatively weak decline compared to the decrease in the regulatory Tier 1 capital ratio, can be explained by the expansion in the risk-weighted assets being partially counterbalanced by an Afl. 26.1 or 2.5 percent growth in the complimentary capital (Tier II). The latter was mostly associated with profits earned during the second quarter of 2019. 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

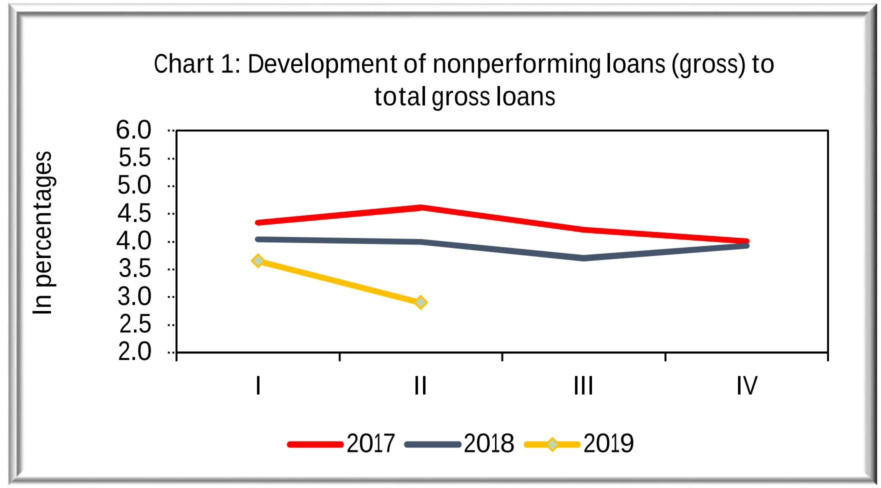
	Q1 2019	Q2 2019
Capital adequacy		
Regulatory capital (Tier I + Tier II) to risk-weighted assets (minimum 16%)	32.4	31.9
Regulatory Tier I capital to risk-weighted assets	26.7	25.4
Asset quality		
Nonperforming loans to gross loans	3.7	2.9
Nonperforming loans (net of allocated loan loss provisions) to gross loans	1.4	0.8
Provisions to nonperforming loans (gross)	180.0	223.9
Large exposures to regulatory capital	40.2	40.3
Earnings and profitability		
Return on assets (before taxes)	0.6	0.6
Interest margin to gross income	54.6	57.6
Noninterest expenses to gross income	74.0	72.9
Liquidity		
Loans to deposits ratio (maximum 80%)	69.5	70.2
Liquid assets to total assets (minimum 18%) [1)]	28.7	27.6
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 percent to 18 percent.		

Source: Centrale Bank van Aruba

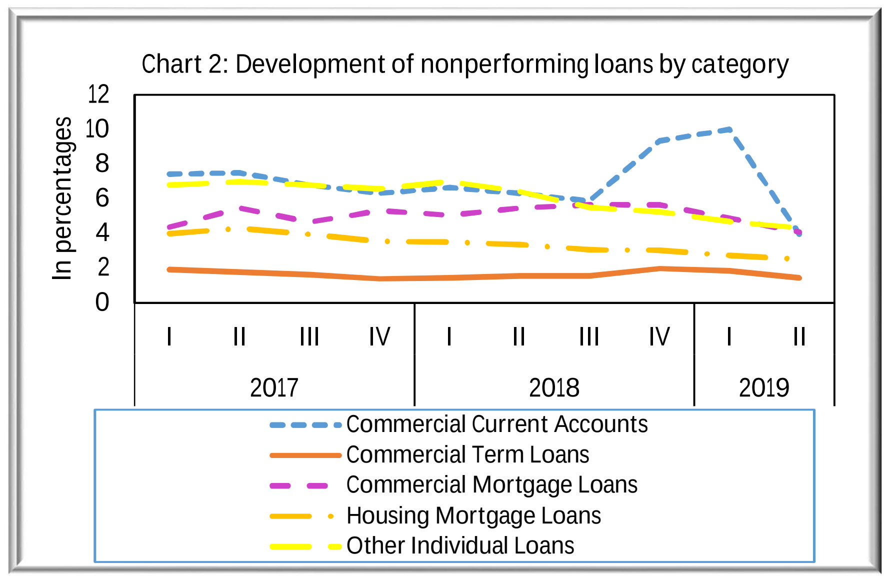
Asset Quality

The Nonperforming loans (NPLs) ratio showed improvement during the second quarter of 2019. The NPLs-to-gross-loans ratio dropped by 0.8 percentage point to 2.9 percent at end-June 2019 (Chart 1). This was largely attributed to a contraction in total NPLs of Afl. 23.7 million or 19.1 percent, combined with a growth in total gross loans of Afl. 104.2 million or 3.1 percent. The decrease in NPLs was mainly attributed to recoveries, write-offs and loan repayments. The aforementioned improvement in the ratio was observed for all categories, with the commercial current accounts' category (including overdraft facilities) showing a 6.0 percentage points decrease (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 declined further to 0.8 percent at the end of June 2019. The total provisions to NPLs (gross) rose by 43.9 percentage points to 223.9 percent, due mainly to the aforementioned contraction in NPLs. The large exposures to regulatory capital of the commercial banks rose slightly by 0.1 percentage point to 40.3 percent, as a result of an Afl. 11.1 million (2.7 percent) rise in large exposures and an Afl. 26.1 million (2.5 percent) increase in regulatory capital.



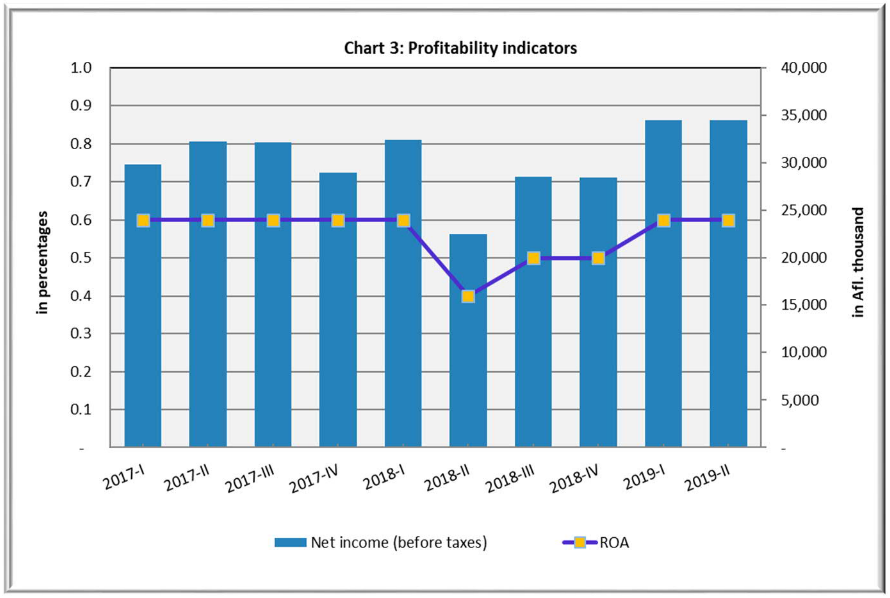
Source: Centrale Bank van Aruba



Source: Centrale Bank van Aruba

Profitability

The commercial banks remain profitable with marginal growth during the quarter under review. Net income (before taxes) was Afl. 34.5 million in the second quarter of 2019, compared to Afl. 34.4 million in the first quarter of 2019. This was because the rise in net interest income of Afl. 3.1 million was almost completely dampened by a decrease in other operating income of Afl. 3.0 million. The latter was related to income from fees and commission. Consequently, the return on assets (before taxes) remained unchanged at 0.6 as per end-June 2019 (chart 3). Interest margin to gross income increased by 3.0 percentage points to 57.6 percent, due mainly to a growth of Afl. 3.4 million (5.3 percent) in interest income related to large loan disbursements during the quarter under review. Non-interest expenses-to-gross income decreased by 1.1 percentage points to 72.9 percent, as other operating expenses were subdued (+0.1 million), while profit tax declined by Afl. 1.1 million.



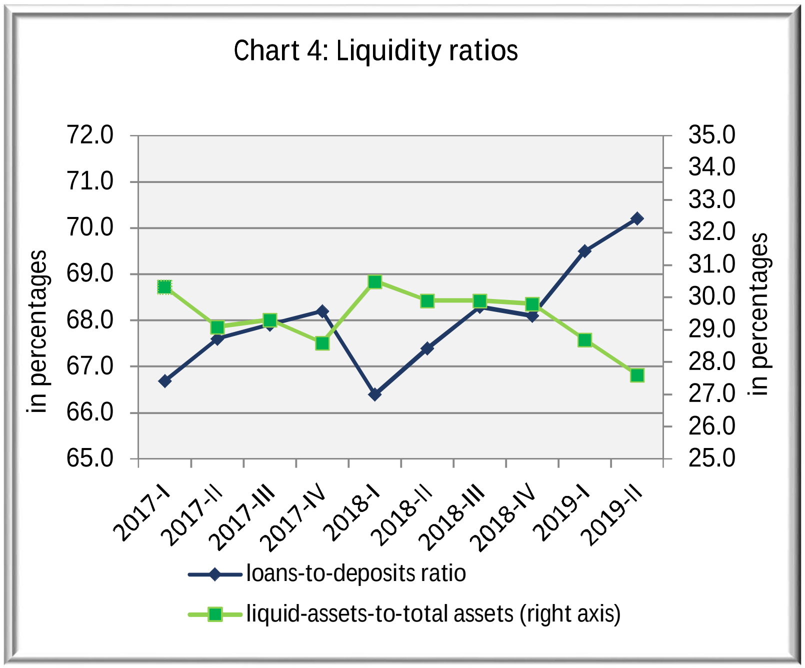
Source: Centrale Bank van Aruba

Liquidity

The Loan-to-deposit (Ltd) ratio rose while the prudential liquidity ratio decreased. Both remained in compliance with the maximum and minimum requirements[1]. The Ltd ratio increased by 0.7 percentage point to 70.2 percent and remained below the 80.0 percent maximum (Chart 4). This was largely caused by a growth in total loans (net of provisions) of Afl. 103.1 million or 3.3 percent, partially offset by an Afl. 103.9 million or 2.3 percent rise in total deposits. The expansion in total loans (net of provisions) was reflected in both commercial loans (Afl. 94.7 million) and loans extended to individuals (Afl. 9.7 million).

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

The commercial banks' aggregated prudential liquidity ratio decreased by 1.1 percentage points to 27.6 percent at end-June 2019, compared to end-March 2019 (chart 4). This was caused by a rise in net assets of Afl. 227.4 million or 4.1 percent, which outweighed the increase in total liquid assets (excluding reserve requirement) of Afl. 2.0 million or 0.1 percent. The aforementioned indicates that the growth in the commercial banks' total net assets (denominator) did not stem from an increase in liquidity components (numerator), but from an expansion in loan portfolios instead. Furthermore, the marginal growth in total liquid assets was also affected by the decision of the CBA to increase the reserve requirement from 11 percent to 12 percent as of May 2019.



Source: Centrale Bank van Aruba

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