



CENTRALE BANK VAN ARUBA

Statistical News Release

Date: May 14, 2018

Financial soundness Indicators of the commercial banks: The aggregated capital adequacy ratio of the commercial banks recorded a slight decline during the fourth quarter of 2017

Aggregated Capital Adequacy Ratio

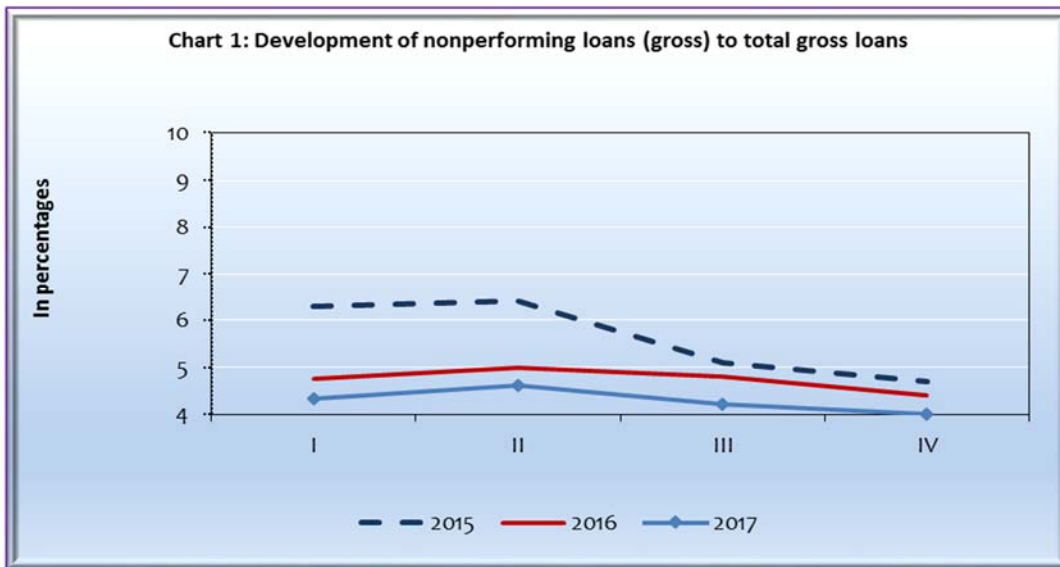
The aggregated regulatory Tier I capital to risk-weighted assets' ratio dropped by 1.7 percentage points to 22.4 percent at end 2017, compared to end-September 2017, largely due to an Afl. 47.4 million or 6.7 percent contraction in the core capital (Tier I) ¹. The latter was mainly related to dividend disbursements. The aggregated regulatory capital (Tier I + II) to risk-weighted assets' ratio declined by 0.8 percentage point to 30.7 percent. This was mostly due to an Afl. 18.9 million decrease in the aggregated regulatory capital, largely associated with the aforementioned dividend disbursements, which was partially offset by profits recorded during the fourth quarter of 2017. 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 | | |
|---|---------|---------|
| | Q3 2017 | Q4 2017 |
| Capital adequacy | | |
| Regulatory capital (Tier I + II) to risk-weighted assets (minimum 16%) ¹⁾ | 31.5 | 30.7 |
| Regulatory Tier I capital to risk-weighted assets | 24.1 | 22.4 |
| Asset quality | | |
| Nonperforming loans to gross loans | 4.2 | 4.0 |
| Nonperforming loans (net of allocated loan loss provisions) to gross loans | 1.3 | 1.5 |
| Earnings and profitability | | |
| Return on assets (before taxes) | 0.6 | 0.6 |
| Interest margin to gross income | 58.6 | 55.2 |
| Noninterest expenses to gross income | 74.1 | 73.0 |
| Liquidity | | |
| Loans to deposits ratio (maximum 80%) | 67.9 | 68.2 |
| Liquid assets to total assets (minimum 15%) ²⁾ | 29.3 | 28.6 |
| 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 | | |

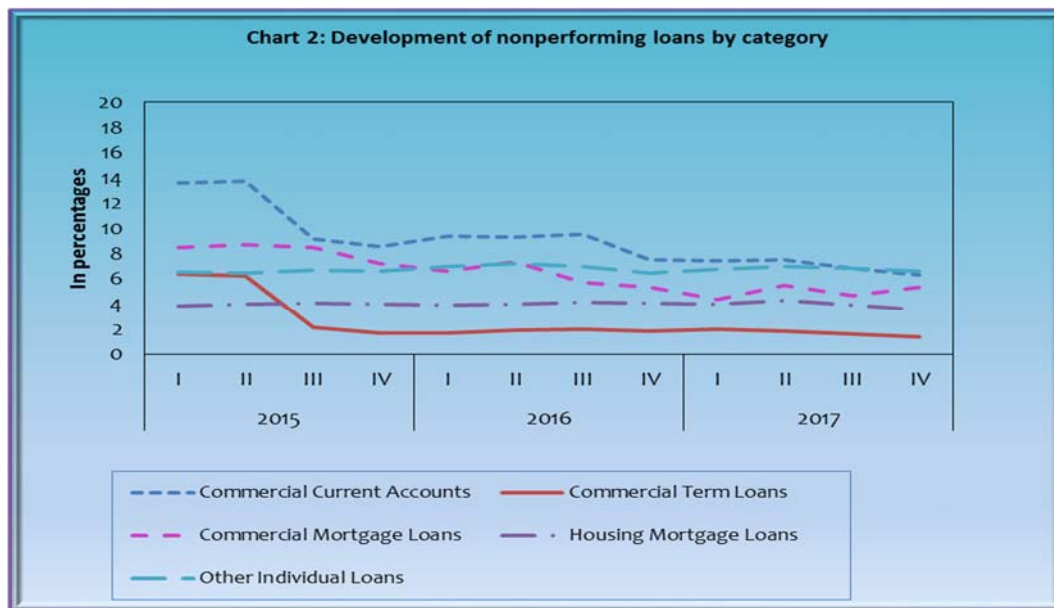
¹ Core capital (Tier I) components: paid in capital (excl. cumulative preferred share capital), statutory and general reserves, and retained earnings. Goodwill and other intangible assets, and equity investments in subsidiaries are deducted from Tier I capital. Supplementary Capital (Tier II) components: 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.

Asset Quality

The nonperforming loans (NPLs) to gross loans ratio shrank by 0.2 percentage point to 4.0 percent at end 2017, compared to end-September 2017 (Chart 1). The overall NPLs portfolio improved mainly due to a decrease of Afl. 5.8 million or 4.3 percent in total NPLs. With the exception of the nonperforming commercial mortgage loans, all NPLs categories showed declines during the quarter under review (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 stood at 1.5 percent at the end of December 2017.



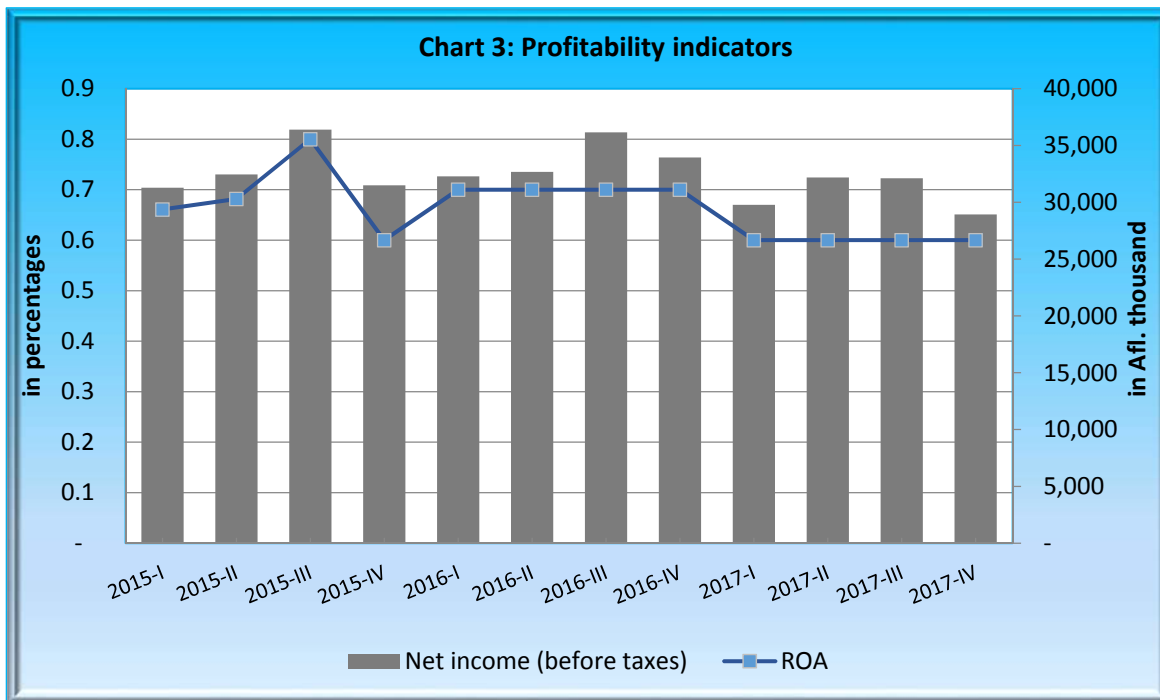
Source: Centrale Bank van Aruba



Source: Centrale Bank van Aruba

Profitability

Net income (before taxes) contracted by Afl. 3.2 million (9.9 percent) during the fourth quarter of 2017, compared to the third quarter of 2017, largely because the increase in operating expenses (Afl. 9.1 million) surpassed the growth in total operating income of Afl. 5.9 million (chart 3). The return on assets (before taxes) remained unchanged at 0.6 percent at the end of December 2017. Net interest income to gross income dropped by 3.4 percentage points to 55.2 percent due to a larger increase in gross income compared to the increase in interest income. In fact, gross income rose primarily because of increases in net revenue from foreign exchange transactions (Afl. 3.1 million) and from fees & commissions (Afl. 3.0 million). Non-interest expenses to gross income ratio fell by 1.1 percentage points to 73.0 percent, because the aforementioned increase in gross income was larger compared to the increase in non-interest expenses of Afl. 3.2 million. The latter was mainly related to higher general expenses, salaries and employee benefits, largely offset by lower profit taxes and recoveries from loan loss provisions.



Source: Centrale Bank van Aruba

Liquidity

The commercial banks' aggregated prudential liquidity ratio declined by 0.7 percentage point to 28.6 percent at the end of 2017, compared to end-September 2017 (Chart 4). This contraction was mostly attributed to an Afl. 32.4 million decrease in total liquid assets, mainly reflected in the deposits of the commercial banks held at the CBA and other commercial banks, partially offset by an increase in the commercial banks' investment portfolio. The aforementioned ratio remained far above the minimum prudential liquidity requirement of 15 percent, which as of January 1, 2018 has been raised to 16.0 percent. The loan-to-deposit ratio rose by 0.3 percentage point to 68.2 percent and remained well below the 80 percent maximum (Chart 4). This expansion was caused by a growth in total loans (net

of provisions) of Afl. 36.0 million or 1.2 percent, which was largely mitigated by an Afl. 34.4 million or 0.8 percent increase in total deposits.



Source: Centrale Bank van Aruba