

# OPERATIONAL REPORT 2021



**CENTRALE BANK VAN ARUBA**

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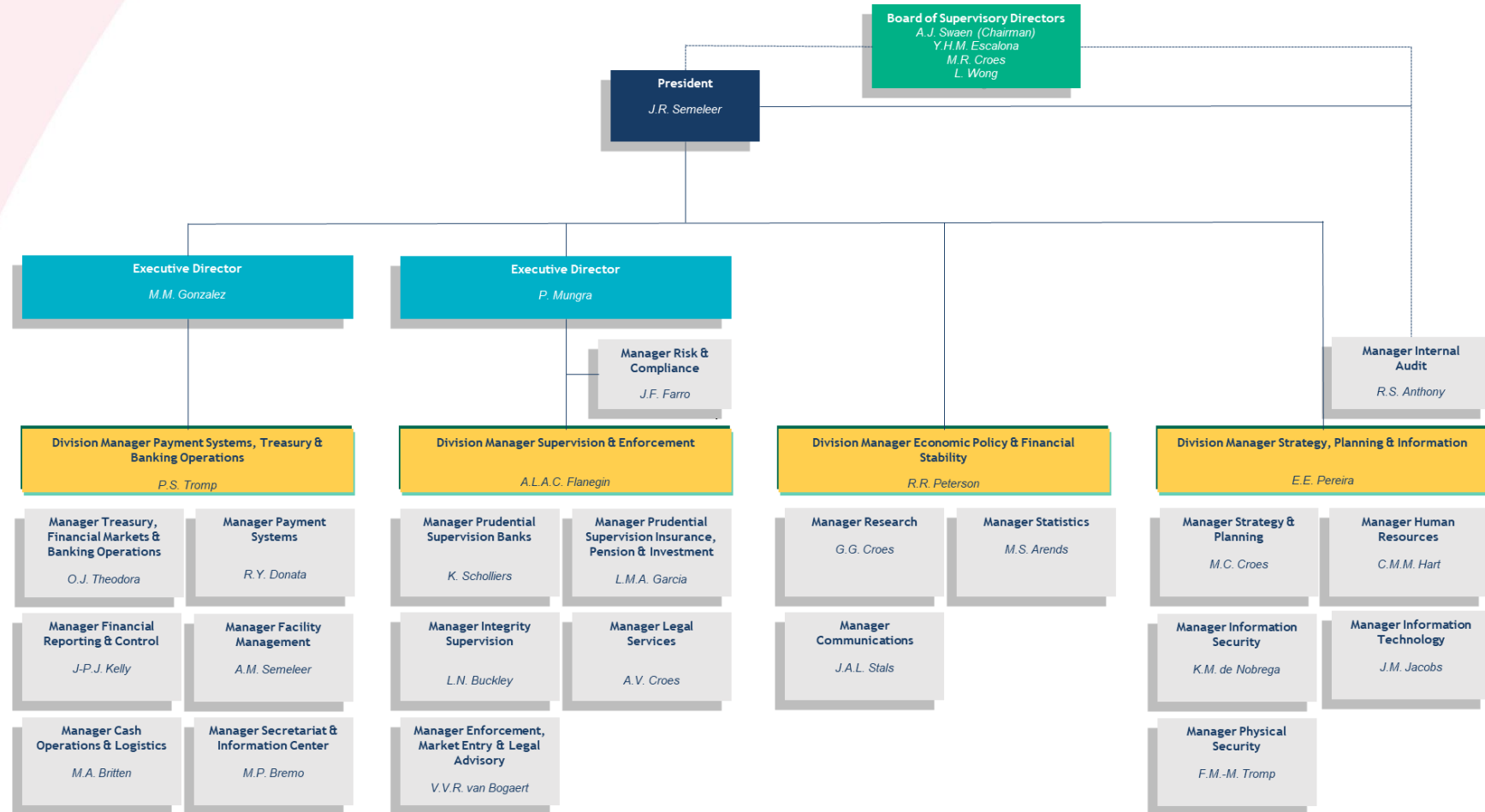
## 1. List of abbreviations

<b>AML/CFT</b>	Anti-Money Laundering and Combatting Financing of Terrorism
<b>BoSD</b>	Board of Supervisory Directors
<b>CBA</b>	Centrale Bank van Aruba (the Central Bank of Aruba)
<b>CBO</b>	Central Bank Ordinance
<b>EC</b>	Executive Committee
<b>ERMC</b>	Exchange Rate Margin Compensation
<b>EV</b>	Electric Vehicles
<b>FASE</b>	Fondo di Asistencia Social di Emergencia (Emergency Social Assistance Fund)
<b>FEC</b>	Foreign Exchange Commission
<b>FPN</b>	Foro di Pago Nacional
<b>GFS</b>	Government Finance Statistics
<b>GOA</b>	Government of Aruba
<b>GMWA</b>	Global Money Week Aruba
<b>IC</b>	Investment Committee

<b>IDEA</b>	Iniciativa pa Desaroyo di Empresa Arubano (Business Development Center of GOA for actual and potential entrepreneurs)
<b>IMF</b>	International Monetary Fund
<b>IP CSM</b>	Instant Payment Clearing and Settlement Mechanism (also known as “I-Pago”)
<b>IT</b>	Information Technology
<b>ITGC</b>	Information Technology General Controls
<b>MPC</b>	Monetary Policy Committee
<b>RMCC</b>	Risk Management & Compliance Committee
<b>R&amp;C</b>	Risk & Compliance Department
<b>RR</b>	Reserve Requirement
<b>SOFEC</b>	State Ordinance on Foreign Exchange Commission
<b>SOFET</b>	State Ordinance on Foreign Exchange Transactions
<b>UST</b>	U.S. Treasuries

## 2. Organizational chart

As of September 1, 2022



### 3. Key figures at year-end 2021

#### Monetary data

☐ Reserve requirement	12.0 percent
☐ Advance rate	1.0 percent

#### Foreign exchange licenses data

☐ Total value of foreign exchange licenses issued	Afl. 890.0 million
☐ Total number of foreign exchange licenses issued	694 licenses
☐ Total value of declarations for dividend distribution issued	Afl. 156.9 million
☐ Total number of declarations granted for dividend distribution	29 declarations

#### GOA reference rate

☐ Legal interest rate	3.0 percent
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#### Payment systems

☐ Total value of coins in circulation	Afl. 41.3 million
☐ Total value of banknotes in circulation	Afl. 298.6 million
☐ Total number of transactions through I-Pago	1.8 million transactions
☐ Total value of transactions through I-Pago	Afl. 8.9 billion

#### CBA's assets and income

☐ Net income	Afl. 19.7 million
☐ Total assets	Afl. 2,778.9 million
☐ Total gold and foreign reserves	Afl. 2,745.0 million
☐ Total deposits of residents	Afl. 2,102.9 million



## 4. President's statement

The Aruban economy rebounded quickly in 2021, after lifting of the strict lockdown measures taken by the Government of Aruba (GOA) to mitigate the spread of Covid-19 infections in 2020. Steep real economic growth was driven mainly by a strong recovery in stay-over visitors, which pushed up tourism export services to 84.7 percent of 2019 tourism earnings. Another driver of growth was domestic consumption, which was sustained by government support measures, such as the Emergency Social Assistance Fund (FASE), as well as the wage subsidy program. The economic resurgence also contributed to the improved performance in government finances, with a substantial contraction in the financial deficit following an uptick in income from taxes on commodities, turnover taxes, and import duties. In addition, the level of international reserves remained well-above adequate levels, supported by higher inflow of tourism and the short-term loans provided by the Netherlands to the Government of Aruba to finance the aforementioned government support measures.

In view of the continued recovery of Aruba's economy starting from the second quarter of 2021 onwards, and the positive economic outlook for 2022, as well as the fact that the foreign exchange reserves were at an adequate level, as of June 1, 2021, the CBA started to gradually rescind the foreign exchange restrictions taken as of March 2020 to counteract the negative effects of the Covid-19 pandemic on the Aruban economy. As of September 1, 2021, the Centrale Bank van Aruba (CBA) revoked all new restrictions on the issuance of foreign exchange licenses announced as of March 27, 2020.

However, to dampen potential pressures on the foreign reserves impelled by the renewed economic recovery, as of September 1, 2021, the CBA started tightening its monetary policy by raising the reserve requirement rate (RR) for the commercial banks back, after lowering this rate during the pandemic. This contractionary measure was necessary considering the substantially higher excess liquidity at the commercial banks and the uptick in inflation during the last

months of 2021. As of December 1, 2021, the RR stood at the pre-Covid level of 12 percent, up from 7 percent in April 2020.

The financial position of the CBA remained solid through 2021, reaching a net income of Afl. 19.7 million, despite the fact that interest revenues from its investments, its primary source of revenue, decreased reflecting plummeting interest rates in the U.S. capital markets following the impending effects of the Covid-19 pandemic.

In early 2021, the CBA introduced a new Strategic Plan *Dilanti Biento*, which was designed during a very turbulent and challenging time, providing us with a special opportunity to make a meaningful impact. Our new strategic plan targets a human- and planet-centered approach. Through the implementation of *Dilanti Biento*, we have the ambition to advance regeneration, influence and be an integral part of economic and financial transformation, and foster an inclusive and resilient future for the Aruban community. By seizing the opportunity to fundamentally change and not recreate the status quo, and to band together and discover our true potential, we can effectuate an authentically sustainable and regenerative future for our economy, our people, and the planet. These intentions are reflected in a newly set purpose for the CBA, which is to enable resilience in all of us.

This Operational Report provides a synopsis of the financial result of the CBA for 2021, its main operational activities throughout 2021, as well as our new Strategic Plan *Dilanti Biento*.

Jeanette R. Semeleer

President



## 5. Financial results 2021

The CBA's total assets grew to Afl. 2,778.9 million (+ 23.9 percent) at year-end 2021, up from Afl. 2,242.2 million at year-end 2020. This strong increase was attributed mainly to a growth in foreign currency assets, i.e., by Afl. 550.4 million (+ 30.0 percent), which was partially offset by a decrease in the value of its gold holdings, amounting to Afl. 14.1 million (- 3.8 percent). The rise in foreign currency assets was largely the result of an Afl. 387.9 million (+ 22.6 percent) expansion in 'government and other papers', as well as an Afl. 165.1 million (+ 157.6 percent) rise in 'due from banks and other financial institutions' (see Table 1).

**Government and other papers.** The expansion in 'government and other papers' was mainly attributed to a net replenishment of the CBA's investment portfolio (+ Afl. 393.8 million), following the conversion at the CBA of the foreign currency proceeds of the liquidity support received by the Government of Aruba (GOA) from the Netherlands. While the item 'government and other papers' was positively impacted by interest income from the investment portfolio (+ Afl. 33.9 million), it was more than offset by the net change in the market value of the investment portfolio (revaluation account) (- Afl. 37.5 million). The latter resulted from the mark-to-market adjustments stemming from the upward movements in the benchmark yields of the 2-year and the 3-year U.S. Treasuries (UST) during the last months of 2021.

**Due from banks and other financial institutions.** The net increase of Afl. 165.1 million in the item 'due from banks and other financial institutions' was related mainly to increases in the CBA's time deposits held abroad, following the foreign exchange conversion at the CBA by GOA. This was associated with the liquidity support provided by the Netherlands and, the foreign currencies sold by the commercial banks to the CBA in 2021, as tourism rebounded strongly.

**Gold holdings of the CBA.** At December 31, 2021, the market price of gold was USD 1,820.10 per fine troy ounce, down from USD 1,891.10 per fine troy ounce as of December 31, 2020. This

decrease of USD 71 per fine troy ounce pushed down the value of the CBA's gold holdings by Afl. 14.1 million at year-end 2021, compared to year-end 2020.

Table 1: Assets of the condensed balance sheet (before allocation of net result) (amounts in Afl.)

	As of December 31, 2021	As of December 31, 2020
<b>Assets</b>		
<b>1. Gold</b>	<b>362,594,052</b>	<b>376,738,428</b>
<b>2. Foreign currency assets</b>	<b>2,382,436,534</b>	<b>1,832,044,967</b>
2.1 Due from banks and other financial institutions	269,859,178	104,750,723
2.2 Government and other papers	2,107,535,693	1,719,615,523
2.3 Other	5,041,663	7,678,721
<b>3. Other assets</b>	<b>33,860,261</b>	<b>33,382,843</b>
3.1 Receivables	11,557,356	10,202,182
3.2 Stock of coins and printing cost banknotes	3,215,453	4,333,981
3.3 Fixed assets	12,426,500	14,056,288
3.4 Project in progress	6,660,952	4,790,392
<b>Total assets</b>	<b>2,778,890,847</b>	<b>2,242,166,238</b>

On the other hand, the growth in the liabilities and equity of the CBA at year-end 2021, compared to year-end 2020, was largely the result of a sharp rise in the item 'deposits of residents' (+ Afl. 596.2 million or + 39.6 percent), which was partly offset by a contraction in the 'revaluation account' (- Afl. 51.7 million or - 17.4 percent) (see: Table 2).

**Deposits of residents.** The growth in the deposits of residents was led mostly by increased deposits of the commercial banks of Afl. 650.1 million (+ 46.1 percent), in part offset by a drop of Afl. 53.6 million (- 56.2 percent) in government deposits. The expansion in the commercial banks' deposits was predominantly related to the liquidity support provided to the GOA by the Netherlands, which sustained the GOA's support measures such as the Emergency Social Assistance Fund (FASE), as well as the wage subsidy program, which was paid out via the commercial banks.

The drop in government deposits stemmed predominantly from payments made on behalf of the GOA by the CBA, as well as payments made on behalf of the GOA to the commercial banks related to matured and not rolled-over treasury bills (Afl. 20.0 million).

**Revaluation account.** The revaluation account decreased in 2021, mostly due to increases in the benchmark yield on the 3-year UST (80 basis points increase compared to December 31, 2020) and the benchmark yield on the 2-year UST (60 basis points increase compared to December 31, 2020), which resulted in lower market prices of the securities held by the CBA, and thus an increase in the unrealized net capital losses. In addition, the drop in the market price of gold by USD 71.00 per fine troy ounce or 3.8 percent compared to year-end 2020 also contributed to the contraction in the value of the CBA's revaluation account as of December 31, 2021. Overall, mentioned developments decreased the revaluation account equivalent to Afl. 51.7 million (- 17.4 percent) during the year 2021, compared to a build-up of Afl. 82.4 million in 2020.

Table 2: Liabilities and equity of the condensed balance sheet (before allocation of net result) (amounts in Afl.)

	As of December 31, 2021	As of December 31, 2020
<b>Liabilities and equity</b>		
<b>1. Banknotes in circulation</b>	<b>298,554,060</b>	<b>302,569,670</b>
<b>2. Deposits of residents</b>	<b>2,102,947,225</b>	<b>1,506,767,181</b>
2.1 Government	41,748,760	95,360,877
2.2 Commercial banks	2,060,214,156	1,410,138,276
2.3 Other	984,309	1,268,028
<b>3. Deposits of nonresidents</b>	<b>96,805</b>	<b>148,676</b>
<b>4. Money in custody</b>	<b>2,194,877</b>	<b>2,194,344</b>
<b>5. Payables and accrued expenses</b>	<b>4,070,726</b>	<b>4,080,827</b>
<b>6. Revaluation account</b>	<b>246,256,879</b>	<b>297,974,530</b>
<b>7. Capital and reserves</b>	<b>105,039,439</b>	<b>100,039,439</b>
7.1 Capital	10,000,000	10,000,000
7.2 General reserve	95,039,439	90,039,439
<b>Net result for the year</b>	<b>19,730,836</b>	<b>28,391,571</b>
<b>Total liabilities and equity</b>	<b>2,778,890,847</b>	<b>2,242,166,238</b>

As indicated in Table 3, the net result for the year 2021 fell by Afl. 8.7 million or 30.5 percent compared to 2020. This drop was mainly caused by a decrease in the item 'net interest revenues' (- Afl. 9.6 million or - 25.8 percent), and was partially offset by an increase in the 'other revenues' (+ Afl. 1.4 million or + 7.4 percent) (see Table 3).

**Net interest revenues.** Despite additional investments due to new funds, the net interest revenues dropped by Afl. 9.6 million in 2021 compared to 2020. The latter was attributed mostly to higher realized losses from the investment portfolio (- Afl. 5.2 million), mainly driven by the paydowns of securities that were purchased above par. In addition, the interest income from the investment portfolio fell by Afl. 3.7 million in 2021 compared to 2020, as funds from matured securities and new funds were (re)invested at the extremely low yields prevailing during 2021.

Table 3: Condensed profit and loss account (amounts in Afl.)

	2021	2020
1. Net interest revenues	27,502,742	37,063,455
2. Other revenues	19,708,164	18,354,025
<b>Total income</b>	<b>47,210,906</b>	<b>55,417,480</b>
3. Amortization of stock of banknotes	1,101,249	1,101,249
4. Personnel expenses	18,438,520	17,670,540
5. Operating expenses	5,535,853	5,980,755
6. Depreciation expenses	2,404,448	2,273,365
<b>Total expenses</b>	<b>27,480,070</b>	<b>27,025,909</b>
<b>Net result</b>	<b>19,730,836</b>	<b>28,391,571</b>

**Other revenues.** The Afl. 1.4 million (+ 7.4 percent) rise in the item 'other revenues' in 2021, when compared to 2020, was attributed primarily to higher income stemming from the exchange rate margin compensation (ERMC). In view of the continuing recovery of the Aruban economy in 2021, as well as the fact that the foreign exchange reserve was at an adequate level, the CBA revoked all new foreign exchange restrictions imposed due to the Covid-19 pandemic, as of September 1, 2021. As a result, more foreign exchange payments were executed by local commercial banks on a net basis during 2021 but especially during the last months of 2021, compared to the same period in 2020. The latter led to the revenue surge of the ERMC during 2021 compared to 2020.

**Personnel expenses.** The rise in personnel expenses in 2021 was attributed primarily to severance payments made to a former employee, as well as salary adjustments for that year for the CBA employees.

**Operating expenses.** Operating expenses fell by Afl. 444.9 thousand (- 7.4 percent) in 2021 to Afl. 5.5 million, when compared to the previous year, caused mainly by decreases in 'consultancy services', 'legal services', and 'advertisement and promotion'. Expenses related to consultancy services declined by Afl. 311.8 thousand compared to 2020. Legal services provided to the CBA in 2021, compared to the previous year, contracted by Afl. 200.1 thousand. In addition, higher advertising and promotional expenses (Afl. 29.2 thousand) were incurred in 2020, compared to 2021, for the advertising and promotion of the launching of the instant payments clearing and settlement mechanism (IP CSM or I-Pago).

## 6. Strategic Plan *Dilanti Biento*

*Dilanti Biento* is a popular saying in Papiamentu, that means ‘*hopi lihe*’. Translated to English it means ‘*in front of the wind*’, indicating anticipation, taking actions and moving forward fast with the wind. *Dilanti Biento* is the subsequent vision of *Bela Yen* (CBA’s previous Strategic Plan 2016-2020), conveying ‘full sail ahead’. With *Dilanti Biento*, the CBA is setting a new course with the objective of resiliently achieving the identified strategic goals for the next five years. We want to be resilient, agile, courageous, and exemplary for the Aruban community.

*Dilanti Biento* is not a detailed and rigid five-year plan. It has been created for ambiguous and complex times. Especially in 2020, we learned how quickly our operating context and environment can change and how we must master the balance between flexibility and delivery. For these reasons, the plan focuses mainly on intentions and outcomes for the next five years.

The ultimate outcome of this new strategic direction for the CBA is to contribute meaningfully and significantly to increasing the resilience of Aruba. Why resilience? The need for the capacity to recover quickly from challenges and being able to adapt to constant change is more important now than ever. This resilience involves its people, the environment, and its economy.

As a country, Aruba has the opportunity to transform into a financially independent community, with a vibrant, sustainable, and resilient economy, a healthy flora and fauna, a sound economic stewardship, and a flourishing productive population that includes everyone. To help foster this transformation, the CBA designed its new five-year plan *Dilanti Biento* to contribute to this important journey.

*Dilanti Biento* was developed using a human- and planet-centered approach.

## Purpose

At the CBA we have a very special opportunity at a very critical time on this planet to contribute to meaningful change. In particular, we have unique characteristics that can be beneficial to leading this change:

1. We are the central bank of a country that is small enough to create systemic change quickly.
2. We have the capacity and are determined to be an influencer and innovator of economic and financial transformation.
3. We have a current leadership team who is visionary and committed to creating an inclusive and resilient future.
4. We are refreshing our strategic intent and vision at a time when humanity and the earth are crying out for an alternative.

Because we are doing this work during a global pandemic that has rocked the foundation of society to its core, we must take this opportunity not to create a status quo. We need to band together and assess our potential to create an authentically sustainable and regenerative future for our people, the planet, and our economy. These intentions have led to a newly set purpose, which is to:

*Enable resilience in all of us.*

This purpose is complemented by the following tagline, which is focused on the Aruban community:

*Leading inclusive resilience.*

We see our purpose statement as an inspiration for the CBA employees to work together in taking ownership and action. The tagline is designated to be part of our branding and identity, signaling our role to stakeholders and the Aruban community.

## Mandate

Our legal mandate, as defined in the Central Bank Ordinance ((CBO), AB 1992, no. GT 4), essentially centers on fostering the financial stability and economic well-being of the Aruban community by:

- Maintaining the stability of the value of the florin vis-à-vis the US dollar.
- Promoting the financial soundness and integrity of the financial system.
- Promoting efficient and reliable payment systems.

This mandate translates into five (5) core responsibilities:

### 1. Monetary Policy

The CBA carries out the monetary policy with the purpose to safeguard the stability of the value of the florin by maintaining its fixed exchange vis-à-vis the U.S. dollar.

### 2. Supervision<sup>1</sup>

The CBA is the sole supervisory authority in Aruba with respect to compliance with prudential and anti-money laundering and combatting financing of terrorism (AML/CFT) laws and regulations of the financial sector and designated non-financial service providers.

### 3. Reserve Management

The CBA manages the foreign exchange reserves and regulates the flow of international payments.

### 4. Payment System

The CBA issues florin banknotes, and, on behalf of the GOA, it issues florin coins. It manages I-Pago, and acts as the lender of last resort.

<sup>1</sup> For further details on the supervision of the (non) financial sector, please refer to the "Financial Sector Supervision Report 2021" on the CBA's website.

## 5. Banker and Advisor to the GOA

The CBA functions as the banker of the GOA, and provides both solicited and unsolicited advice to the Minister of Finance on financial and economic matters.

## Core values

Willingness to change must start from within each of us. That's why our new core values encompass the importance of a heart-mind coherence, and form the foundation of a new way of thinking, doing, and working. They act as guiding principles in our professional behavior, daily operations, and strategic choices. Together and every day, we support one another to work towards creating resilience. With these building blocks we aim to bring about systematic change and lead inclusive resilience.





## Six strategic pillars

Our new purpose is reflected in six strategic pillars. These strategic pillars outline what we see as essential elements in our focus on transforming our organization, with the aim of supporting change in our community. We deliver on this strategic intent with a clear focus on human and planet centricity, digital transformation, and enabling resilience inside and outside our organization. We establish a culture through capability building that will carry us through this work and ensure a strong delivery on every element detailed below.



### CULTURE AND CAPABILITY

We promote a culture that enables bold action focused on inclusiveness, trust, agility, and human centricity.



### WORLD CLASS KNOWLEDGE AND COMMUNICATION

We communicate and share our knowledge internally and externally in effective and innovative ways to develop and foster a collaborative culture, financial literacy, and economic understanding.



### INNOVATION OF IMPLEMENTATION

We embrace new approaches to set up new or redesigned (internal and external) processes, products, and services to ensure we remain relevant and in step with the times.



### FORWARD-THINKING GOVERNANCE

We are known for our sound governance and as a trusted leader in contemporary financial regulation and transparency. We promote good governance practices in Aruba that continue to foster the trust underpinning the economic and financial transformation.



### DIGITAL TRANSFORMATION

I. We transform our processes and services to be delivered digitally with the focus on increased efficiency, effectiveness, transparency, and (data) analytical capabilities in accordance with best practices.



### DYNAMIC RESILIENCE AND REGENERATION

We think beyond sustainability to regeneration. We focus on transitioning CBA's operations, the financial system, and the economy to a regenerative resilient (eco)system.

## Strategic achievements

Following the launch of the CBA's new Strategic Plan *Dilanti Biento* in early 2021, we worked on the following strategic actions:

- Preparatory works relating to the upcoming Caribbean Financial Action Task Force evaluation.
- A self-assessment to measure compliance with the Basel Core Principles for Effective Banking Supervision.
- The launch of the vault management software for the Cash Operations & Logistics department.
- Further modernization of the payment landscape in Aruba.

- Introduction of a renewed website for the CBA.
- Revamp of CBA's information technology (IT) hardware platform.
- Publication of the Research Department report "*Governing from the Future: Next-Gen Policies, Pathways & Prospects 2040*".

In 2022, we focus on the:

- Operationalization of the Foro di Pago Nacional (FPN).
- Implementation of the CBA's new financial software package.
- Harmonization and strengthening of the sectoral supervisory laws for banks, insurance companies, and pension funds.
- Preparatory work for the introduction of the state ordinance related to the deposit guarantee system for Aruba.
- Introduction of investment guidelines for insurance companies and pension funds.
- Implementation of a digital licensing portal.
- Execution of CBA's cyber security testing.
- Execution of new research on fostering inclusive resilience.
- Introduction of a standard governing reporting system according to Government Finance Statistics manual (GFS) of the IMF.



## 7. Operations of the Bank

### Workplace diversity

By the end of 2021, the CBA had 104 permanent employees. The average age was 44.6 years (see Chart 1), and the largest age group was 36-45 years. The average age of employees recruited during 2021 was 36 years. The gap between the age categories of 46-55 years and 26-35 years narrowed further in 2021, indicating that our workforce is slowly getting younger.

About 70 percent of our employees were born in Aruba and were of Dutch nationality, while the remainder were from, i.e. Belgium, Bulgaria, China, Colombia, and the United States (see Chart 2).

The majority (65.4%) of the workforce in 2021 was female. Women also were strongly represented (69.2%) in the CBA's leadership positions (see Chart 3), which is also reflected at the top of the organization.

Chart 1: CBA's employees by age category

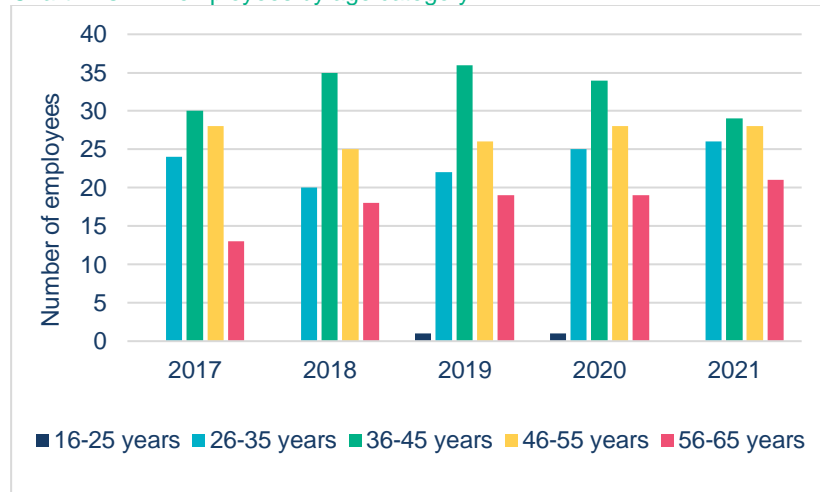
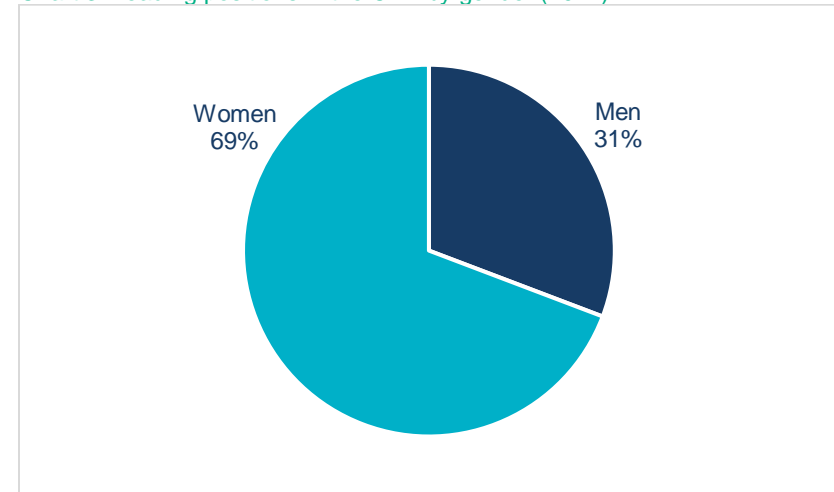


Chart 2: Birthplace of CBA's employees



Chart 3: Leading positions in the CBA by gender (2021)



## Information & data management

In line with our continuous efforts to perform our operational tasks in an efficient and result-oriented manner, the following initiatives related to information and data management were accomplished in 2021:

- The launch of our renewed website (<https://cbaruba.org>). With the assistance of an interface design expert and a website development company, the CBA was able to transform its site layout into a user-friendly and visually appealing, fresher layout. The website is now more responsive, meaning that its layout adjust to any device screen size (mobile, tablet, computer, TV) to ensure maximum usability.
- The implementation of a set of IT General Controls (ITGCs) to structure our change management and user access procedures. Renewed policies were created for the backup and recovery processes and the incident processes. These ITGCs were formalized with the use of JIRA Service Desk tooling implemented in 2021, and is used bank-wide to register tickets for IT support.
- The enhanced security of our IT infrastructure. As a result of the extensive testing, led by our Information Security department, we gained knowledge on how to better protect our IT infrastructure.
- Further enhancement of our cyber resiliency. The CBA has extended its security operations by gathering fusion data. Initial steps were set out to create data analytics by means of artificial intelligence technology for the purpose of cyber defense.
- The implementation of the latest SWIFT International Banking Requirement.

For 2022, the CBA aims to finalize the IT hardware revamp project through which most of our IT physical infrastructure has been replaced. The remaining work will focus on the migration of the virtual servers from our old infrastructure to our new infrastructure. A new Business Continuity strategy also will be implemented, and a new

web application will be developed with partners to enhance the efficiency of the CBA's foreign exchange licenses request process.

In 2021, the Information Governance framework was approved by the Executive Committee (EC) of the CBA. This project aims to centralize information management, while taking into account the business process and applications needed to meet end users' information requirements. This means that information management will be adapted to the needs of the specific users in a certain process. The implementation of this framework will start in 2023.

During 2020 and 2021, a request for information (RFI) and a request for proposal (RFP) were distributed for the project "Reshaping and Innovating our Financial Systems". The objective was to establish an integrated and efficient financial administrative environment. The implementation of this project started in early 2021 and the first phase is expected to be finalized in early 2023.

## Impactful communication

Through a relevant and impactful internal and external communication style, we aim to provide meaningful information on the CBA's works in order to foster stronger connections with employees and external stakeholders. The CBA employees are regularly informed and updated on our Strategic Plan *Dilanti Biento* and other relevant matters. Sharing this and related information with our colleagues will encourage them to support the implementation of our purpose and strategy, while being guided through our new core values.

In 2023, we will be presenting our Community Outreach Vision, which will focus on knowledge-sharing, volunteering and financial education, among others. Through this program, we will be strengthening and aligning our external communication with our strategic actions.

## Protecting the environment

For several years now, we have been taking a number of steps to manage our carbon footprint in order to protect the environment. This

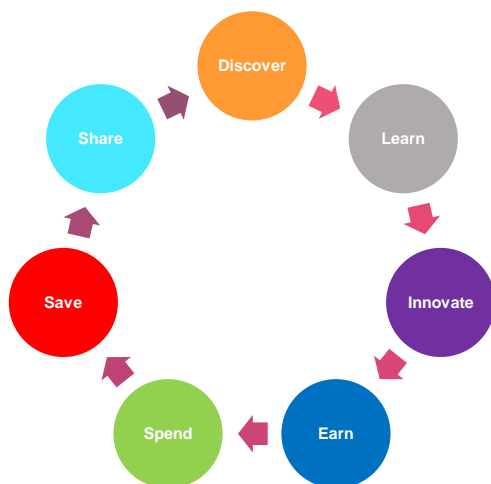
includes banning the use of plastic utensils and cups following the introduction of Aruba's Plastic Ban Ordinance, to the collection of rainwater and air conditioning condensation to irrigate CBA's extensive garden.

In our continuous desire to play an important role in protecting our environment, in 2021, we added new electric vehicles (EVs) to our car fleet to gradually reduce our carbon footprint. In addition, we have installed a charging station on the premises not only for our new EVs but also for use by our colleagues. In this way, the CBA stimulates and facilitates its employees' transition to more environmentally conscious driving options in order to have a positive impact on our environment.

## 8. Financial education

In fostering financial education in Aruba over the past three (3) years, in partnership with financial and government institutions, the CBA led the initiative to organize an annual a national financial education program through the Global Money Week Aruba (GMWA). The aim of the GMWA is to strengthen financial education and foster financial inclusion by targeting Aruban youth. The program will engage them in an explorative and interactive way, sharing financial concepts and skills according to the financial circle model that covers seven (7) topics (see Figure 1).

Figure 1: Financial circle model GMWA



The focus in 2021 was to organize a digital classroom version of the GMWA with elementary school students and teachers with the program referred to as the 'Classroom Edition'. The GMWA 2021 – Classroom Edition covered the following themes: (1) Spend & Save, (2) Earn, and (3) Share. These themes covered the importance of budgeting and saving, business canvas concepts of entrepreneurship, and giving back to the community. The students

received digital lectures on these themes in the classroom followed by group assignments and concluding presentations.

The GMWA 2021 – Classroom Edition was organized with Banco di Caribe, ENNIA Aruba, IDEA Aruba (a Business Development Center of the GOA that provides assistance and guidance to actual and potential entrepreneurs), Guardian Group Fatum, Kiwanis Club of Aruba, Museo Arqueologico Nacional Aruba, and Qredits.

As of 2020, the CBA also has led an initiative called Cyber School Aruba that is designed to make kids more cyber-resilient. The aim of Cyber School Aruba is to enhance the online vigilance and digital skills of kids. In 2021, the curriculum was used in a pilot program that involved all 2<sup>nd</sup> year students at Colegio San Antonio (Middle School). Course topics were provided in the form of 'capture-the-flag' exercises in hacking, cryptography, forensics, and coding.

Following the successful pilot program, feedback sessions were organized with teachers who conducted the pilot program, and with teachers at other schools interested in rolling out these subjects to their students, too. Feedback sessions were also organized with local field experts in the area of technical information security. Feedback was important to further development of the Cyber School program to foster financial education and cyber-resilience.



## 9. Governance

The CBA, which was established by the CBO, also is tasked with the execution of several other laws. Its management is assigned to the President, assisted by two Executive Directors. Together they form the EC, which is responsible for the execution of the CBA mandate as set forth in the CBO.

The CBA operations and the management of its assets, as well as the funds entrusted to it, are overseen by the Board of Supervisory Directors (BoSD), pursuant to article 24 of the CBO.

### Board of Supervisory Directors

The BoSD consisted of three (3) appointed members as per year-end 2021. All members, including the Chairman who is a representative of the GOA, are appointed and dismissed by the Governor of Aruba. While the Chairman is appointed for an undefined period, other members are appointed for a 5-year term. The BoSD also commissions the external auditor of the CBA. In 2020, Ernst & Young Aruba was appointed as our external auditor for a 3-year period.

The BoSD met with the EC six (6) times during 2021. The matters discussed included, but were not limited to the:

- review of the mid-year and audit of year-end financial statements 2021;
- budget for 2022;
- main economic and financial developments;
- new Strategic Plan *Dilanti Biento* 2021–2025;
- effect of the Covid-19 pandemic;
- supervisory matters and legal proceedings;
- financial performance of the CBA; and
- progress of various projects, such as modernization of the payment systems and cyber resilience.

In addition, the Chairman of the BoSD held weekly meetings with the President to discuss relevant issues.

## Committees

To assist the EC with its responsibilities, nine (9) committees have been established within the CBA, as summarized in Figure 2.

Figure 2: Committees of the CBA



The mandates of the Committees are summarized below:

- **Monetary Policy Committee:** ensures that an effective monetary policy is carried out with the aim of maintaining the peg between the Aruban florin vis-à-vis the U.S. dollar.
- **Foreign Exchange Policy Committee:** assures that an adequate foreign exchange policy is in place to manage the

available foreign exchange reserves, and to monitor this in accordance with article 12 of the CBO and the State Ordinance Foreign Exchange Transactions ((SOFET), AB 1990 no. GT 6).

- **Investment Committee (IC):** advises the President on formulating the overall investment policies of the CBA related to its financial assets and establishing investment guidelines to safeguard those financial assets, based on the following principles: 1) to preserve the value of CBA's financial assets in support of a sound and solid financial position of the CBA, 2) to maintain an adequate level of foreign currency to meet the funding needs of the commercial banks and the GOA, and 3) to optimize income of the investment portfolio with due regard to the prior two principles.
- **Risk Management & Compliance Committee (RMCC):** ensures the proper execution of the Risk & Compliance (R&C) function and that all material risks to which the CBA is exposed are properly identified and effectively managed, with the aim of safeguarding the achievement of the CBA's legal mandate and strategic objectives, while ensuring compliance with applicable laws, regulations, contracts, guidelines, internal policies, and procedures.
- **Strategic Committee:** provides effective strategic guidance on and monitors the implementation of the Strategic Plan 2021–2025: “*Dilanti Biento*”.
- **Payment System Committee:** advises on the promotion of an efficient, reliable, and secure payment system, to effectively contribute to financial stability and economic prosperity of the Aruban community.
- **Budget Committee:** prepares and advises on the CBA's draft budget, which will be submitted for approval by the BoSD.
- **Project Committee:** advises on the feasibility, priority, planning, and implementation of enterprise-wide projects, and monitors the progress and costs involved.

- **Corporate Information Security Committee:** ensures that an effective strategic information security framework is in place.
- **Pension Committee:** advises the EC on the extent to which the pension scheme for the CBA employees complies with current statutory provisions and regulations and provides best value for the funds committed.

In addition, the CBA also has various working groups to support the committee activities, such as the foreign exchange working group, information governance working group, and working group processes, as well as working groups to carry out special projects, such as the paperless working group and the branding working group.

In 2021, the CBA launched the Core Values Working Group and the Think Tanks. The Core Values Working Group was created to ensure that all colleagues are familiar with the new core values and adopt them as guiding principles for their professional behavior and daily operations. The Think Tanks' objectives are to contribute to the achievement of the strategic pillars and outcomes, as stated in CBA's Strategic Plan 2021-2025 *Dilanti Biento* by providing the Strategic Committee with advice and innovative recommendations on relevant actions that can be taken to reach the intended outcomes and contribute to CBA's purpose, i.e., enabling resilience in all of us. There are a total of six (6) Think Tanks, each focusing on a strategic pillar. Each Think Tank is led by a Division Manager and consists of 7 members.

The CBA strives to have sound corporate governance processes that supports proper and effective decision making through the implementation of appropriate checks and balances to ensure accountability, due process, and transparency while maintaining its institutional independence. The Internal Audit Department plays a key role to this end by providing an independent opinion about the adequacy and operational effectiveness of CBA's overall governance structure.



## 10. Risk management

Risk management is fundamental to the adequate execution of CBA's legal mandate and the realization of CBA's strategic objectives. It plays an integral role in the CBA's daily operations and management, and consists of the following key elements (see Figure 3):

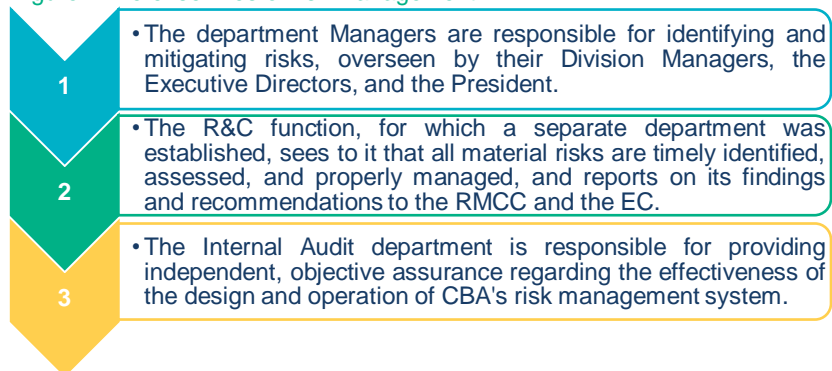
Figure 3 Key elements of the CBA's risk management



### Risk governance

The CBA applies the three (3) lines of defense model regarding risk management (see Figure 4).

Figure 4: Defense lines of risk management



The R&C function is responsible for ensuring that a sound enterprise-wide risk management system is in place and functioning adequately to identify, assess, and address material risks to which the CBA is exposed. This function reports its findings to the RMCC and the EC. The RMCC meets regularly to discuss financial and operational risks.

### Risk Allocation

Each department Manager is responsible for managing the identified risks within the areas of his/her responsibility, in consultation with his/her Division Manager, Executive Director, and President. To address these risks properly, a combination of control measures is embedded within the organization and the CBA's processes. The strategic risks are managed by the EC with the support of the Strategy & Planning Department.

### Risk Identification

The risks to which the CBA is exposed on a daily basis range from strategic, financial, and operational risks to reputational risks. To identify and assess these risks, the R&C function conducts a so-called Risk Assessment Survey on an annual basis. All Department and Division Managers are required to submit their most significant risks to the R&C Department, which reports its findings, observations, and recommendations to the RMCC and EC.

### Risk Culture

A strong risk culture contributes to sound risk management by management and staff. Risk taking decisions should be aligned with the CBA's risk appetite. The CBA fosters a solid risk culture by setting the tone at the top, organizing risk awareness sessions, and emphasizing adherence to its Code of Conduct and core values.

Following are the most important risks to which the CBA is exposed.

### Financial risk

The CBA is exposed to financial risks associated with the management of its financial assets and liabilities.



Financial risk relates to the risk of incurring financial losses when credit, market, and liquidity risks are not sufficiently contained. This risk is monitored strictly by the IC, which is chaired by the Executive Director responsible for the execution of the general investment policy and ensuing guidelines to manage the CBA's financial assets. This policy and ensuing guidelines are approved by the President upon advice of the IC. In addition, investment rules for the capital and reserves of the CBA, are established by the BoSD.

The IC meets weekly to monitor and discuss, among other things, matters related to both current domestic and international market trends and economic developments that could impact the CBA's financial assets, and to evaluate the investment performance of its asset managers and related financial risk. Periodically, the IC discusses the monthly performance report of each asset manager and advises the President on strategic or tactical changes in the investment policy and/or guidelines when deemed necessary.

Financial risk consists of credit, market, and liquidity risk.

- **Credit risk** is the risk of incurring a loss if the counterparty fails to meet its financial obligations in accordance with agreed-upon terms. This risk is the most important source of financial risk for the CBA associated with its financial assets for investment and liquidity purposes. Credit risk includes four types of risks: default risk, bankruptcy risk, downgrade risk, and settlement risk. The CBA has strict procedures in place regarding credit quality in its investment guidelines to mitigate these risks.
- **Interest rate risk, gold price risk, and foreign exchange risk** are the largest sources of market risks for the CBA's financial assets. The interest rate risk arises from fluctuations in interest rates in the international money and capital markets. The gold price risk refers to the risk to the CBA's financial performance due to unfavorable gold price development. The foreign exchange risk relates to losses that an international financial transaction may incur due to currency fluctuations. As the Aruban florin is pegged to the US dollar at a rate of Afl. 1.79, this risk is contained because fixed-income securities can only be held in US dollars in accordance with the CBA's investment guidelines.

- **Liquidity risk** is the CBA's inability to meet its current and future financial obligations when these become due. There are two sides to the liquidity risk at the CBA. The CBA is the ultimate source of liquid funds denominated in Aruban florin to the banking system in line with the CBO, while complying with certain limitations as stipulated in the CBO. Therefore, the liquidity risk for the Aruban florin is considered very low. Still, the CBA's ability to provide Aruban florin liquidity is exercised with due regard to its policy objective of maintaining trust in the value of the Aruban florin in accordance with the CBO. With respect to the role of the CBA in providing foreign currency to commercial banks and the GOA for transactional purposes, the liquidity risk is classified as medium since the CBA keeps adequate levels of foreign assets on hand that can be easily liquidated at a minimum loss to comply with any demand.

To minimize these various types of financial risks, the CBA implements a prudent investment policy strategy based fully on US dollar fixed-income. It carefully monitors, in close cooperation with its asset managers, developments in the international money and capital markets with the aim of maximizing the income-generating capacity of its investment portfolio, while at the same time keeping its financial risks within acceptable boundaries, and maintaining sufficient liquidity at hand. Any deviation from the investment guidelines requires prior written approval of the President. The IC closely monitors that investments are executed according to stipulated guidelines, and reports on its findings on a regular basis to the President.

## Operational risk

Operational risk encompasses the negative impact on the CBA's assets, resources, and/or operations due to inadequate processes, people, systems, or external factors. These may disrupt business processes that impede the CBA from carrying out its legal mandate and/or realizing its strategic objectives. To address its operational risk, the CBA adopts best practices and keeps itself updated about emerging risks through alliances with strategic partners, especially in the area of business continuity, to take preventive mitigating actions in a timely manner. Key focus areas include cybersecurity, IT, and the adequacy of its human capital.

- **Cybersecurity risk:** addresses the probability that an event will occur with computers, information, or communication means and the consequences of this event for the organization.

## Compliance risk

Compliance risk refers to the threat posed to the CBA of not complying with relevant laws, regulations, contracts, and internal policies and procedures, including ethical standards as laid down in the CBA's Code of Conduct. Non-compliance may lead to financial, operational, and reputational risks. The R&C function monitors adherence to the Code of Conduct by management and staff, overseen by the RMCC.

## External risk

External risk relates to risk arising from external threats that cannot be controlled by the CBA, including (unforeseen) government interventions, international measures, new legislation and regulations for which the CBA is unable to sufficiently prepare, political and economic instability, and labor market developments.

- **Pandemic risk:** the unprecedented Covid-19 pandemic that started in 2020 led the CBA to implement and maintain sound health and safety measures to mitigate the effects of this risk on the CBA's most valuable asset - its personnel. The CBA is aware that this risk will continue to impact "business as usual", and has taken effective measures to keep its staff members operational in a safe environment.
- **Reputational risk:** addresses the potential damage to the CBA's reputation, caused by negative publicity leading to deterioration or loss of confidence in the CBA. Reputational risk could arise, for example, when errors regarding monetary policy or supervision of the financial system occur, which could negatively impact the economy in general. Other examples include the leaking of confidential information and publishing of inaccurate data.

## 11. Monetary policy

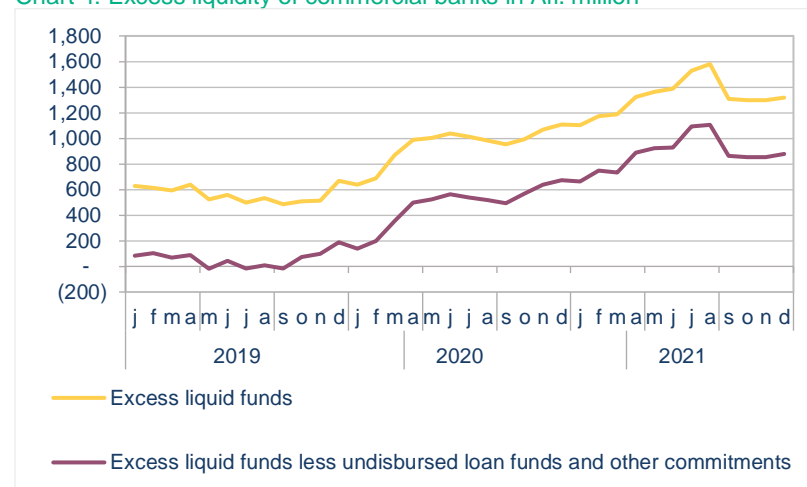
Section 10 of the CBO sets out a key responsibility of the CBA, which is to maintain the stability of the value of the Aruban florin, by implementing a monetary policy aimed at maintaining the fixed exchange rate of the Aruban florin vis-à-vis the U.S. dollar. This responsibility is delegated to the Monetary Policy Committee (MPC) of the CBA. The decisions of the MPC predominantly impact the banking sector, principally by applying changes to the RR rate. As such, the MPC influences the credit capacity through the unremunerated deposits that commercial banks are required to hold at the CBA. The MPC meets at least ten (10) times each year to monitor relevant economic and monetary developments. The operational target of the MPC is to maintain an adequate level of official reserves.

In 2021, the MPC held eleven (11) meetings. Their focus was the assessment of recent monetary sector indicators, and current economic conditions and projections, such as international reserves (and official reserves), (core) inflation, banks' liquidity, and banking sector credit growth. Based on these indicators the MPC evaluated the need for a change in monetary policy stance. Frequent assessments of the monetary policy's adequacy permit the CBA to respond swiftly to developments within the monetary sector and/or to economic conditions.

Since the first quarter of 2021, the aggregate excess liquidity of local commercial banks (see Chart 4) has been increasing progressively. This elevated level is due in part to continued subdued credit demand. Furthermore, the GOA's wage subsidy and FASE programs for cushioning the economic effects of the Covid-19 crisis also contributed to the high level of excess liquidity in the banking sector.

During the first part of 2021, the MPC maintained the RR rate at a constant 7 percent. However, during its August 2021 meeting, the MPC decided, in light of the ample excess liquidity of commercial banks in conjunction with the revocation of foreign exchange restrictions from June 2021 onwards, and based on observed and anticipated economic and monetary developments, to progressively raise the RR rate to mop up excess liquidity at the commercial banks.

Chart 4: Excess liquidity of commercial banks in Afl. million



As of September 1, 2021, the RR rate had been raised by two (2) percentage points to nine (9) percent.

During the subsequent period, the MPC raised the RR rate on 5 separate occasions. As of December 1, 2021 the level of RR rate returned to the pre-pandemic level of 12 percent, and was raised to 13.0 percent as of January 1, 2022 due to persisting excess liquidity.

Table 4: Increase of the RR rate in 2021

MPC meeting	Decision to	RR raise	Level of RR
	raise RR by	effective by	in %
9 Jul 2021	0%		7%
4 Aug 2021	2%	1 Sep 2021	9%
14 Sep 2021	1%	1 Oct 2021	10%
14 Oct 2021	1%	1 Nov 2021	11%
22 Nov 2021	1%	1 Dec 2021	12%
10 Dec 2021	1%	1 Jan 2022	13%

Also, in 2022 the CBA continued to tighten monetary policy by further raising the RR due to persistent excess liquidity of the commercial banks and greater inflationary pressures due to soaring oil and food prices and geopolitical tensions related to the invasion of Ukraine by Russia.

## 12. Reserve management

### Management of the foreign exchange reserves and gold holdings of the CBA

#### Foreign exchange reserves

The CBA is the central foreign exchange bank for Aruba as stipulated in article 12, sub 1 of the CBO. It manages Aruba's foreign exchange reserves by applying monetary instruments, particularly the RR, and foreign exchange instruments, such as the B9 regulation for commercial banks and the 40-60 percent investment rule for institutional investors, to regulate the foreign asset holdings of these institutions, as well as the issuance of foreign exchange licensing for, for example, lending and borrowing abroad, portfolio investment abroad, and transfers to foreign accounts in case of non-compliance with the reporting obligations.

The B9 regulation allows commercial banks to hold a maximum amount of foreign exchange reserves as working balance for the settlement of the foreign exchange transactions of their clients. The 40-60 percent investment rule requires institutional investors to invest at least 60 percent of their funds domestically.

Furthermore, the CBA closely monitors the banking sector's and the GOA's liquidity needs denominated in foreign currency, while managing its foreign exchange reserve holdings prudently to adequately meet liquidity needs at all times. To this end, the CBA continuously evaluates its foreign exchange investment strategy against established investment guidelines, taking into account major developments on the international money and capital markets, particularly that of the U.S., its main market for investment. The IC advises the EC on the overall investment policy and ensuing guidelines to diversify and optimize its return, while at the same time keeping its financial risks as low as possible by investing the foreign exchange reserves within the following strict parameters:

1. Fixed income securities are denominated solely in U.S. dollars with short-term duration (1-3 years):

- U.S. government and U.S. agency securities (including mortgage-backed securities) are limited to AA credit quality.
- Asset-backed securities require a minimum credit quality rating of AAA.
- Corporate bonds must meet high standards in terms of credit quality (a minimum of A- or the equivalent) and are limited to the financial services sector, specifically banks and financial institutions, as well as industrial companies.
- Sovereigns and supranational securities are limited to AAA markets/entities only.
- Money market instruments (short-term funds with maturities ranging from overnight to 1 year, e.g., certificates of deposits, time deposits, and treasury bills) must have a minimum credit rating of A-1 or P-1 or F1.

2. The CBA investment portfolio has three (3) components that are categorized by a duration position that consists of:
  - one (1) liquid portfolio managed internally, and
  - two (2) medium-term portfolios with an average duration of 1-3 years managed by two (2) external asset management investment companies.

#### Gold held by the CBA

The value of the CBA's gold holdings dropped slightly in 2021, as the global economy recovered slowly from the effects of Covid-19. Gold remained a safe haven asset due to, inter alia, the low yielding environment in both the United States and the global financial markets, the negative interest rates on the deposit facilities of the European Central Bank, volatility in the financial markets, and prevailing substantial economic and geopolitical uncertainty.

### Management of international payments

#### Foreign exchange regulations and licensing

In managing Aruba's foreign exchange reserves, the CBA regulates the flow of international payments in accordance with the CBO, as further set out in the SOFET. Capital transactions, and dividend- and profit payments can only be effectuated through a special foreign exchange license or declaration granted by the CBA. As of June 1,

2021 the CBA began to gradually rescind the foreign exchange restrictions applied in March 2020, in view of the continued recovery of Aruba's economy from the second quarter of 2021 onwards, and the positive economic outlook for 2022. This included the strong rebound in tourism arrivals and higher related foreign exchange earnings, as well as the fact that the foreign exchange reserves were at an adequate level. Following the continued positive recovery of the Aruban economy, the CBA revoked the Covid-19 induced foreign exchange measures on foreign exchange transactions per September 1, 2021, returning the foreign exchange licensing process to the pre-Covid situation.

In 2021, the CBA granted 694 special foreign exchange licenses. The majority related to real estate transactions between residents and non-residents, with the condition that in the event of a purchase, the proceeds would remain in a local third-party account of the related notary in Aruba, until the CBA's Covid-19 related foreign exchange restrictions were lifted.

The value of transactions for which the CBA granted licenses decreased from Afl. 950.4 million in 2020 to Afl. 890.0 million in 2021 (see Chart 5).

Chart 5 Value of foreign exchange licenses issued (amounts in Afl. million)

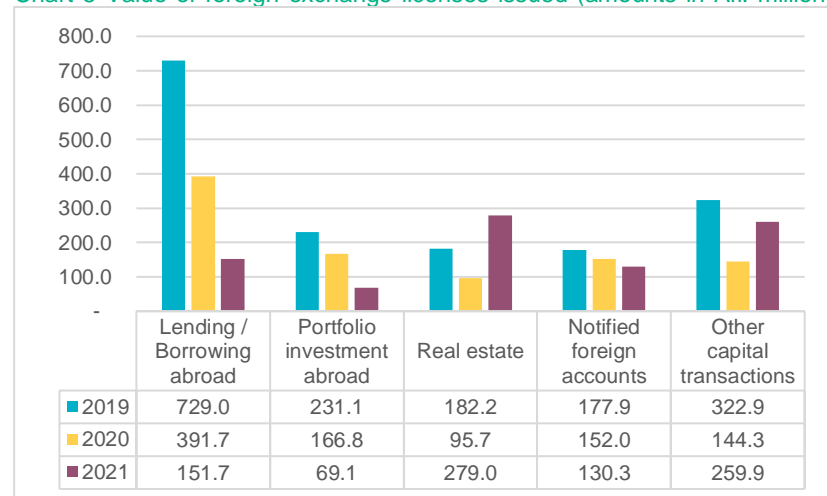
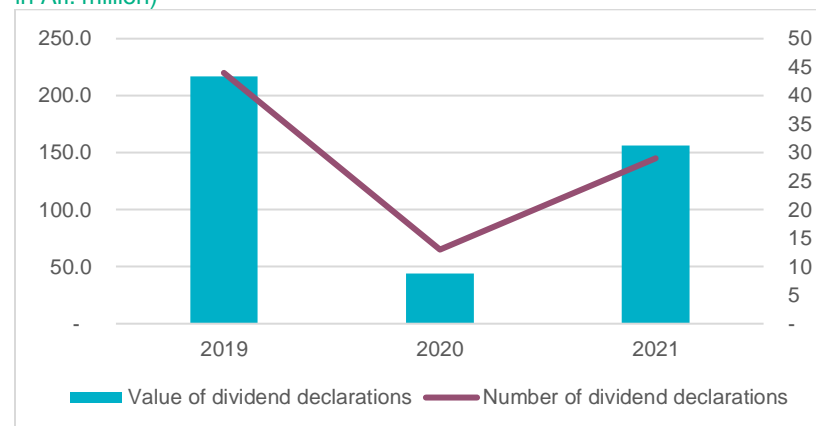


Chart 6: Volume and value of dividend declarations issued in 2021 (amounts in Afl. million)



The total number of declarations granted for dividend distribution- and profit payments increased from 13 declarations in 2020 to 29 declarations in 2021 (see Chart 6). Subsequently, the value of dividend distribution- and profit payments also surged from Afl. 44.5 million in 2020 to Afl. 156.9 million in 2021, respectively.

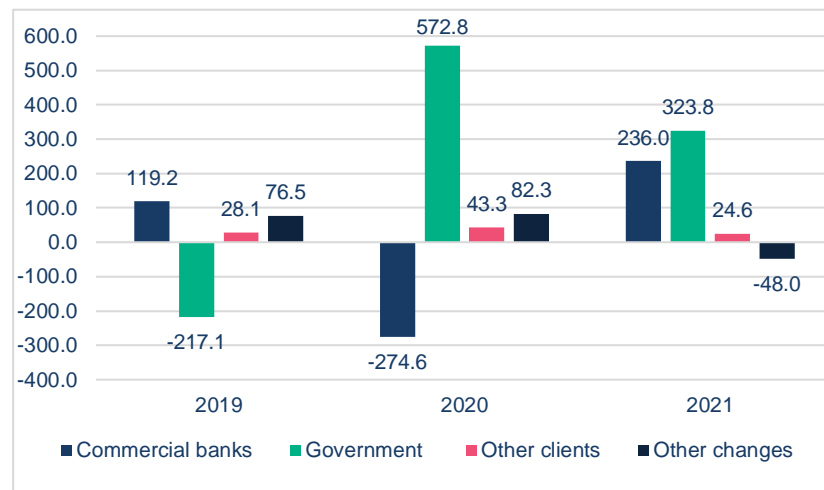
### Foreign exchange transactions

Foreign exchange transactions settled through the CBA increased further in 2021, resulting in a net foreign exchange inflow of Afl. 584.4 million, up from the net foreign exchange inflow of Afl. 341.5 million in 2020 (see Chart 7). The net foreign exchange inflow was predominantly impacted by the:

- I. GOA's selling of foreign currency (net amount of Afl. 323.8 million) to the CBA, obtained mainly from the proceeds of the liquidity support received from the Netherlands; and
- II. Commercial banks' selling of foreign currency (net amount of Afl. 236.0 million) to the CBA, stemming predominantly from tourism receipts due to a strong rebound in tourism arrivals in 2021.



Chart 7: Value of foreign exchange transactions (amounts in Afl. million)



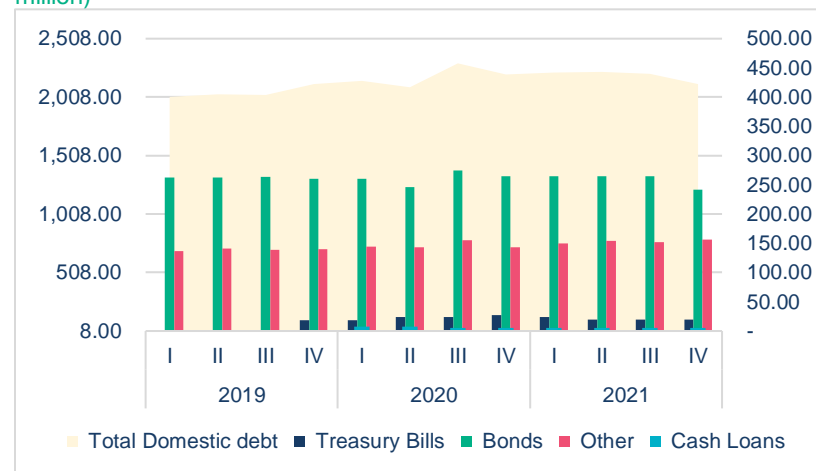
### Foreign exchange rates

The Aruban florin is pegged to the U.S. dollar at Afl. 1.79 per 1 U.S. dollar. The CBA's official buying and selling rates for the U.S. dollar from and to the commercial banks remained fixed at Afl. 1.7895 and Afl. 1.7905, respectively. Besides the daily exchange rate for the florin vis-à-vis the U.S. dollar, the CBA also publishes, on a daily basis, quotations on its website for eight other currencies.

### Banker of the GOA and other services

Pursuant to article 14 of the CBO, the CBA acts as the banker for the GOA. It provides treasury management services, by executing its local and international payment requests. These payments are cleared through the current accounts of the Department of Finance (DOF) and the Departamento di Impuesto (DIMP) held at the CBA.

Chart 8: Overview of the GOA's outstanding domestic debt (amounts in Afl. million)



Additionally, the CBA acts as agent for the GOA's domestic debt issuance and settlement. In 2021, the overall financing needs of the GOA reflected its budgetary commitments in executing the programs to provide substantial financial assistance to many companies and individuals while the Aruban economy recovered from the effects of Covid-19.

The GOA's outstanding domestic debt shrank from Afl. 2,202.9 million at year-end 2020 to Afl. 2,120.2 million by year-end 2021 (see Chart 8). This was due to a decrease in the issuance of Treasury Bills (- Afl. 20.0 million) and matured bonds in 2021 (- Afl. 111.20 million), which was in part offset by an increase in other domestic debt (+ Afl. 68.5 million).

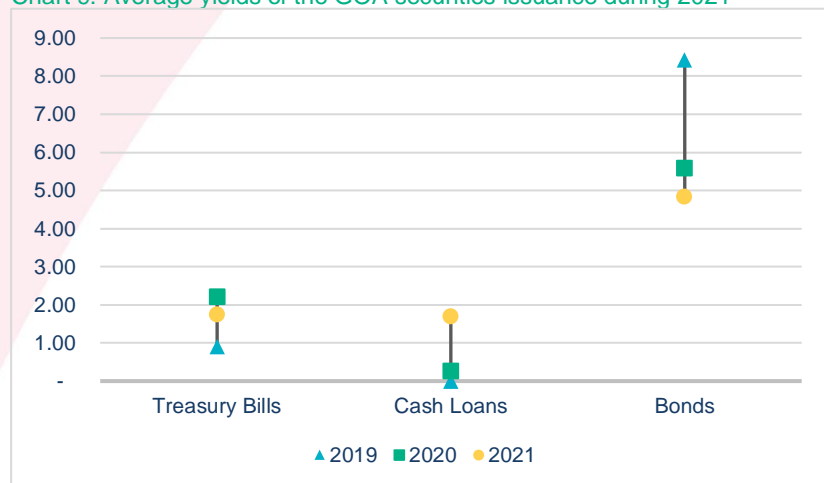
### GOA securities issuance during 2021

In 2021, the CBA assisted the GOA with the:

- Issuance of one (1) bond in the Kingdom of the Netherlands in the amount of Afl. 84.0 million, with a coupon rate of 5.50 percent, maturing in nine years,
- Renewal of twelve (12) 3-month treasury bills issues for the outstanding amount of Afl. 105.0 million at year-end 2021, and



Chart 9: Average yields of the GOA securities issuance during 2021



- Issuance of two (2) 6-month cash loans for the total outstanding amount of Afl. 5 million at year-end 2021.

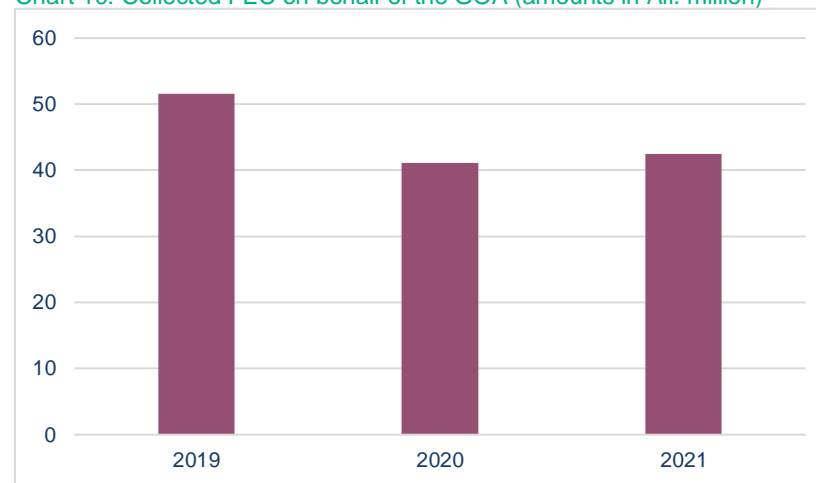
The average yield on the 3-month treasury bills reached 1.75 percent in 2021 (see Chart 9), highlighting the ample liquidity position of the commercial banks in 2021. The average yield on the bonds issued was 4.84 percent in 2021.

### Foreign exchange commission

Pursuant to the State Decree on the Foreign Exchange Commission ((SOFEC), AB 1990 no. GT 5), the CBA is responsible for the collection and levy of the Foreign Exchange Commission (FEC). The full amount collected is credited to the GOA's account, which is held at the CBA. The FEC is a commission due by residents to the GOA on their payments to non-residents.

In 2021, the CBA collected approximately Afl. 42.5 million in FEC (see Chart 10). This amount is Afl. 1.4 million higher in comparison to 2020 (Afl. 41.1 million).

Chart 10: Collected FEC on behalf of the GOA (amounts in Afl. million)



## 13. Payment systems

### Currency operations

The CBA has the sole mandate to issue and put into circulation florin banknotes in Aruba pursuant to article 7 of the CBO. In addition, the same article of the CBO regulates the circulation of coins by the CBA on behalf of the GOA. In carrying out this mandate with regard to banknotes, the CBA determines the denomination, substrate, and characteristics of the florin banknotes. It ensures that the banknotes in circulation continue to meet the demand of Aruba's community, and that they are secured against counterfeiting. In addition, the CBA is entrusted with and advises the GOA on the issuance of coins. The total value of coins in circulation is accounted for in the GOA's financial accounts.

The CBA continuously monitors the quality of the banknotes and coins in circulation to ensure that they are in adequate condition. Banknote quality is checked using a sorting machine. Unfit banknotes are destroyed via an environmentally friendly banknote destruction machine, while unfit coins are put out of circulation.

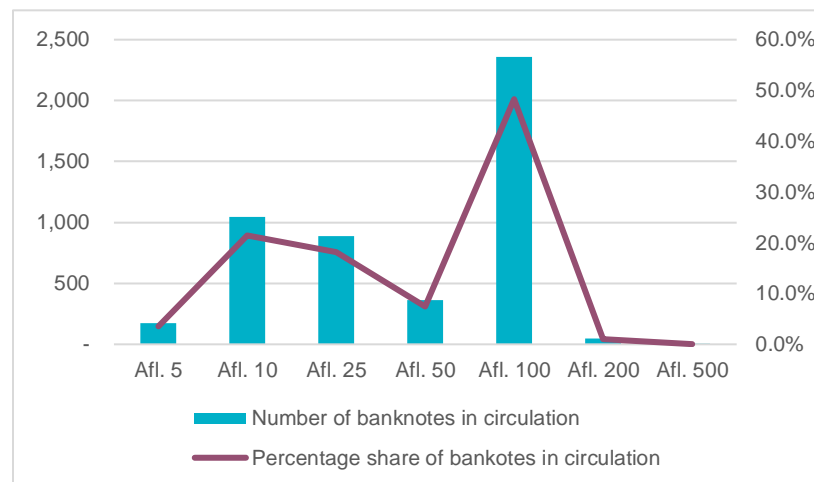
### Counterfeit florin banknotes

The CBA brings secure banknotes into circulation using numerous cutting-edge security features that make it easy for the public to verify authenticity and difficult to counterfeit. Extensive related information is provided via its website, Facebook, Instagram, and mobile app, and through brochures via the commercial banks to help the public authenticate banknotes. In 2021, the CBA did not receive any counterfeit florin banknotes.

### Currency in circulation

The total number of banknotes in circulation contracted by 0.2 percent in 2021 compared to 2020. Consequently, the total value of banknotes in circulation dropped by 1.3 percent to Afl. 298.6 million at year-end 2021. This decrease is due to the greater use of payment

Chart 11: Banknotes in circulation by denomination in 2021 (number and percentage share of banknotes in circulation)



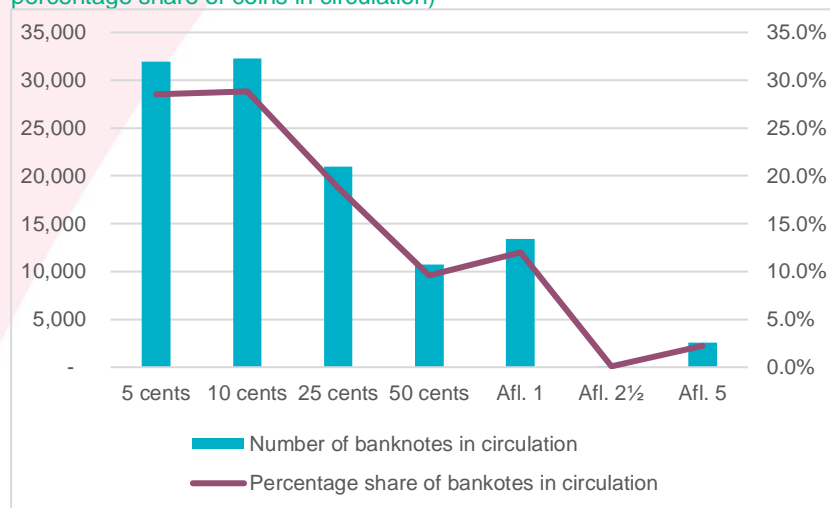
cards, including debit and credit cards, and payments through online banking.

The Afl. 100 denomination continues to represent the largest share of all banknotes issued, comprising 48.3 percent of total banknotes in circulation (see Chart 11). Banknote series that are no longer legal tender but are still in circulation can be exchanged at the CBA until the following deadlines:

- **December 31, 2021** for the 1986 series florin banknotes,
- **January 31, 2034** for the Afl. 5 banknote of the 1990/1993 series florin banknotes, and
- **August 12, 2049** for the 2003 series florin banknotes.

The total number of coins in circulation increased by 2.7 percent in 2021 compared to 2020, resulting in a growth in the total value of coins in circulation of Afl. 736 thousand to Afl. 41.8 million, compared to Afl. 40.5 million in 2020. The two smallest coin denominations, the 5 cent and 10 cent coins, are the main coins in circulation, followed by the 25 cent coin (see Chart 12).

Chart 12: Coins in circulation by denomination in 2021 (number and percentage share of coins in circulation)



### Commemorative coin

In 2021, on behalf of the GOA, the CBA issued 1 silver commemorative proof quality coin with a nominal face value of Afl. 5.



The coin features an iguana, called “Yuwana” in Papiamentu, which is a very resilient animal. An adult male can reach a length of 2 meters, including its tail, and is usually slightly larger than the female. The adult Yuwana has a green-gray color, while the younger Yuwana is bright green. The color of the Yuwana sometimes also depends on its emotions, temperature, health, and the environment. It is a very agile animal, and can easily climb trees. It is also a good swimmer and diver. It only eats leaves and fruits. In 1995, the hunting and killing of the Yuwana were banned by the “Natuurbeschermingsverordening” (AB 1995 no. 2) legislation. Since then it is one of the many animals protected by law.

### Payment system

In 2021, the CBA assessed the possibility of implementing use cases on top of the I-Pago infrastructure, following the successful introduction of I-Pago in 2020 when the entire banking community in Aruba completely switched from traditional batch payments to instant payments.

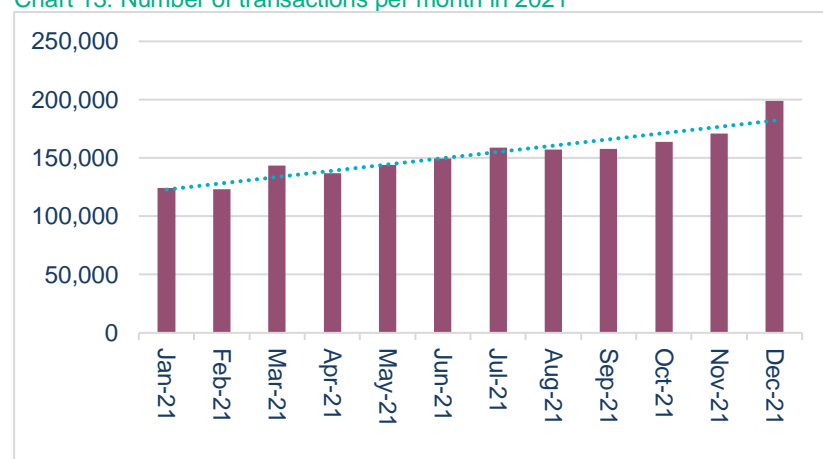
Subsequently, research was conducted to evaluate the current state of the payments landscape, the ideal state, and the use cases that will further improve the payment experience in Aruban florin for both sides of the transaction, namely, the merchants and the end-customers. Several discussions and interviews were held with the local commercial banks and stakeholders, while several questionnaires/surveys were conducted to better understand the needs and requirements of the stakeholders to define the ideal state and potential use cases. Subsequently, the Position Paper “Enabling Instant Payment Innovations in Aruba”, reflecting the results of this research and the next phase of the I-Pago project, was published in mid-2022.

### I-Pago tariff and number of transactions

The actual number of transactions in 2020 was higher than the projected number, which led to a drop in the final tariff for 2020 from Afl. 0.70 to Afl. 0.46 for transactions with a value above Afl. 250. This resulted in a reimbursement for the commercial banks which was settled in January 2021. Consequently, for the year 2021 the

preliminary tariff for all transactions above Afl. 250 was set at Afl. 0.46, while all transactions equal to or below Afl. 250 remained free of charge. The year 2021 marked another successful year for I-Pago where the actual number of transactions surpassed the projected number. Subsequently, the final tariff for 2021 dropped further from Afl. 0.46 to Afl. 0.35 for the transactions with a value above Afl. 250. Therefore, any amounts paid in excess by the commercial banks in 2021 were reimbursed in January 2022. Chart 13 illustrates the steadily increasing trend in the number of transactions per month processed through I-Pago in 2021.

Chart 13: Number of transactions per month in 2021



As of January 1, 2022, the preliminary tariff was set at Afl. 0.35 for transactions with a value above Afl. 250 processed through I-Pago.

### Foro di Pago Nacional

An important objective of the CBA is to contribute to and facilitate the development of a modern and innovative payments infrastructure. This is in line with its ambition to promote a safe, efficient, and reliable payment system at a level in accordance with best practices. To achieve this ambition, a constant and open dialogue with all relevant stakeholders is of utmost importance. Therefore, the CBA

reached out to several stakeholders in 2021 to assess whether they were willing to participate in the 'Foro di Pago Nacional' (FPN), which will be a platform for stakeholders participating in the payment system. The FPN is dedicated to the topic of and issues related to payments. Several stakeholders reacted very positively to their participation in the FPN.

The CBA's main goals for the FPN are to:

- Ensure that payment products meet users' needs in terms of speed and simplicity of payment transactions,
- Promote efficiency and security in payments,
- Foster the development of innovative payment methods to support economic growth,
- Advance cost effectiveness of the payment infrastructure, and
- Promote accessibility, availability, and standardization in payments.



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