

STATISTICAL NEWS RELEASE: FINANCIAL SOUNDNESS INDICATORS DEVELOPMENTS

FOURTH QUARTER OF 2018



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CENTRALE BANK VAN ARUBA

February 13, 2019

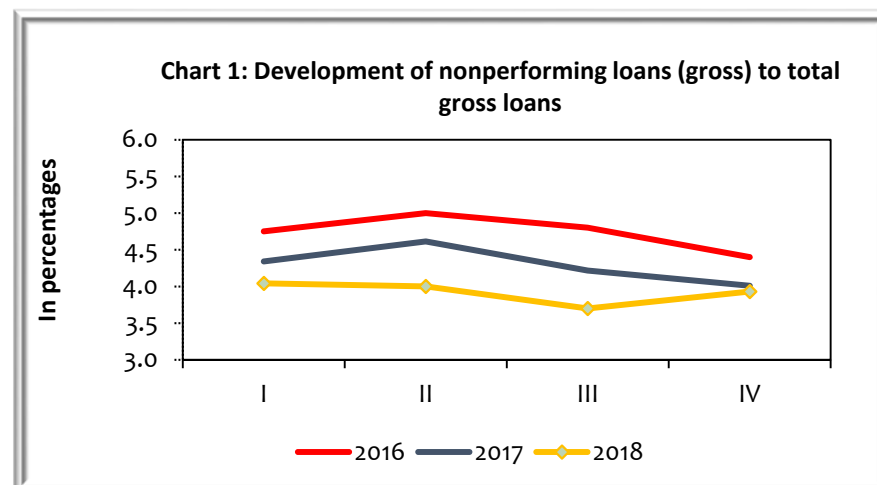
Capital adequacy

The commercial banks' capital adequacy declined slightly but remained strong during the fourth quarter of 2018. The aggregated regulatory capital (Tier I + II) to the risk-weighted assets' ratio decreased by 0.3 percentage point to 32.2 percent. This was caused by an Afl. 117.1 million expansion (3.9 percent) in the risk-weighted assets', which was partly mitigated by an Afl. 26.9 million (2.7 percent) growth in regulatory capital. The expansion in risk-weighted assets' reflects increases in loan extended and undisbursed loan funds (off-balance sheet item), while positive results recorded during the fourth quarter of 2018 contributed mostly to the increase in regulatory capital. The aggregated regulatory Tier I capital to risk-weighted assets' ratio declined by 0.9 percentage point to 24.6 percent, owing to the aforementioned upsurge in risk-weighted assets'. The commercial banks continued to comply with the required minimum capital adequacy ratio of 16.0 percent.

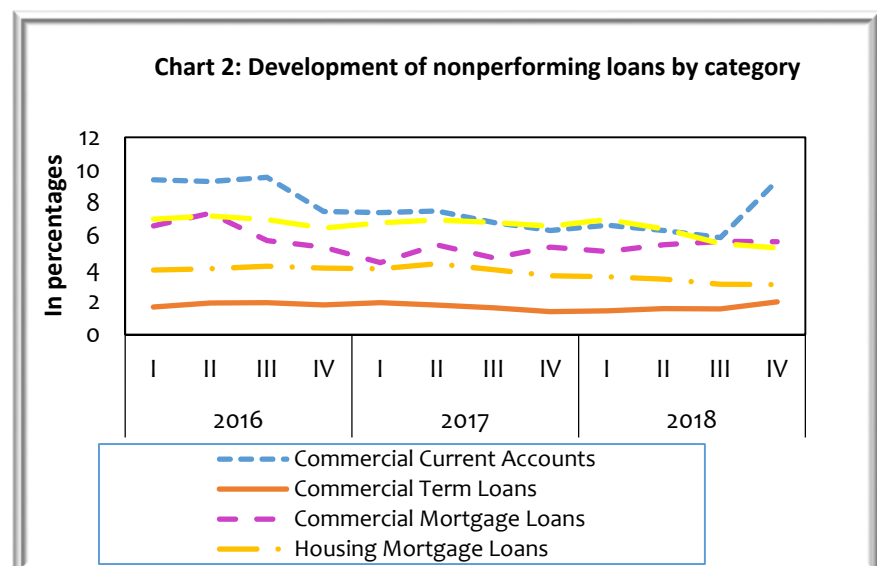
Table 1: Summary Financial Soundness Indicators- Commercial Banks		
	Q3 2018	Q4 2018
Capital adequacy		
Regulatory capital (Tier I + II) to risk-weighted assets (minimum 16%) ¹⁾	32.5	32.2
Regulatory Tier I capital to risk-weighted assets	25.5	24.6
Asset quality		
Nonperforming loans to gross loans	3.7	3.9
Nonperforming loans (net of allocated loan loss provisions) to gross loans	1.3	1.8
Provisions to nonperforming loans (gross)	176.8	162.4
Large exposures to regulatory capital	31.6	41.3
Earnings and profitability		
Return on assets (before taxes)	0.5	0.5
Interest margin to gross income	55.6	53.9
Noninterest expenses to gross income	76.7	79.8
Liquidity		
Loans to deposits ratio (maximum 80%)	68.3	68.4
Liquid assets to total assets (minimum 16%) ²⁾	29.9	29.8
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 rose slightly during the fourth quarter of 2018. The NPLs-to-gross-loans ratio edged up by 0.2 percentage point to 3.9 percent at end-December 2018 (Chart 1). This was largely attributed to a growth in total NPLs of Afl. 8.4 million or 6.9 percent, because additions to NPLs surpassed the revisions and write offs of NPLs during the period under review. The growth in NPLs was reflected mostly in the nonperforming commercial current accounts and to a lesser extent in commercial term loans (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 1.8 percent at the end of December 2018. The total provisions to NPLs (gross) dropped by 14.4 percentage points to 162.4 percent, because of the aforementioned growth in NPLs and was compounded by an Afl. 4.0 million decline in total loan loss provisions. The large exposures to regulatory capital of the commercial banks expanded by 9.7 percentage points to 41.3 percent. This was mainly due to an Afl. 105.4 million or 34.1 percent rise in large exposures.



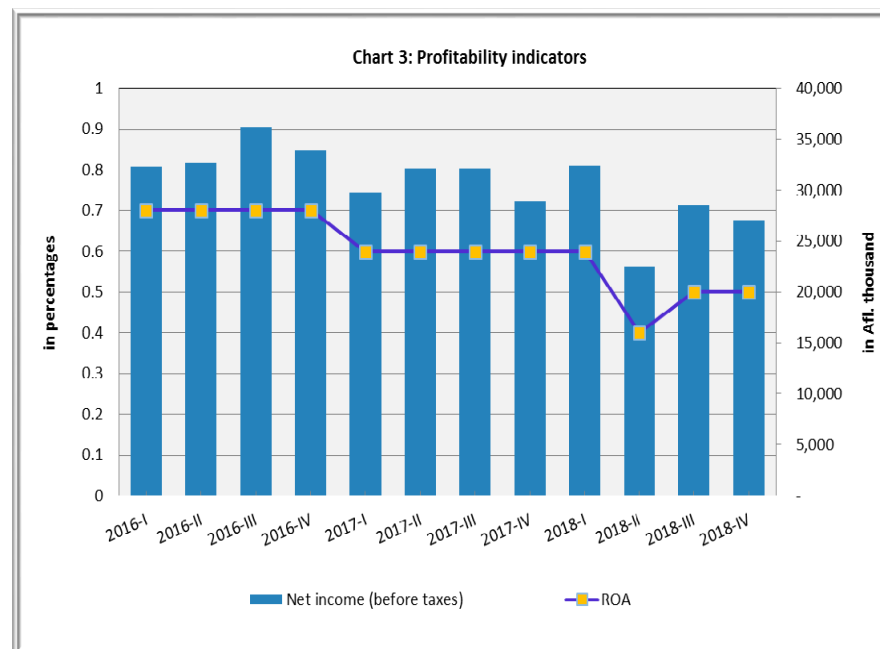
Source: Centrale Bank van Aruba



Source: Centrale Bank van Aruba

Profitability

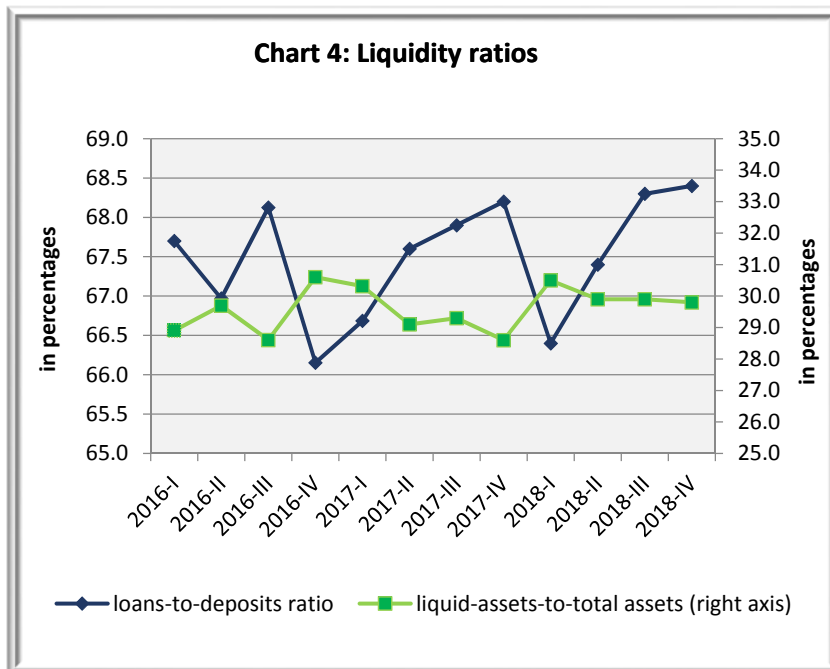
Growth in operating expenses outpaced the increase in operating income during the quarter under review. Net income (before taxes) contracted by Afl. 1.5 million (5.2 percent) during the fourth quarter of 2018 compared to the third quarter of 2018. This was largely attributed to the increase in operating expenses (Afl. 6.7 million), which surpassed the growth in operating income (Afl. 5.1 million). The return on assets (before taxes) remained unchanged at 0.5 percent at end-December 2018 (chart 3). Non-interest expenses to gross income expanded by 3.1 percentage points to 79.8 percent, mainly because of a growth in non-interest expenses of Afl. 7.2 million or 9.5 percent. The latter was due to higher general expenses, salaries and employees benefits, offset in part by a decrease in provisions for loan losses. Interest margin to gross income shrank by 1.7 percentage points to 53.9 percent, due to a stronger increase in gross income of Afl. 5.3 million (5.3 percent) compared to the rise in net interest income of Afl. 1.2 million (2.1 percent). Gross income rose largely due to fees and commissions and net revenue from foreign exchange.



Liquidity

The prudential liquidity ratio and Loan-to-deposit (Ltd) ratio moved marginally. The Ltd ratio increased slightly by 0.1 percentage point to 68.4 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. 35.7 million or 1.2 percent and was partly mitigated by an Afl. 46.0 million or 1.0 percent increase in total deposits (liabilities). The expansion in total loans (net of provisions) took mainly place in the following categories: housing mortgages, commercial term loans, commercial mortgages, offset in part by commercial current accounts and commercial credit. The commercial banks' aggregated prudential liquidity ratio declined slightly by 0.1 percentage point to 29.8 percent at end-December 2018, compared to end-September 2018 (chart 4). This was due to

an Afl. 67.2 million (1.2 percent) rise in total assets (net of goodwill), which outweighed the increase of Afl. 13.4 million (0.8 percent) in total liquid assets (excluding reserve requirement). The former was related to expansions in cash and due from banks, loans (net of provisions), accounts receivables and prepayments, offset in part by a shrinking investment portfolio. The aforementioned liquidity ratio remained far above the minimum prudential liquidity requirement of 16.0 percent.





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