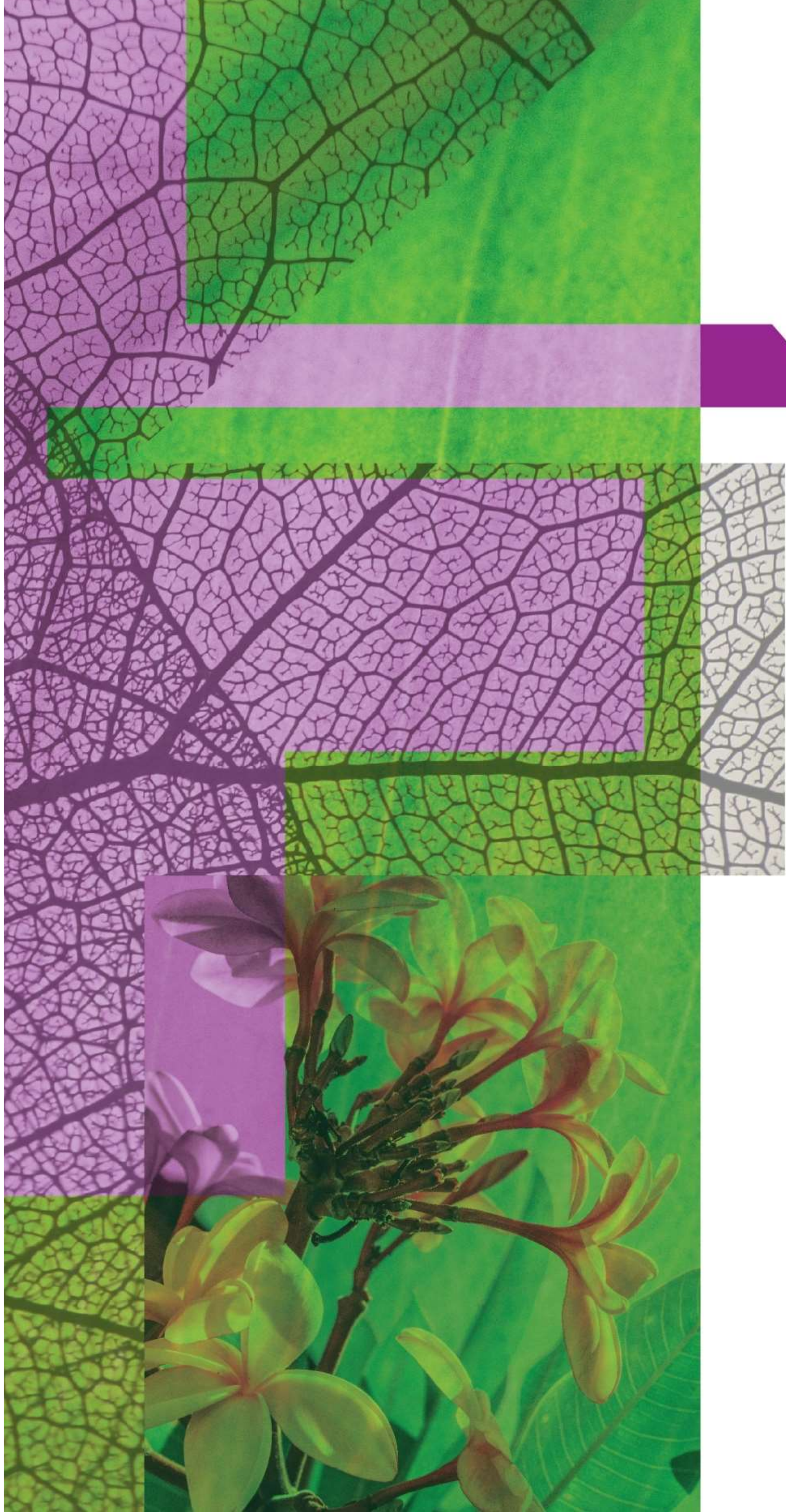


FINANCIAL SOUNDNESS INDICATORS OF THE COMMERCIAL BANKS

FIRST QUARTER OF 2020

July 31, 2020

CENTRALE BANK VAN ARUBA

Capital adequacy

The commercial banks' core capital (Tier I) strengthened during the first quarter of 2020. The aggregated regulatory Tier I capital to risk-weighted assets' ratio increased by 2.7 percentage points to 26.5 percent. This was largely due to a rise of Afl. 89.7 million or 14.1 percent in retained earnings during the first quarter of 2020, mainly due to the reclassification of the 2019 profit from Tier II to the core capital (Tier I).

The aggregated regulatory capital (Tier I + Tier II) to risk-weighted assets' ratio rose by 0.6 percentage point to 31.5 percent. This increase can be mainly attributed to an Afl. 18.4 million or 1.8 percent expansion in the regulatory capital (Tier I + Tier II). In addition, the commercial banks' risk-weighted assets declined with Afl. 7.0 million or 0.2 percent during the first quarter of 2020, which encouraged the expansion of said ratio. The commercial banks complied with the required minimum capital adequacy ratio, which was set at 14.0 percent as of March 17, 2020.

Table 1: Summary Financial Soundness Indicators- Commercial Banks

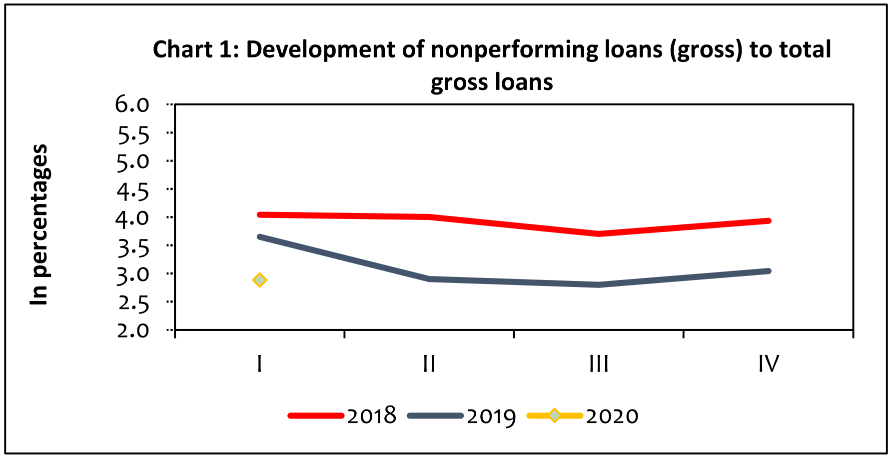
	Q4 2019	Q1 2020
Capital adequacy		
Regulatory capital (Tier I + Tier II) to risk-weighted assets (minimum 14.0%) 1)	30.9	31.5
Regulatory Tier I capital to risk-weighted assets	23.8	26.5
Asset quality		
Nonperforming loans to gross loans	3.0	2.9
Nonperforming loans (net of allocated loan loss provisions) to gross loans	0.7	0.6
Provisions to nonperforming loans (gross)	198.1	213.9
Large exposures to regulatory capital	33.0	50.4
Earnings and profitability		
Return on assets (before taxes)	0.4	0.4
Interest margin to gross income	55.1	55.9
Noninterest expenses to gross income	85.2	79.7
Liquidity		
Loans to deposits ratio (maximum 85.0%) 2)	68.3	68.2
Liquid assets to total assets (minimum 15.0%) 3)	29.3	29.7
Source: Centrale Bank van Aruba		
1) As per March 17, 2020, the CBA temporarily decreased the minimum risk-weighted capital ratio from 16.0 percent to 14.0 percent in response to the COVID-19 pandemic. 2) As per March 17, 2020, the CBA temporarily increased the maximum loan to deposit ratio from 80.0 percent to 85.0 percent in response to the COVID-19 pandemic. 3) This is the Prudential Liquidity Ratio (PLR). As per March 17, 2020, the CBA temporarily decreased the minimum PLR from 18.0 percent to 15.0 percent in response to the COVID-19 pandemic.		

Source: Centrale Bank van Aruba

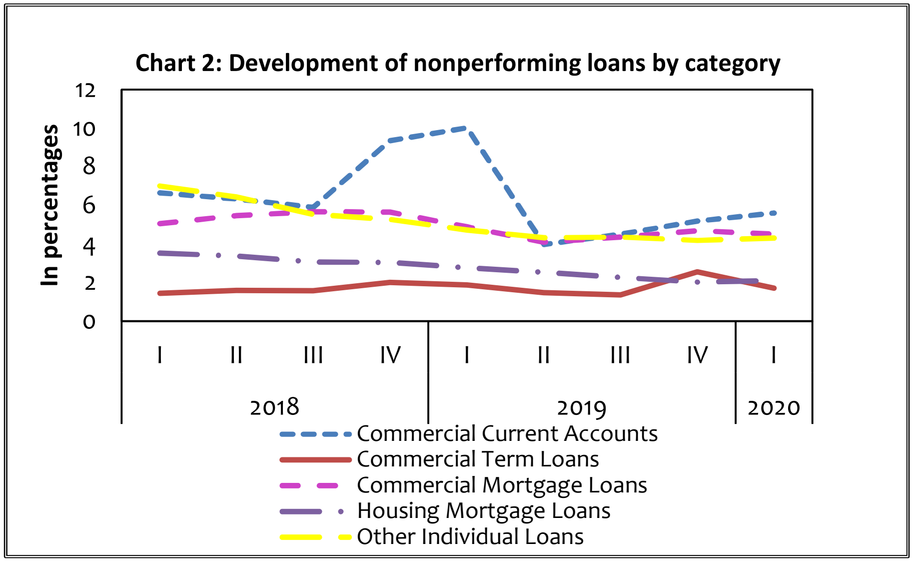
Asset Quality

The Nonperforming loans (NPLs) ratio contracted during the first quarter of 2020. The NPLs-to-gross-loans ratio dropped by 0.1 percentage point to 2.9 percent at end-March 2020 (Chart 1). This was largely attributed to a decline in total NPLs of Afl. 6.0 million or 5.6 percent, combined with a relatively smaller decrease in total gross loans of Afl. 16.9 million or 0.5 percent . The overall shrinkage was mainly reflected in the categories of the commercial term loans and commercial mortgage 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 declined by 0.1 percentage point to 0.6 percent at the end of March 2020. The total provisions[1] to NPLs (gross) rose by 15.8 percentage points to 213.9 percent, mainly due to the aforementioned contraction in NPLs. The large exposures to regulatory capital of the commercial banks increased by 17.4 percentage points to 50.4 percent, as a result of an Afl. 189.4 million (55.8 percent) rise in large exposures and an Afl. 18.4 million rise in regulatory capital.



Source: Centrale Bank van Aruba



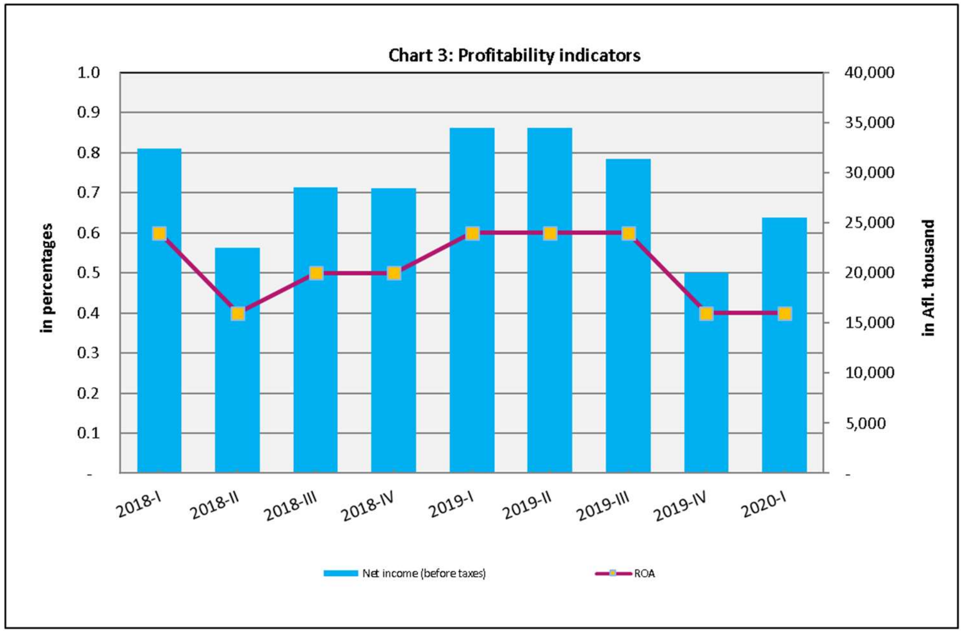
Source: Centrale Bank van Aruba

[1] The total provisions includes allocated loan loss provisions (ALLP) and unallocated loan loss provisions (ULLP).

Profitability

The decline in other operating expenses positively impacted the result of the quarter under review. Net income (before taxes) climbed by Afl. 5.5 million (27.2 percent) during the first quarter of 2020, compared to the fourth quarter of 2019. The main drivers behind this growth were lower other operating expenses of Afl. 12.5 million (14.8 percent), mostly associated with decreases in the loan loss provisions (Afl. 8.0 million), salaries and employees' benefits (Afl. 4.0 million) and general expenses (Afl. 1.0 million). The return on assets (before taxes) remained consistent at 0.4 percent as per end-March 2020 (Chart 3). Non-interest expenses to gross income declined by 5.5 percentage points to 79.7 percent, mainly because of a drop in non-interest expenses of Afl. 11.3 million (12.7 percent). The latter was due to the aforementioned fall in other operating expenses which was partially offset by a rise in applicable profit taxes of Afl. 1.1 million.

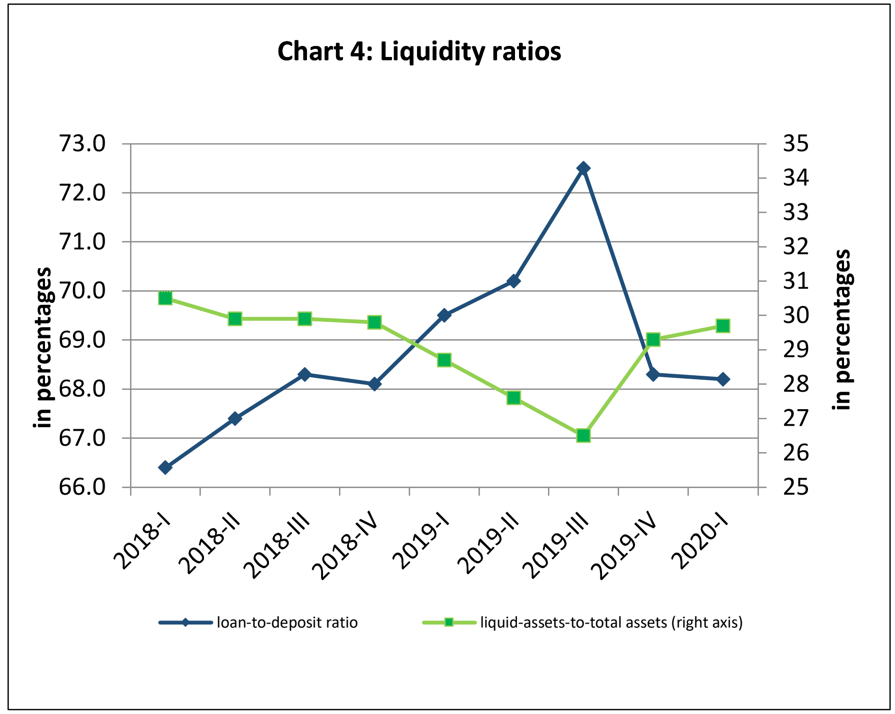
Interest margin to gross income increased by 0.8 percentage point to 55.9 percent, due mainly to a decrease in gross income of Afl. 7.0 million (6.7 percent), which was partly offset by a decline of Afl. 3.0 million (5.2 percent) in net interest income. Furthermore, gross income contracted largely due to a decrease of Afl. 4.0 million (8.4 percent) in other operating income.



Source: Centrale Bank van Aruba

Liquidity

The Loan-to-deposit (Ltd) ratio slightly declined while the prudential liquidity ratio rose, both complying with the maximum and minimum requirements[2]. The Ltd ratio shrank by 0.1 percentage point to 68.2 percent and remained below the 85.0 percent maximum (Chart 4). Even though the total deposits dropped by Afl. 24.2 million or 0.5 percent, the overall ratio declined. This was mainly due to a decline in total loans (net of provisions) of Afl. 20.9 million or 0.6 percent. This decrease was largely reflected in the commercial loans that declined by an Afl. 23.3 million. The commercial banks' aggregated prudential liquidity ratio rose by 0.4 percentage point to 29.7 percent at the end of the first quarter of 2020, compared to last quarter of 2019 (Chart 4). Following several measures already taken in response to the adverse domestic economic and financial developments resulting from the COVID-19 pandemic, the CBA decided to lower the reserve requirement as of March 17, 2020 from 12.0 percent to 11.0 percent. As of April 3, 2020, the CBA decided to further lower the reserve requirement by 4.0 percentage points to 7.0 percent, releasing approximately a total of Afl. 200.0 million liquidity into the banking sector since March 2020. This encouraged the growth in said ratio.



Source: Centrale Bank van Aruba

In addition, the growth of the prudential liquidity ratio can also be associated with a rise in total liquid assets (excluding reserve requirement) of Afl. 21.9 million (1.3 percent). The latter was mostly related to increases in current accounts held at the CBA, time deposits held at other banks and short-term securities, which were offset in part by the decreases in time deposits held at the CBA and demand deposits held at other banks.

[1] As of March 17, 2020, the minimum liquidity ratio was set at 15.0 percent and the maximum loan to deposit ratio was set at 85.0 percent.

CENTRALE BANK VAN ARUBA

J.E. Irausquin Blvd 8, Oranjestad, Aruba
Phone: +297 525 2100
www.cbaruba.org