CENTRALE BANK VAN ARUBA

Statistical News Release
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Financial Soundness Indicators of the commercial banks: The banking sector's nonperforming loans portfolio improved during the fourth quarter 2016

Capital Adequacy

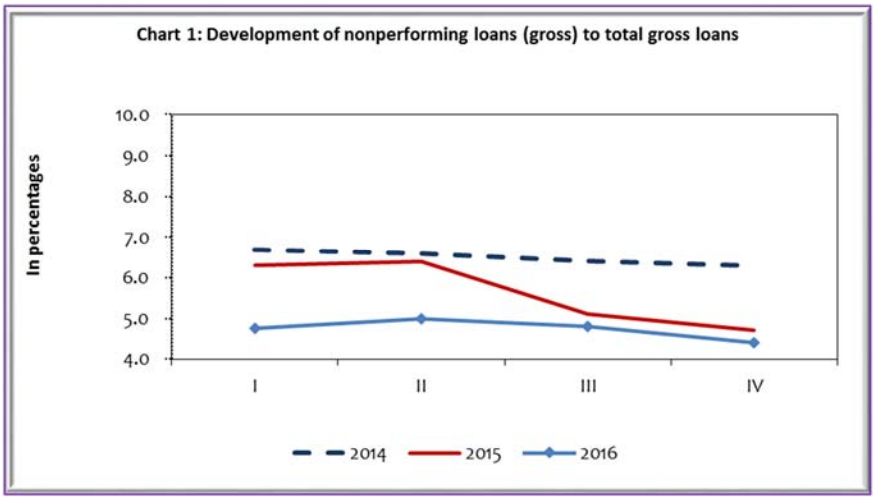
The regulatory capital (Tier I + II)[1] to risk-weighted assets rose by 0.5 percentage point to 27.9 percent, as a result of an Afl. 41.0 million or 5.3 percent increase in the regulatory capital, partially offset by an Afl. 95.5 million or 3.4 percent growth in risk-weighted assets. The expansion in the regulatory capital was mainly related to profits earned during the fourth quarter of 2016 as well as the inclusion of a new commercial bank.[2] On the other hand, the regulatory core (Tier I) capital declined by 0.1 percentage point to 19.4 percent, due to a larger increase in risk-weighted assets of 3.4 percent compared to the rise in Tier I capital of 2.9 percent. The growth reported by the commercial banks in the risk-weighted assets was mainly related to credits granted and undisbursed loan funds (off-balance sheet items). The commercial banks' buffer to absorb unexpected losses remained adequate, considering that the capital adequacy ratio was far above the 14 percent minimum requirement.

Asset Quality

The non-performing loans (NPLs)-to-gross-loans ratio contracted by 0.4 percentage point to 4.4 percent at end-December 2016, compared to end-September 2016, largely due to an Afl. 11.8 million (7.9 percent) drop in NPLs (Chart 1).

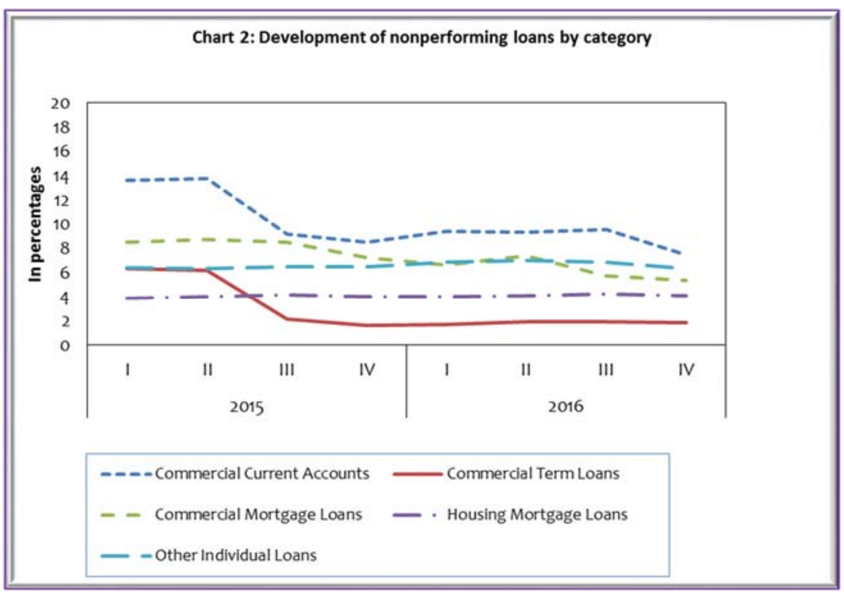
[1] Core capital (Tier I) components: paid in capital (excl. cumulative preferred share capital), statutory and general reserves, and retained earnings. Goodwill and other intangible assets, and equity investments in subsidiaries are deducted from Tier I capital. Supplementary Capital (Tier II) components: cumulative preferred share capital, asset revaluation reserves, balance of income and expenditure, unallocated loan loss provisions and subordinated debt. Certain limitations and deductions apply for subordinated debt and investment in debt capital of subsidiaries.

[2] First Caribbean International Bank (Cayman) Limited- Aruba Branch (FCIB) became operational in October 2016 and is as of that date included in the aggregated figures of the commercial banks.



Source: Centrale Bank van Aruba

During the fourth quarter of 2016, all NPL categories registered declines, however the largest decline in non-performing loans was reflected in the category "commercial current account" of 2.1 percentage points (chart 2). The overall contraction in NPL portfolio was mostly related to loans that became performing again and write-offs, to a lesser extent. On aggregate, the commercial banks' level of provisions formed against the NPLs was sufficient as evidenced by the relatively low NPLs[3]-to-gross-loans ratio, which equaled 1.3 percent at the end of December 2016.

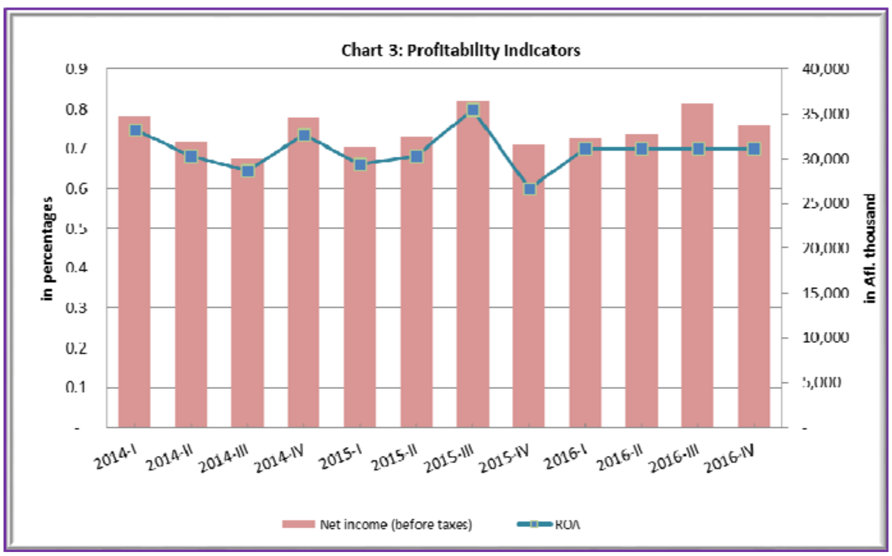


Source: Centrale Bank van Aruba

[3] Net of allocated loan loss provisions

Profitability

Net income (before taxes) fell by Afl. 2.5 million (6.8 percent) during the fourth quarter of 2016, compared to the third quarter of 2016 (chart 3). The return on assets (before taxes) remained unchanged at 0.7 percent at the end of December 2016. Non-interest expenses rose by Afl. 4.6 million (7.0 percent) during the fourth quarter of 2016, compared to the previous quarter, mostly associated with increases in general expenses, profit tax expenses and depreciation. The aforementioned were slightly offset by recoveries from provisions for loan losses. Consequently, non-interest expenses-to-gross-income ratio expanded by 4.3 percentage points to 74.4 percent at end-December 2016. The interest margin to gross income rose by 0.5 percentage point to 58.2 percent, as a result of an Afl. 1.0 million or 1.8 percent increase in the net interest margin, while gross income rose by Afl. 0.7 million or 0.8 percent.

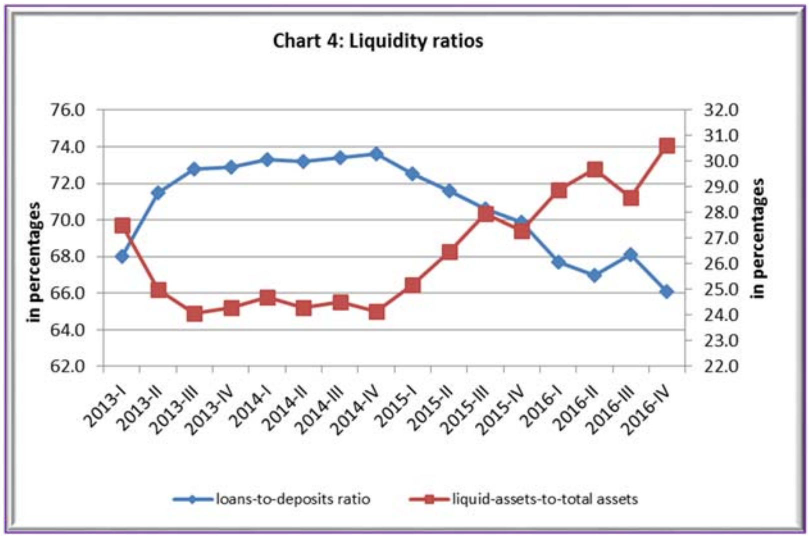


Source: Centrale Bank van Aruba

Liquidity

The commercial banks' aggregated prudential liquidity ratio rose by 2.0 percentage points to 30.6 percent compared to the third quarter of 2016 and remained far above the minimum requirement of 15 percent (Chart 4). This increase was largely reflected in the deposits held at CBA and other commercial banks. The loan to deposit ratio went down by 2.0 percentage points to 66.1 percent and remained well below the 80 percent maximum (Chart 4). This contraction was due to an increase in total deposits of 3.3 percent and a 0.2 percent growth in total net loans[4]. The increase in total deposits was largely related to time deposits and demand deposits of the private sector at the commercial banks.

[4] Net of unearned income and (un)allocated provision for loan losses.



Source: Centrale Bank van Aruba

Table 1: Summary Financial Soundess Indicators- Commercial Banks		
	2016Q3	2016Q4*
Capital adequacy		
Regulatory capital (Tier I + II) to risk-weighted assets (minimum 14%)	27.4	27.9
Regulatory Tier I capital to risk-weighted assets	19.5	19.4
Asset quality		
Nonperforming loans to gross loans	4.8	4.4
Nonperforming loans (net of allocated loan loss provisions) to gross loans	1.7	1.3
Earnings and profitability		
Return on assets (before taxes)	0.7	0.7
Interest margin to gross income	57.7	58.2
Noninterest expenses to gross income	70.1	74.4
Liquidity		
Loans to deposits ratio (maximum 80%)	68.1	66.1
Liquid assets to total assets [1)] (minimum 15%)	28.6	30.6
Source: Centrale Bank van Aruba		
1) This is the Prudential Liquidity Ratio (PLR)		
* Including First Caribbean International Bank (Cayman) Limited-Aruba Branch (FCIB)		