CENTRALE BANK VAN ARUBA

Statistical News Release
Date: January 9, 2017

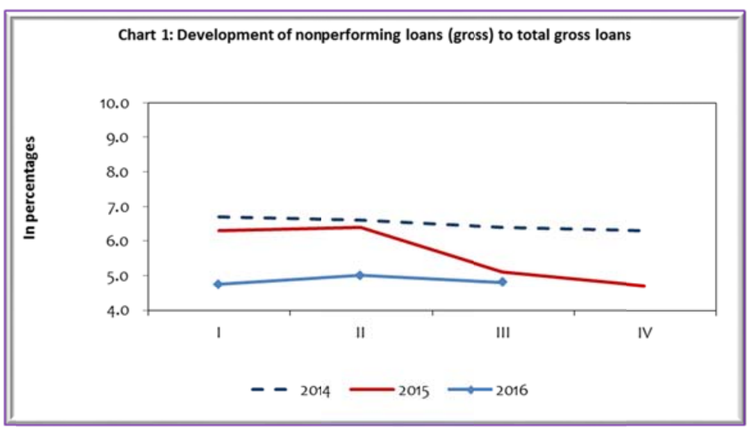
Financial soundness Indicators of the commercial banks: The banking sector's capital adequacy declined during the third quarter 2016

Capital Adequacy

The regulatory Tier I capital to risk-weighted assets declined by 1.3 percentage points to 19.5 percent at end-September 2016, compared to end-June 2016. This was largely attributed to a decrease of Afl. 38.0 million in Tier I Capital related to dividend payments during the third quarter of 2016. The regulatory capital (Tier I + II)[1] to risk-weighted assets declined slightly by 0.2 percentage point to 27.4 percent, because the decrease in Tier I capital was partially mitigated by profits earned during the third quarter of 2016. 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

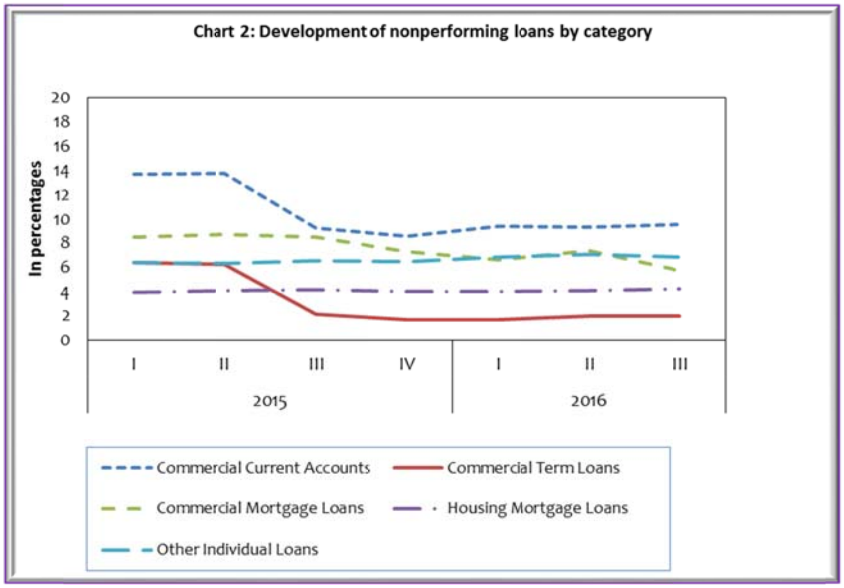
The non-performing loans (NPLs)-to-gross-loans ratio contracted by 0.2 percentage point to 4.8 percent at end-September 2016, compared to end-June 2016, due to an Afl. 4.9 million (3.1 percent) drop in NPLs and a growth of Afl. 17.5 million (0.6 percent) in gross loans (Chart 1).



Source: Centrale Bank van Aruba

[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.

During the third quarter of 2016, the largest decline in non-performing loans was noticed in the category "commercial mortgages", and was mainly responsible for the overall decrease in the NPL portfolio (chart 2). This was mostly related to significant write-offs in the aforementioned NPL category. On aggregate, the commercial banks' level of provisions formed against the NPLs was sufficient as evidenced by the relatively low NPLs[2]-to-gross-loans ratio, which equaled 1.7 percent at the end of September 2016.

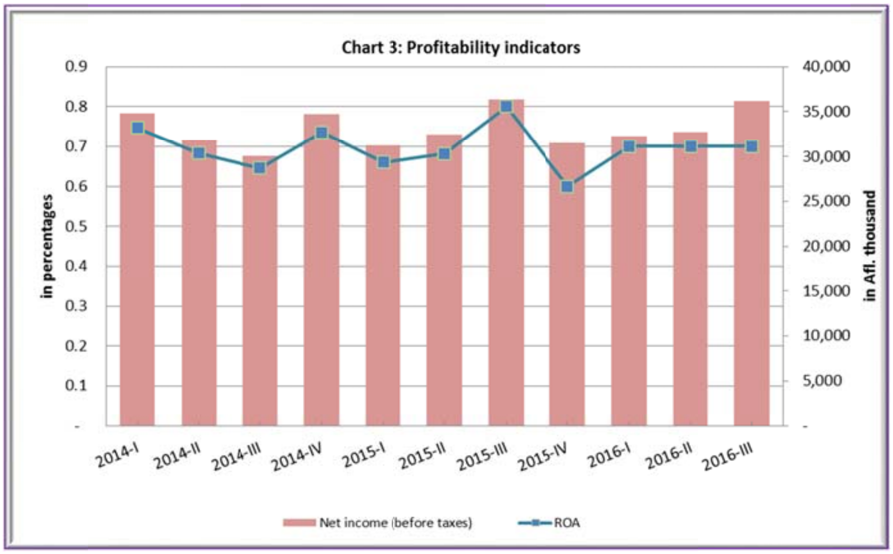


Source: Centrale Bank van Aruba

Profitability

The commercial banking sector's profitability continued to grow during the quarter under review (Chart 3). Net income (before taxes) recorded during the third quarter of 2016 was Afl. 3.5 million higher, compared to the second quarter of 2016. The return on assets (before taxes) remained practically unchanged at 0.7 percent at the end of September 2016. The interest margin-to-gross-income ratio declined by 0.7 percentage point to 57.7 percent, due to a larger increase in gross income of Afl. 6.6 million compared to the rise in net interest income of Afl. 3.2 million. The increase in interest income and results from subsidiaries contributed mainly to the overall growth in gross income. Non-interest expenses rose by Afl. 5.4 million (8.8 percent) during the third quarter of 2016, compared to the previous quarter, mostly associated with increases in provision formed for loan losses and profit tax expenses. Consequently, non-interest expenses-to-gross-income ratio expanded by 0.8 percentage point to 70.1 percent at end-September 2016, compared to end-June 2016.

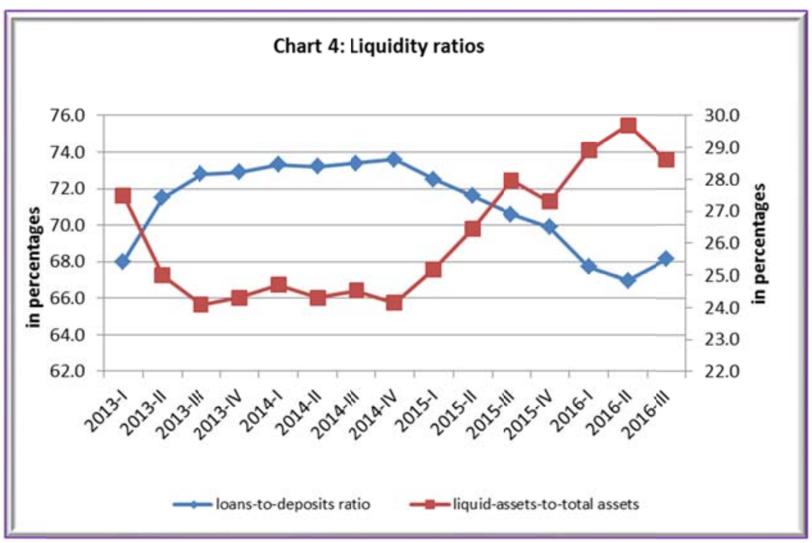
[2] Net of allocated loan loss provisions



Source: Centrale Bank van Aruba

Liquidity

The commercial banks' aggregated prudential liquidity ratio contracted by 1.1 percentage points to 28.6 percent compared to the second quarter of 2016 and remained far above the minimum requirement of 15 percent (Chart 4). This decrease was largely due to declines in deposits held at other banks and the CBA, which were slightly offset by an expansion in the investment portfolios of the commercial banks. The loan to deposit ratio went up by 1.1 percentage points to 68.1 percent and remained well below the 80 percent maximum (Chart 4). This growth was due to an increase in total loans[3] of Afl. 25.2 million (0.9 percent) and a decrease in deposits of Afl. 35.5 million (0.8 percent).



Source: Centrale Bank van Aruba

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

Table 1: Summary Financial Soundess Indicators- Commercial Banks		
	2016Q2	2016Q3
Capital adequacy		
Regulatory capital (Tier I + II) to risk-weighted assets (minimum 14%)	27.6	27.4
Regulatory Tier I capital to risk-weighted assets	20.8	19.5
Asset quality		
Nonperforming loans to gross loans	5.0	4.8
Nonperforming loans (net of allocated loan loss provisions) to gross loans	1.7	1.7
Earnings and profitability		
Return on assets (before taxes)	0.7	0.7
Interest margin to gross income	58.4	57.7
Noninterest expenses to gross income	69.3	70.1
Liquidity		
Loans to deposits ratio (maximum 80%)	67.0	68.1
Liquid assets to total assets [1] (minimum 15%)	29.7	28.6
Source: Centrale Bank van Aruba		
1) This is the Prudential Liquidity Ratio (PLR)		