CENTRALE BANK VAN ARUBA

Statistical News Release
Date: November 20, 2018

Developments in the financial soundness Indicators of the commercial banks for the third quarter of 2018

Capital adequacy

The commercial banks' capital adequacy remained strong during the third quarter of 2018. The aggregated regulatory capital (Tier I + II) to the risk-weighted assets' ratio climbed by 0.7 percentage point to 32.5 percent. This increase stemmed mostly from an Afl. 32.5 million (3.5 percent) growth in the regulatory capital, associated mostly with positive results recorded in the third quarter of 2018. The aggregated regulatory Tier I capital to risk-weighted assets' ratio remained unchanged as the increase in core capital of Afl. 9.6 million (1.3 percent) was almost completely mitigated by a rise in risk-weighted assets of Afl. 30.8 million (1.0 percent). The commercial banks' buffer to absorb unexpected losses remained adequate as the commercial banks continued to comply with the required minimum capital adequacy ratio of 16.0 percent.

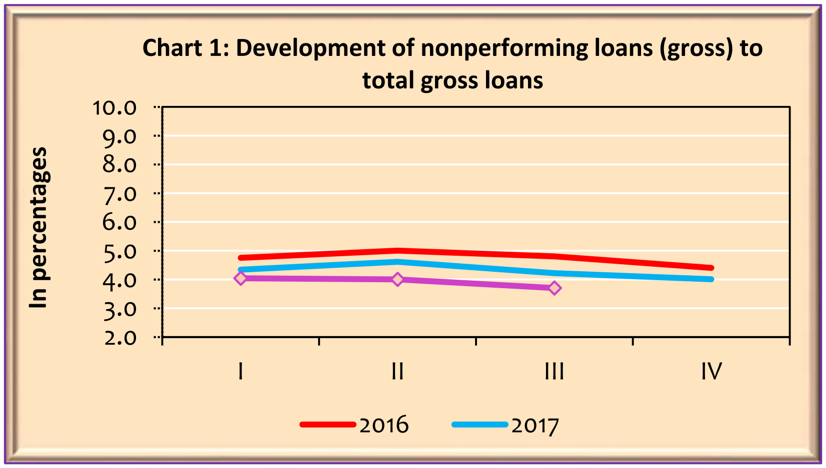
Table 1: Summary Financial Soundness Indicators- Commercial Banks

	Q2 2018	Q3 2018
Capital adequacy		
Regulatory capital (Tier I + II) to risk-weighted assets (minimum 16%)1)	31.8	32.5
Regulatory Tier I capital to risk-weighted assets	25.5	25.5
Asset quality		
Nonperforming loans to gross loans	4.0	3.7
Nonperforming loans (net of allocated loan loss provisions) to gross loans	1.5	1.3
Provisions to nonperforming loans (gross)	168.0	176.8
Large exposures to regulatory capital	33.5	31.6
Earnings and profitability		
Return on assets (before taxes)	0.4	0.5
Interest margin to gross income	57.0	55.6
Noninterest expenses to gross income	80.5	76.7
Liquidity		
Loans to deposits ratio (maximum 80%)	67.4	68.3
Liquid assets to total assets (minimum 16%) 2)	29.9	29.9
Source: Centrale Bank van Aruba		
1) As per January 1, 2017, the CBA increased the minimum risk-weighted capital ratio from 14 percent to 16 percent		
2) This is the Prudential Liquidity Ratio (PLR). As of January 1, 2018, the CBA increased the minimum PLR from 15 percent to 16 percent		

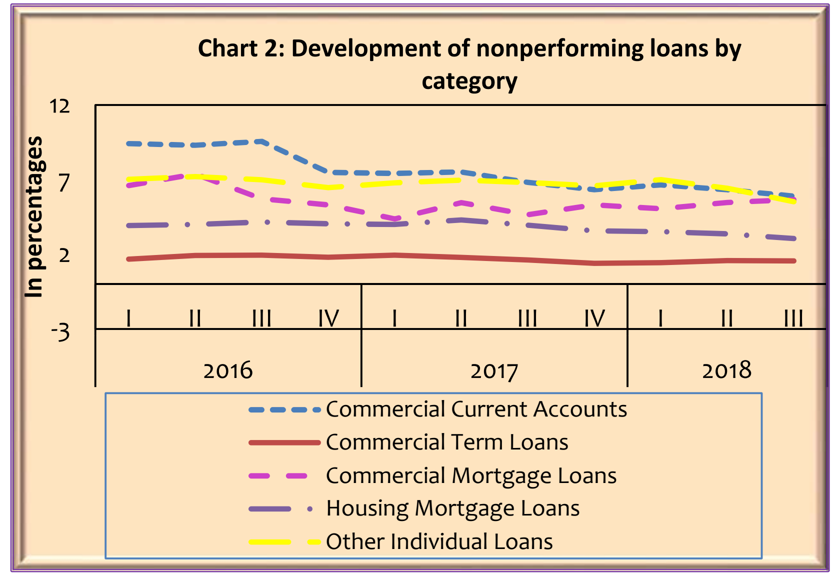
Asset Quality

The Nonperforming loans (NPLs) ratio showed improvement during the third quarter of 2018. The NPLs -to-gross-loans ratio improved during the third quarter of 2018 with 0.3 percentage point to 3.7 percent at end-September 2018 (Chart 1). This was largely because total NPLs contracted by Afl. 6.7 million or 5.2 percent, mostly because revisions and write offs of NPLs were higher than the additions to the NPLs. Moreover, the overall decline in the NPLs was reflected in all NPL categories, with the exception of commercial mortgages (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 1.3 percent at the end of

September 2018. Furthermore, the total provisions to NPLs (gross) rose by 8.8 percentage points to 176.8 percent, largely because of the aforementioned decline in NPLs. The large exposures to regulatory capital of the commercial banks declined by 1.9 percentage points to 31.6 percent. This was due to the contraction in large exposures of Afl. 8.0 million or 2.5 percent.



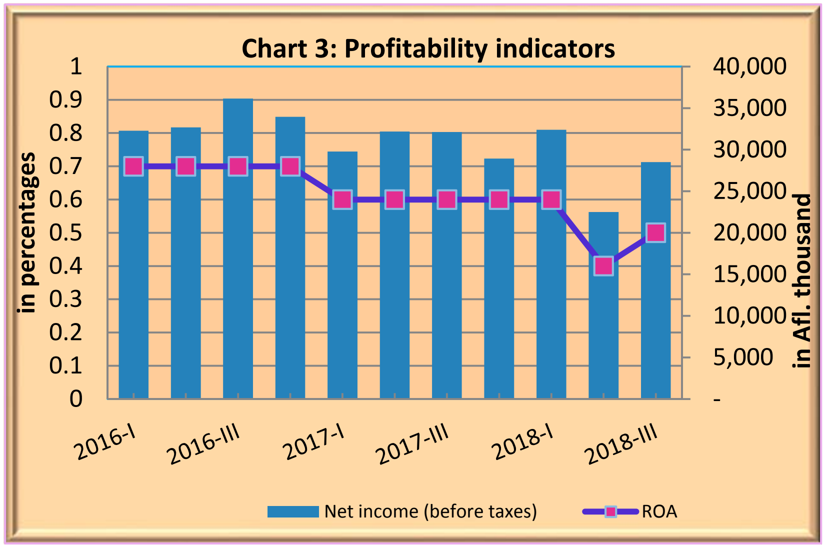
Source: Centrale Bank van Aruba



Source: Centrale Bank van Aruba

Profitability

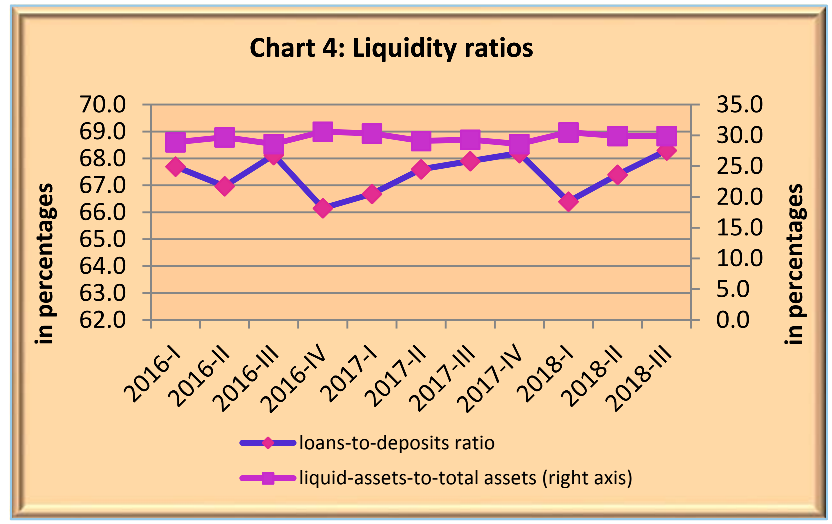
Income from fees and commissions was the main contributor to the growth in gross income during the quarter under review. Net income (before taxes) grew by Afl. 6.0 million (26.6 percent) during the third quarter of 2018 compared to the second quarter of 2018. This growth contributed to the 0.1 percentage point increase in the return on assets (before taxes) (chart 3). Non-interest expenses to gross income decreased by 3.8 percentage points to 76.7 percent, largely because of a growth in gross income of Afl. 4.1 million or 4.3 percent. Interest margin to gross income declined by 1.4 percentage points to 55.6 percent, mainly due to the aforementioned increase in gross income. Income from fees and commissions was the main driver for the increase in gross income.



Source: Centrale Bank van Aruba

Liquidity

The prudential liquidity ratio remained unchanged while Loan-to-deposit (Ltd) ratio grew slightly. The Ltd ratio expanded by 0.9 percentage point to 68.3 percent and remained well below the 80.0 percent maximum (Chart 4). This was caused by a growth in total loans (net of provisions) of Afl. 56.7 million or 1.9 percent and an Afl. 25.5 million or 0.6 percent increase in total deposits (liabilities). The expansion in total loans (net of provisions) took mainly place in the following categories: housing mortgages, commercial current accounts and commercial mortgages. The commercial banks' aggregated prudential liquidity ratio remained unchanged at 29.9 percent at end-September 2018, compared to end-June 2018 (chart 4). This was because the increase in total liquid assets (excluding reserve requirement) of Afl. 18.6 million (1.1 percent) was almost completely offset by a rise in total assets (net of goodwill) of Afl. 53.0 million (1.0 percent). The increase in liquid assets was due to expansions in time deposits held at the central bank (Afl. 50.0 million), cash (Afl. 10.0 million) and short term government bonds (Afl. 9.2 million), while decreases were reported in short-term securities (Afl. 40.0 million) and long term government bonds (Afl. 6.5 million). The aforementioned liquidity ratio remained far above the minimum prudential liquidity requirement of 16.0 percent.



Source: Centrale Bank van Aruba