STATISTICAL NEWS RELEASE: FINANCIAL SOUNDNESS INDICATORS DEVELOPMENTS

FIRST QUARTER OF 2019

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CENTRALE BANK VAN ARUBA

May 27, 2019

Capital adequacy

The commercial banks' core capital strengthened during the first quarter of 2019. The aggregated regulatory Tier I capital to risk-weighted assets' ratio climbed by 2.2 percentage points to 26.6 percent, largely due to the positive net result of 2018 that was added to retained earnings during the first quarter of 2019. The aggregated regulatory capital (Tier I + Tier II) to the risk-weighted assets' ratio rose by 0.3 percentage point to 32.4 percent. This was caused by an expansion of Afl. 27.2 million or 2.7 percent in the regulatory capital, partly offset by a growth of Afl. 57.0 million or 1.8 percent in the risk-weighted assets. The increase in the regulatory capital was mostly related to profits recorded during the first quarter of 2019. The commercial banks continued to comply with the required minimum capital adequacy ratio of 16.0 percent.

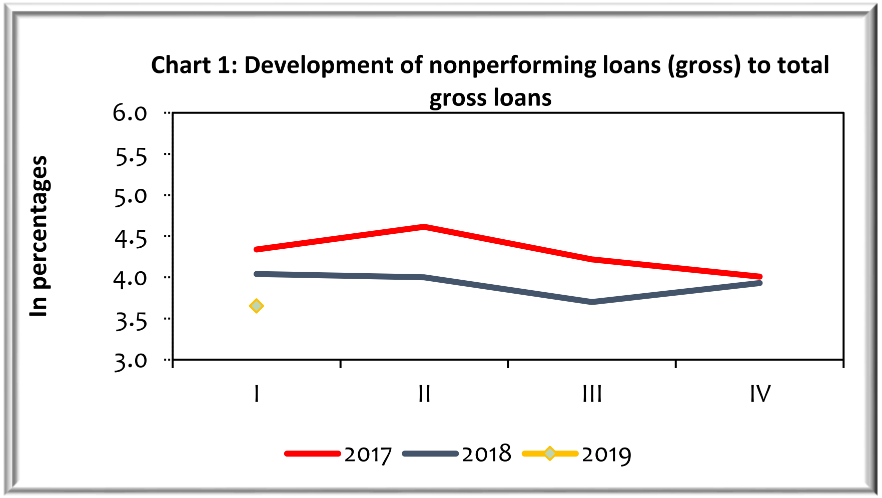
Table 1: Summary Financial Soundness Indicators- Commercial Banks

	Q4 2018	Q1 2019
Capital adequacy		
Regulatory capital (Tier I + II) to risk-weighted assets (minimum 16%)	32.1	32.4
Regulatory Tier I capital to risk-weighted assets	24.4	26.6
Asset quality		
Nonperforming loans to gross loans	3.9	3.7
Nonperforming loans (net of allocated loan loss provisions) to gross loans	1.5	1.4
Provisions to nonperforming loans (gross)	169.9	178.6
Large exposures to regulatory capital	41.4	39.3
Earnings and profitability		
Return on assets (before taxes)	0.5	0.6
Interest margin to gross income	53.9	54.6
Noninterest expenses to gross income	76.2	74.0
Liquidity		
Loans to deposits ratio (maximum 80%)	68.2	69.7
Liquid assets to total assets (minimum 18%) [1)]	29.8	28.7
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.		

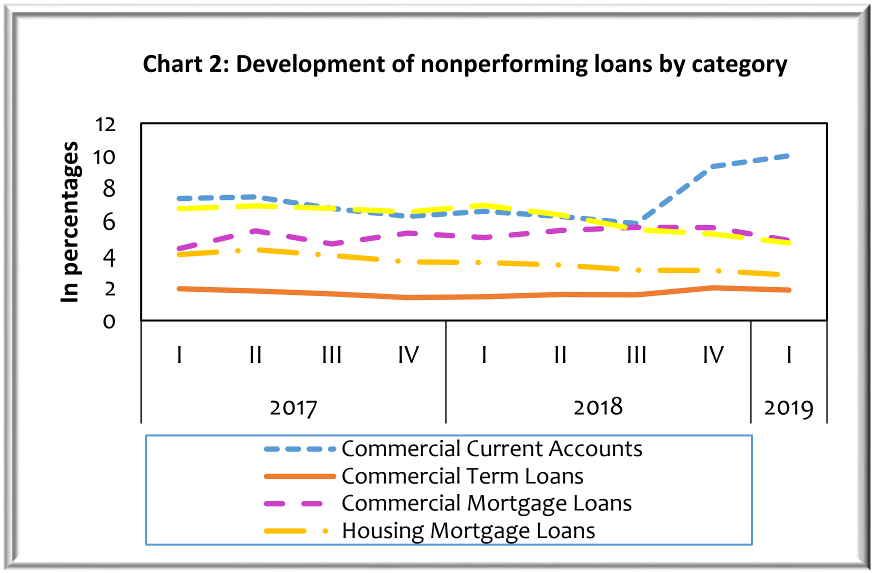
Source: Centrale Bank van Aruba

Asset Quality

The Nonperforming loans (NPLs) ratio declined during the first quarter of 2019. The NPLs-to-gross-loans ratio dropped by 0.2 percentage point to 3.7 percent at end-March 2019 (Chart 1). This was largely attributed to a contraction in total NPLs of Afl. 6.5 million or 5.0 percent, combined with a growth in total gross loans (Afl. 72.3 million or 2.2 percent). The drop in NPLs is due to recoveries surpassing additions to NPLs during the period under review. All NPLs categories recorded decreases, with the exception of the commercial current accounts category (including overdraft facilities), which showed a rise (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 to 1.4 percent at the end of March 2019. The total provisions to NPLs (gross) rose by 8.7 percentage points to 178.6 percent, due mainly to the aforementioned contraction in NPLs. The large exposures to regulatory capital of the commercial banks decreased by 2.1 percentage points to 39.3 percent, as a result of an Afl. 27.2 million rise in regulatory capital and an Afl. 9.6 million (2.3 percent) drop in large exposures.



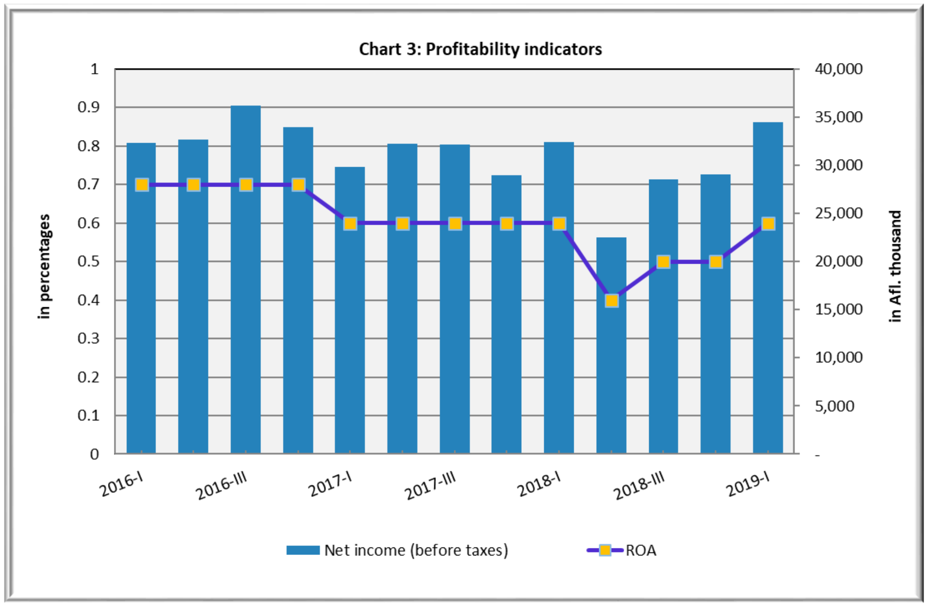
Source: Centrale Bank van Aruba



Source: Centrale Bank van Aruba

Profitability

Decline in operating expenses led to positive results during the quarter under review. Net income (before taxes) grew by Afl. 5.4 million (18.5 percent) during the first quarter of 2019 compared to the fourth quarter of 2018. The main drivers behind this growth were lower other operating expenses of Afl. 8.2 million. This was mostly associated with decreases in provision for loan losses (-Afl. 4.5 million) and general expenses (-Afl. 3.1 million). On the income side, an Afl. 1.9 million decline in other operating income partially offset the drop in expenses. Consequently, the return on assets (before taxes) rose by 0.1 percentage point to 0.6 percent at end-March 2019 (chart 3). Non-interest expenses to gross income declined by 2.2 percentage points to 74.0 percent, mainly because of a drop in non-interest expenses of Afl. 4.3 million or 5.4 percent. The latter was because the fall in other operating expenses (Afl. 8.2 million) was partially offset by a rise in applicable profit taxes of Afl. 3.9 million. Interest margin to gross income increased by 0.7 percentage point to 54.6 percent, due mainly to a decline in gross income of Afl. 2.8 million (2.7 percent), which was partly mitigated by an Afl. 0.8 million decrease (1.5 percent) in net interest income. Gross income shrank largely due to the abovementioned decrease (-Afl. 1.9 million) in other operating income.



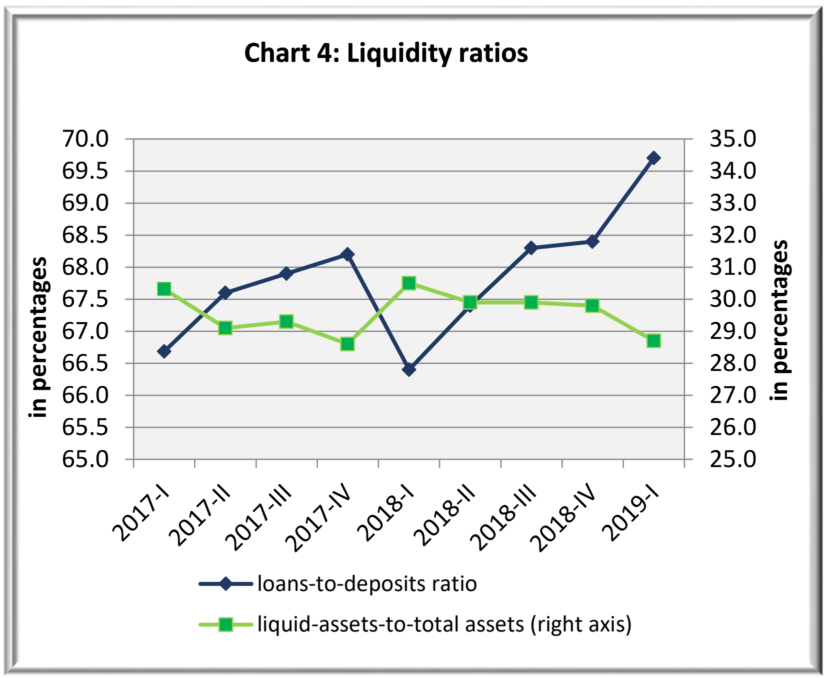
Source: Centrale Bank van Aruba

Liquidity

The Loan-to-deposit (Ltd) ratio rose while the prudential liquidity ratio decreased, both complying with the maximum and minimum requirements[1] . The Ltd ratio increased by 1.5 percentage points to 69.7 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. 73.0 million or 2.4 percent. The expansion in total loans (net of provisions) was reflected in both commercial loans (Afl. 52.2 million) and loans extended to individuals (Afl. 19.9 million). The commercial banks' aggregated prudential liquidity ratio decreased by 1.1 percentage points to 28.7 percent at end-March 2019, compared to end-December 2018 (chart 4). This was mainly associated with an Afl. 54.8 million (3.3

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

percent) contraction in total liquid assets (excluding reserve requirement). The latter was mostly related to declines in short-term securities, cash, and demand deposits held at other banks, which were offset in part by an increase in deposits held at the CBA. The aforementioned ratio remained above the minimum prudential liquidity requirement, which as of January 1, 2019 has been raised to 18.0 percent.



Source: Centrale Bank van Aruba

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