



OPERATIONAL REPORT 2022



CENTRALE BANK VAN ARUBA

Cover Story

Mangroves are hotspots of biodiversity, connecting life on land with life below water.

These 'forests of the sea' are essential to the health and vibrancy of our coastal ecosystems, including our community livelihoods. They provide a vital habitat for marine life, help to protect against coastal erosion and storm surges, as well as filter pollutants from the sea.

Mangroves are one of nature's most effective tools in the fight against climate change and are integral to nature.





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Chapter 1.

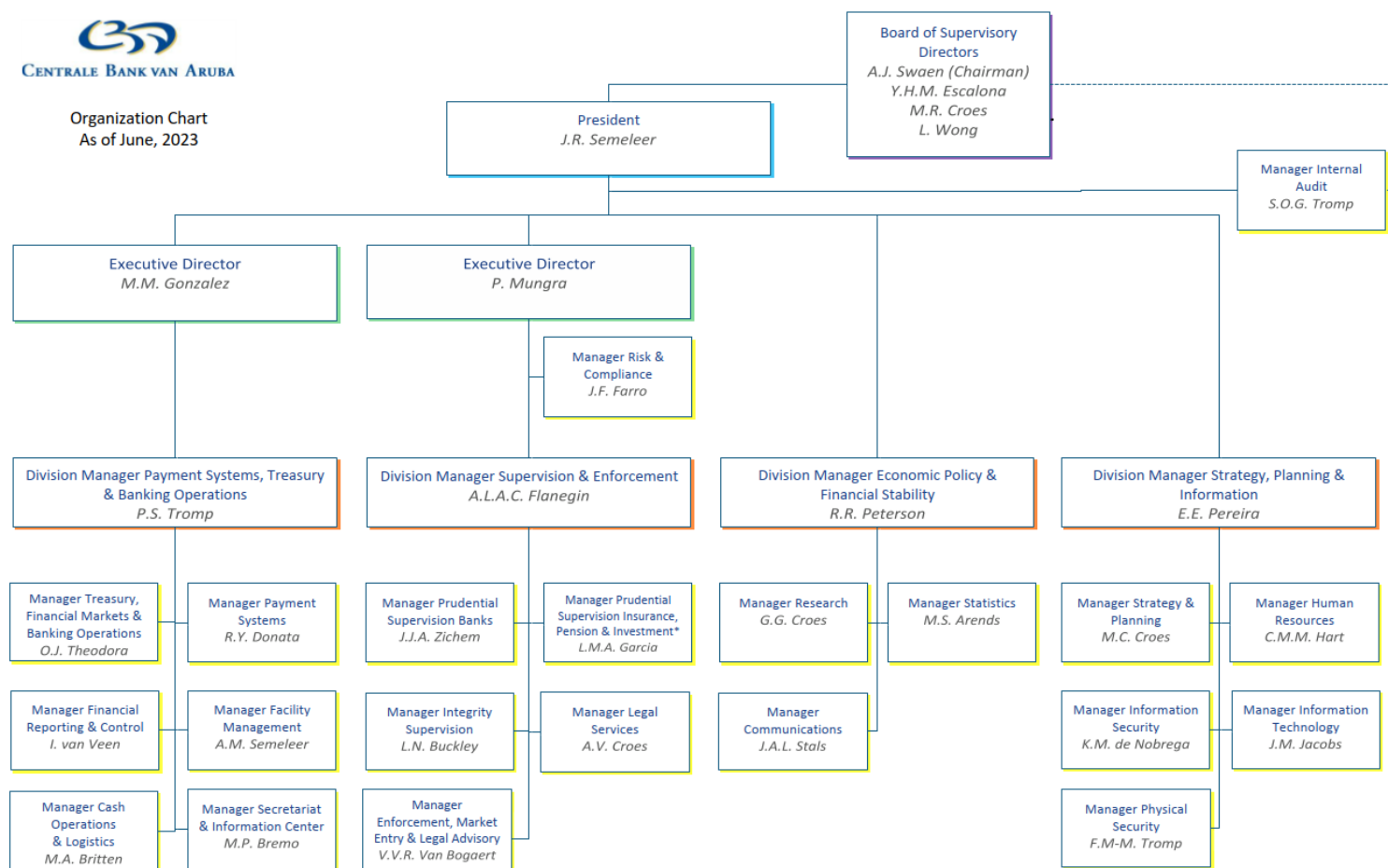
List of Abbreviations

AML/CFT	Anti-Money Laundering and Combatting Financing of Terrorism
CBA	Centrale Bank van Aruba (the Central Bank of Aruba)
CBO	Central Bank Ordinance
GOA	Government of Aruba
IMF	International Monetary Fund
IT	Information Technology
MPC	Monetary Policy Committee
RR	Reserve Requirement
USD	US Dollar



Chapter 2. Organizational Chart

Figure 1 – Organizational chart



*Manager Prudential Supervision Insurance Companies, Pension Funds & Investment Institutions

Chapter 3. Introduction

The Operational Report is an annual publication of the Central Bank of Aruba (CBA) in which information is provided on its key activities, including a synopsis of the financial results for 2022. In addition, it elaborates on four core responsibilities of the CBA, i.e., monetary policy, reserve management, payment systems, and banker and advisor to the Government of Aruba (GOA). Supervision is also a core responsibility but is covered in detail in the Financial Sector Supervision Report of 2022.

This Operational Report also briefly elaborates on the main strategic and operational activities of 2022, as well as on the focus for 2023 as set out in the strategic plan, *Dilanti Biento* 2021–2025. This plan provides strategic direction for the coming years to meet the ever-pressing demands of the organization, community and environment. Moreover, this report also offers an overview of the CBA's activities in the area of governance and risk management. The report concludes by giving an insight into the ways in which the CBA gives back to the community in close alignment with our strategic direction.

3.1 Mandate

The CBA has five core responsibilities derived from the CBA's legal mandate as defined in the Central Bank Ordinance (CBO). This has remained unchanged.

The CBA contributes to the financial stability and economic well-being of the Aruba community through:

1. **Monetary Policy** - The CBA carries out a monetary policy that safeguards the stability of the value of the Aruban florin by maintaining its fixed exchange vis-à-vis the US dollar (USD). It also acts as the lender of last resort.
2. **Supervision** - 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 Systems** - The CBA issues florin banknotes and, on behalf of the GOA, issues Aruban florin coins. It also manages I-Pago.
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.



3.2 Core Values

The CBA introduced five new core values in 2021 that will contribute to its strategic intent. These core values are fundamental beliefs that guide its operational behavior, daily operations, and strategic choices.

Courageous Honesty. This core value is about being authentic and honest; making decisions fairly and displaying courage and integrity in the way the CBA fulfills its purpose.

Curiosity and Openness. This core value is about having a mindset of curiosity, creativity, and critical thinking. It is about being open to possibility, learning, and new ways of finding solutions.

Going Beyond. This core value is about taking responsibility and initiative to deliver to the best of the CBA's ability on its commitments.

Doing It Together. This core value is about how the CBA works, with teams who can rely on each other and proactively collaborate.

Striving for the Greater Good. This core value is about the CBA making a difference and expressing its unique perspectives, doing everything with the CBA's purpose in mind, and showing bold and confident leadership.

More details on the CBA's strategic intent are provided in Chapter 11 Strategic Plan - Dilanti Biento.



**COURAGEOUS
HONESTY**



**CURIOSITY
AND OPENNESS**



**GOING
BEYOND**



**STRIVING FOR THE
GREATER GOOD**



**DOING IT
TOGETHER**

Chapter 4. Key Figures at Year-End 2022

Monetary data

- Reserve requirement 25.0 percent
- Foreign exchange reserves Afl. 2,439.2 million

Foreign exchange licenses data

- Total value of foreign exchange licenses issued Afl. 1,775.4 million
- Total number of foreign exchange licenses issued 827 licenses
- Total value of declarations for dividend distribution issued Afl. 90.2 million
- Total number of declarations for dividend distribution issued 40 declarations

GOA reference rate*

- Legal interest rate 3.0 percent

Payment systems

- Total value of coins in circulation Afl. 38.8 million
- Total value of banknotes in circulation Afl. 297.8 million
- Total number of transactions through I-Pago 2.5 million transactions
- Total value of transactions through I-Pago Afl. 11.0 billion

**Effective April 1, 2022, the legal interest rate as referred to in Article 120 of Book 6 of the Civil Code of Aruba (AB 2021 no. 137) is set at 3.0 percent per year.*



Financial data CBA (assets, liabilities, and income)

➤ Net income	Afl. 11.8 million
➤ Total assets / liabilities and equity	Afl. 2,834.1 million
➤ Total gold and foreign reserves	Afl. 2,800.3 million
➤ Total deposits of residents	Afl. 2,267.3 million
➤ Total capital and reserves	Afl. 111.3 million

Inflation rates

➤ End of period inflation	5.7 percent
➤ End of period core (excluding food & energy) inflation	1.6 percent
➤ 12 month average inflation	5.5 percent
➤ 12 month average core (excluding food & energy) inflation	2.2 percent

Chapter 5.

President's Statement

In 2022, the Aruban economy continued on its steady path to recovery, with estimated output surpassing pre-pandemic levels as sustained strong tourism performance drove growth. Stay-over visitors and tourism revenue surged, boosted by robust leisure demand from the United States and higher tourism spending.

The positive development in stay-over visitors and their spending, paired with an expansion in average hotel prices as well as the general price level of goods and services, resulted in a 40.0 percent upturn in tourism revenue compared to 2021, equal to 117.5 percent of 2019. Moreover, solid tourism demand and the resulting rise in domestic disposable income pushed up household consumption, despite inflationary pressures suppressing purchasing power. Investment — weighed down by elevated international prices, tighter global financial conditions, and uncertainty around the 2023 tax reform — remained flat.

The solid economic rebound was conducive to an improved fiscal performance because of a significant contraction in the financial deficit. This smaller deficit resulted from an increase in revenues from all tax categories, particularly taxes on income and profit, taxes on commodities, and turnover tax. Additionally, government expenditures were reduced, primarily due to the discontinuation of the relatively extensive government support measures related to the Covid-19 pandemic, in particular to businesses, and transfers to the general health insurance. Moreover, international reserves remained well above adequate levels due mainly to higher tourism inflows during 2022.

In 2022, one of the biggest economic challenges was rising inflation. While inflation in Aruba lagged compared to rates registered in developed economies, such as the United States and the Netherlands, the general level of prices of goods and

services followed a rising trend in 2022. In addition to the import of elevated prices from its export partners and increased gasoline prices in the first half of 2022, various domestic developments, such as the hike in utility tariffs in August and September 2022, also pushed up domestic inflation.

While the level of international reserves was comfortably above the benchmarks monitored by the CBA, excess liquidity within the banking system remained high at the outset of 2022, partially due to the accommodative fiscal stance of the GOA reflected in the Covid-19 support measures. Consequently, the Monetary Policy Committee (MPC) resolved to reduce the vast amount of excess liquidity in the banking sector by raising the Reserve Requirement (RR) throughout the year. As of January 1, 2023, the RR stood at 25.5 percent, up from 13.0 percent in January 2022.

The financial position of the CBA remained solid, reaching a net result of Afl. 11.8 million for the year 2022, compared to Afl. 19.7 million in 2021. The lower net result was largely due to a decline in 'net interest income' and a rise in total expenses. Higher realized losses on the investment portfolio contributed to the decline in net interest income. The former was attributed to restructuring activities to reduce increased unrealized losses brought about by the rise in interest rates by the Federal Reserve. Moreover, the CBA's total assets grew by 2.0 percent to Afl. 2,834.1 million at year-end 2022, compared to year-end 2021. This increase is attributed mainly to a growth in foreign currency assets, reflective also of the improved performance in the tourism sector.

In line with its 2021 strategic plan, *Dilanti Biento*, which adopts a human- and planet-centered approach, the CBA published the book 'Governing from the Future – Leading with Impact' in 2022. In this publication, the need to develop our fragile economy into one that is inclusive, resilient, and sustainable is emphasized, while several avenues have been explored how to effectively address this need. Through the implementation of *Dilanti Biento*, the CBA aims to advance regeneration, influence, and be an integral part of economic and financial transformation essential

to foster an inclusive and resilient Aruban community. Therefore, looking forward toward the coming years, the CBA will continue on its journey to also achieve digital and organizational transformation

Jeanette R. Semeleer
President Centrale Bank van Aruba



Chapter 6.

Financial Results 2022

The CBA's total assets grew to Afl. 2,834.1 million (+ 2.0 percent) at year-end 2022, compared to Afl. 2,778.9 million at year-end 2021. This increase is attributed mainly to a growth in foreign currency assets, i.e., by Afl. 56.8 million (+ 2.4 percent), which was partially offset by a decrease in the value of the gold holdings of Afl. 1.5 million (- 0.4 percent).

The rise in foreign currency assets was largely the result of an expansion of Afl. 169.0 million (+ 8.0 percent) in 'government and other papers', and was partly offset by a decrease in 'due from banks and other financial institutions' of Afl. 116.5 million (- 43.2 percent) (see Table 1).

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

	As of December 31, 2022	As of December 31, 2021
<i>Assets</i>		
1. Gold	361,050,124	362,594,052
2. Foreign currency assets	2,439,242,870	2,382,436,534
2.1 Due from banks and other financial institutions	153,336,837	269,859,178
2.2 Government and other papers	2,276,486,089	2,107,535,693
2.3 Other	9,419,944	5,041,663
3. Other assets	33,774,568	33,860,261
3.1 Receivables	11,285,821	11,557,356
3.2 Stock of coins and printing cost banknotes	2,165,936	3,215,453
3.3 Fixed assets	13,449,920	12,426,500
3.4 Project in progress	6,872,891	6,660,952
Total assets	2,834,067,562	2,778,890,847

6.1 Government and other papers

The expansion in the item 'government and other papers' is mainly attributable to net cash transfers of Afl. 268.5 million from the CBA's current account held at a financial institution in the United States, which serves to replenish its investment portfolio. In addition, this item was positively impacted by interest income received (+ Afl. 38.6 million). The effect of these increases was partially offset by the net decrease of Afl. 115.0 million in the market value of the CBA's investment portfolio (as also reflected in the revaluation account), as well as the net realized capital losses of Afl. 23.0 million. Both items were impacted by a decline in the market value of certain securities within the investment portfolio due to the upward movements in the US Treasury yields during 2022 brought about by several interest rate increases by the Federal Reserve, the liquidation of some securities before their maturity at a loss, as well as securities bought above par that matured. In July and October 2022, the CBA executed restructuring operations in its investment portfolio to maximize the income-generating capacity of the portfolio for the coming years, while mitigating the interest rate risk and further expansion of the unrealized loss position of the investment portfolio for the coming years.

6.2 Due from banks and other financial institutions

The net decrease of Afl. 116.5 million in the item 'due from banks and other financial institutions' is related mainly to drops in the CBA's time deposits held at a financial institution in Colombia, the CBA's current account held at the Federal Reserve Bank of New York (FRNY), as well as proceeds at a financial institution in the United States.

6.3 Gold holdings of the CBA

On December 31, 2022, the market price of gold was at USD 1,812.35 (Afl. 3,244.11) per fine troy ounce, down from USD 1,820.10 (Afl. 3,257.98) per fine troy ounce as of December 31, 2021. This decrease of USD 7.75 (Afl. 13.87) per fine troy ounce pushed down the value of the CBA's gold holdings by Afl. 1.5 million in 2022 compared to 2021.

The growth in the liabilities and equity of the CBA at year-end 2022, compared to year-end 2021, was largely the result of a sharp increase in the items 'deposits of residents' (+ Afl. 164.3 million or 7.8 percent), which was partly offset by a decline in the revaluation account (- Afl. 116.4 million or 47.3 percent) (see Table 2).

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

	As of December 31, 2022	As of December 31, 2021
<i>Liabilities and equity</i>		
1. Banknotes in circulation	297,790,515	292,303,655
2. Deposits of residents	2,267,284,147	2,102,947,225
2.1 Government	69,639,855	41,748,760
2.2 Commercial banks	2,193,704,582	2,060,214,156
2.3 Other	3,939,710	984,309
3. Deposits of nonresidents	9,405,081	96,805
4. Money in custody	2,163,863	2,194,877
5. Payables and accrued expenses	4,481,091	4,070,726
6. Revaluation account	129,833,734	246,256,879
7. Capital and reserves	111,289,844	111,289,844
7.1 Capital	10,000,000	10,000,000
7.2 General reserve	101,289,844	101,289,844
Net result for the year	11,819,287	19,730,836
Total liabilities and equity	2,834,067,562	2,778,890,847



6.4 Deposits of residents

The growth in the deposits of residents was primarily led by an increase in deposits of commercial banks of Afl. 133.5 million (+ 6.5 percent) held with the CBA and a surge of Afl. 27.9 million (+ 66.8 percent) in government deposits. The marked expansion in commercial banks' deposits was predominantly related to an increase in the mandatory deposits held at the CBA RR (+ Afl. 674.9 million or 124.8 percent) and a rise in time deposits held at the CBA (+ Afl. 125.0 million or 100.0 percent). The latter was offset by a decrease in current accounts of the commercial banks (- Afl. 666.4 million or 43.9 percent).

6.5 Revaluation account

The revaluation account contracted in 2022, mostly due to substantial increases in the yield on the 3-year US Treasuries (325 basis points compared to December 31, 2021) and the yield on the 2-year US Treasuries (368 basis points compared to December 31, 2021), which resulted in a rise in the unrealized capital losses in the investment portfolio of the CBA. In addition, the drop in the market price of gold by USD 7.75 per fine troy ounce or - 0.4 percent compared to year-end 2021 also negatively impacted the value of the CBA's gold holdings as of December 31, 2022. Overall, mentioned developments led to a fall in the revaluation account equivalent to Afl. 116.4 million (- 47.3 percent) for the year 2022.

6.6. Net income

As indicated in Table 3, the net result for 2022 fell by Afl. 7.9 million or 40.1 percent compared to 2021. This drop was mainly caused by a decrease in the item 'net interest revenues' (- Afl. 6.8 million or - 24.6 percent) and an

increase in the total expenses of Afl. 1.2 million (+ 4.4 percent) (see Table 3).

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

	2022	2021
1. Net interest revenues	20,728,036	27,502,742
2. Other revenues	19,777,566	19,708,164
Total income	40,505,602	47,210,906
3. Amortization of stock of banknotes	1,101,249	1,101,249
4. Personnel expenses	19,107,069	18,438,520
5. Operating expenses	6,258,384	5,535,853
6. Depreciation expenses	2,219,613	2,404,448
Total expenses	28,686,315	27,480,070
Net result	11,819,287	19,730,836

6.7 Net interest revenues

The reduction in the category 'net interest revenues', compared to the previous year, was primarily attributable to a decrease in the net interest income earned by the CBA's investment portfolio. This was largely due to a rise in the net realized losses on the CBA's investment portfolio as a result of a partial restructuring of the investment portfolio in 2022 to reposition the portfolio and optimize its returns, while partially mitigating rising unrealized losses.

6.8 Personnel expenses

The Afl. 0.7 million (+ 3.6 percent) rise in personnel expenses in 2022 was primarily due to an increase in the salaries component of these expenses, stemming largely from more full-time employees in 2022 (109 full-time employees) compared to 2021 (104 full-time employees), salary adjustments for the year 2022, and an increase costs related to courses, seminars, and conferences.

6.9 Operating expenses

Operating expenses expanded by Afl. 0.7 million (+ 13.1 percent) in 2022 to Afl. 6.3 million, when compared to the previous year. This was mainly attributed to increases in the items 'consultant fees' (+ Afl. 0.2 million or + 60.8 percent), 'transportation and storage of banknotes' (+ Afl. 0.2 million or 338.5 percent), and 'license and maintenance computers' (+ Afl. 0.1 million or + 7.4 percent). The surge in the item 'consultant fees' in 2022 was associated to higher expenses paid for consultancy services compared to the previous year. The expansion in the item 'transportation and storage of banknotes' was mainly related to higher costs of transporting banknotes in 2022, compared to 2021. The rise in the item 'license and maintenance computers' relates mostly to acquiring additional software licenses in 2022, compared to the same period in the previous year.



Chapter 7. Monetary Policy

One of the primary responsibilities of the CBA is to safeguard the stability of the value of the Aruban florin. To this end, CBA's monetary policy aims at maintaining the fixed exchange rate of the Aruban florin vis-à-vis the USD. To achieve this, the level of international reserves must be adequate at all times. Besides restriction on capital transactions with non-residents, the RR is the main monetary policy tool to manage these reserves against a set of international benchmarks.

Within the CBA, the MPC is responsible for decisions on monetary policy matters. The MPC bases these decisions on the assessment of a set of data and indicators related to the macroeconomic environment, and the financial and real estate sectors. These indicators include reserve adequacy, liquidity within the banking system, interest rates of commercial banks, and the domestic inflation rate compared to that of the United States and the Netherlands.

In March 2020, at the onset of the pandemic, the CBA lowered the RR rate to provide liquidity to the domestic banking sector and raised restrictions on capital transactions with non-residents to provide liquidity to the domestic banking sector at the same time to prevent large outflows of foreign exchange currency that would negatively impact international reserves. Although necessary at the time, these actions, along with GOA's receipt of short-term loans from the Dutch government, and the sharp recovery in tourism activities, also caused a consistent increase in excess liquidity at the commercial banks, reaching a peak of Afl. 1,580 million in August 2021 before falling to Afl. 819.7 million at the end of 2022. To reduce the large amount of excess liquidity, the CBA began increasing the reserve requirement in 2021 and continued to do so during 2022.

In 2022, the MPC held 12 monthly meetings and was resolved to reduce the vast excess liquidity in the banking sector by steadily increasing the RR. The RR is a monetary policy tool that requires commercial banks to hold a percentage of their liquid deposits as unremunerated reserves with the CBA. This limits the supply of credit to the market, as the reserves cannot be lent out to their customers. Throughout 2022, consecutive increases in the RR contributed to a lower level of excess liquidity across commercial banks. In Table 4, the MPC's monthly decisions are outlined.

Table 4: Monthly decisions on the percentage of RR applicable to commercial banks

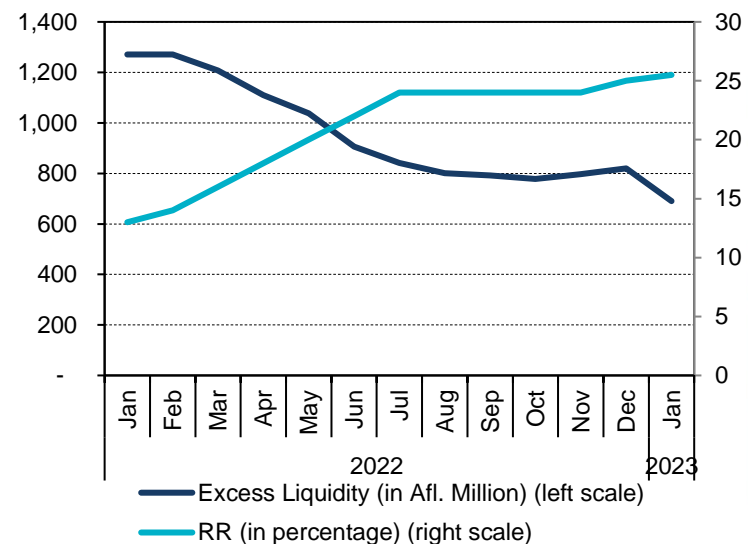
MPC meeting	RR raise	In effect by	Level of RR
<i>January 2022</i>	1 percent	February 1, 2022	14 percent
<i>February 2022</i>	2 percent	March 1, 2022	16 percent
<i>March 2022</i>	2 percent	April 1, 2022	18 percent
<i>April 2022</i>	2 percent	May 1, 2022	20 percent
<i>May 2022</i>	2 percent	June 1, 2022	22 percent
<i>June 2022</i>	2 percent	July 1, 2022	24 percent
<i>July 2022</i>	-	-	24 percent
<i>August 2022</i>	-	-	24 percent
<i>September 2022</i>	-	-	24 percent
<i>October 2022</i>	-	-	24 percent
<i>November 2022</i>	1 percent	December 1, 2022	25 percent
<i>December 2022</i>	0.5 percent	January 1, 2023	25.5 percent

At the beginning of 2022, the RR stood at 13.0 percent. After successive hikes, the RR reached 25.0 percent as of December 1, 2022. The continuous increases were in response to persistently high excess liquidity at the commercial banks. In addition to the elevated excess liquidity, climbing domestic inflation, impacted by global developments pushing record high price increases, became an MPC concern due to its impact on the economy.

As of January 2023, the MPC decided not to raise the RR further because excess liquidity within the banking sector had begun to drop during 2022 (see Chart 1). Under current conditions and expectations, it is likely that excess liquidity will decrease gradually in 2023. Inflation on the other hand, may remain elevated.

The latter is due to continued high food prices internationally. Domestically, the increased utility tariffs and turnover tax rate add to upward price pressures. Therefore, the MPC continues to closely monitor the foreign exchange reserve adequacy, as well as inflation developments, and stands ready to change its monetary policy stance if necessary.

Chart 1: Aggregated excess liquidity (in Afl. million) and RR (in percent)



Chapter 8. Reserve Management

8.1 Management of the foreign exchange reserves and gold holding of the CBA

8.1.1 Foreign exchange reserves

The CBA is the central foreign exchange bank for Aruba. It manages Aruba's foreign exchange reserves by applying monetary policy instruments, particularly the reserve requirement, and foreign exchange instruments. The 40-60 percent investment rule for institutional investors is one of the foreign exchange instruments. It regulates the foreign asset holdings of these institutions. This rule requires institutional investors to invest at least 60 percent of their funds domestically. The issuance of foreign exchange licensing for, for example, lending to and borrowing from abroad, portfolio investments abroad, and transfers to foreign accounts, is another foreign exchange instrument. Moreover, the B9 regulation for commercial banks is a foreign exchange instrument that 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.

Furthermore, the CBA closely monitors the banking sector's and the GOA's liquidity needs as 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 reserves investment strategy against the established investment guidelines, taking into account major developments in the international money and capital markets, particularly in the United States, which is its main market for its liquidity and securities investments.

The CBA investment portfolio consists of three portfolios categorized by their duration position:

- One liquid portfolio managed internally, and
- Two medium-term portfolios with an average duration of 1–3 years managed by two external asset management investment companies.

The Investment Committee advises the President on the overall investment policy and ensuing guidelines to diversify the CBA's portfolio 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 parameter:

Fixed-income securities denominated solely in USD, that have high credit quality and a short-term duration (1–3 years) in the following asset classes:

- US government and US agency securities (including mortgage-backed securities)
- Asset-backed securities
- Corporate bonds, which are limited to the financial services sector, specifically banks and financial institutions, as well as industrial companies
- Sovereigns and supranational securities
- Money market instruments such as short-term funds with maturities ranging from overnight to 1 year, e.g., certificates of deposits, time deposits, and treasury bills.

8.2 Gold held by the CBA

Persistently high inflation and elevated geopolitical risks drove investors to hold more gold, helping to propel gold prices higher in early 2022. Investment demand for gold in March 2022 returned to last seen in the early months of the pandemic in 2020. But the Federal Reserve's aggressive tightening of monetary policy since March 2022 in order to contain persistently high inflation has made the United States an attractive destination to obtain yield and made the USD a relatively strong currency. The latter caused gold prices to fall during 2022, which led to a drop in the value of the CBA's gold holdings that year. See chapter 6, "Financial Results 2022", for further details.

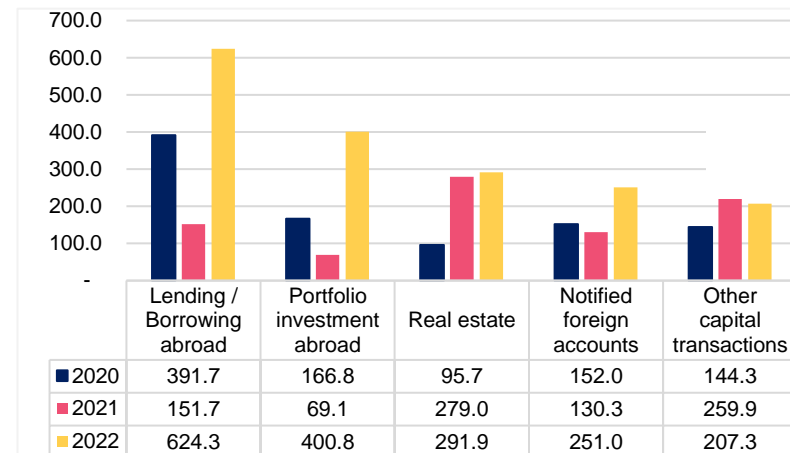
8.3 Management of international payments

8.3.1 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 State Ordinance on Foreign Exchange Transactions (SOFET). Capital transactions and dividend- and profit payments can only be effectuated through, respectively, a special foreign exchange license and declaration granted by the CBA. The annual upper limit for executing capital transactions without any administrative restrictions of Afl. 300,000 for resident natural persons and Afl. 750,000 for resident legal entities (excluding commercial banks) remained unchanged until December 31, 2022.

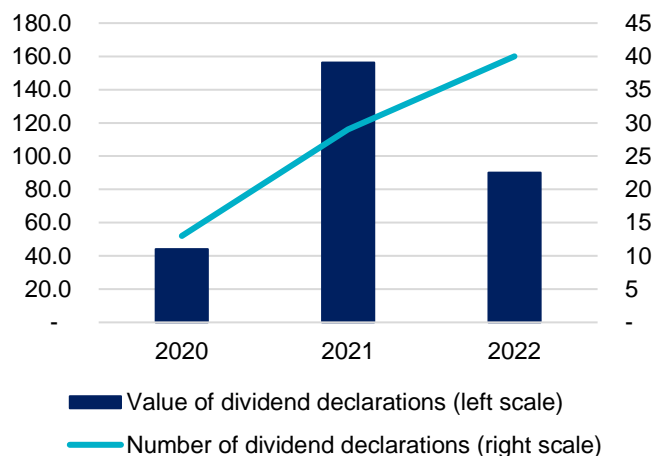
In 2022, the CBA granted 827 foreign exchange licenses, against 694 in 2021. Most of these licenses were related to real estate transactions between residents and non-residents. The value of these transactions almost doubled, i.e., from Afl. 890.0 million in 2021 to Afl. 1,775.4 million in 2022 (see Chart 2), caused mainly by an increase of Afl. 472.6 million in transactions related to lending to and borrowing from abroad. Refinancing activities picked up again as the CBA revoked all foreign exchange restrictions due to the Covid-19 pandemic as of September 1, 2021.

Chart 2: Value of foreign exchange licenses issued (in Afl. million)



The total number of declarations granted for dividend distributions and profit payments increased from 29 declarations in 2021 to 40 declarations in 2022 (see Chart 3), while the value of dividend distribution- and profit payments dropped from Afl. 156.3 million in 2021 to Afl. 90.2 million in 2022.

Chart 3: Volume and value of dividend declarations issued (amounts in Afl. million)



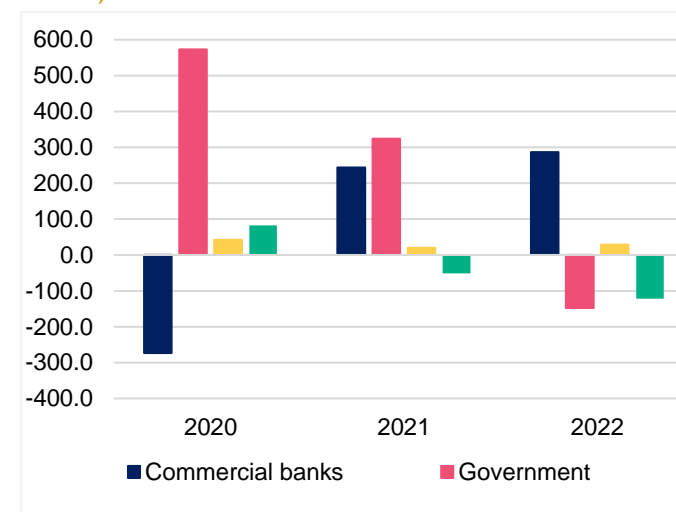
8.3.2 Movements in foreign exchange reserves

The foreign exchange reserves held by the CBA grew further to Afl. 2,439.2 million in 2022 compared to 2021 (Afl. 2,382.4 million) (see Chart 4), which were predominantly impacted by:

1. GOA's net purchase of foreign currency (net amount of Afl. 148.0 million) from the CBA to cover its external debt repayments and interest payments, and other operational expenses denominated in foreign currency during 2022.

2. A drop in the market value of the CBA's investment portfolio resulting from increases in US Treasury benchmark yields during 2022.
3. Commercial banks' selling of foreign currency (net amount of Afl. 286.9 million) to the CBA, stemming predominantly from higher tourism receipts due to a continued strong rebound in tourism arrivals in 2022.

Chart 4: Movements in foreign exchange reserves (in Afl. Million)



8.3.3 Foreign exchange rates

The Aruban florin is pegged to the USD at Afl. 1.79 per 1 USD. The CBA's official buying and selling rates for the USD 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 USD, the CBA also publishes, on a daily basis, quotations on eight other currencies on its website.

Chapter 9.

Payment Systems: Cash and Non-Cash

9.1 Cash operations

In accordance with the CBO, the CBA has sole mandate for issuing and putting into circulation Aruban florin banknotes. It determines the denomination, substrate, and characteristics of the florin banknotes. This mandate enables the CBA to ensure that the florin banknotes in circulation continue to meet the demands of Aruba's community for high-quality banknotes, and secures them against counterfeiting. The CBA also is entrusted with the issuance of coins on behalf of the GOA and advises the GOA on this matter. The GOA's financial accounts include the total value of coins in circulation.

The CBA ensures that banknotes and coins in circulation are in adequate condition. Banknote quality is checked using a sorting machine that offers superior performance in terms of productivity and counterfeit detection. Unfit banknotes are destroyed via an environmentally friendly destruction machine, while unfit coins are put out of circulation.

9.1.1 Counterfeit florin banknotes

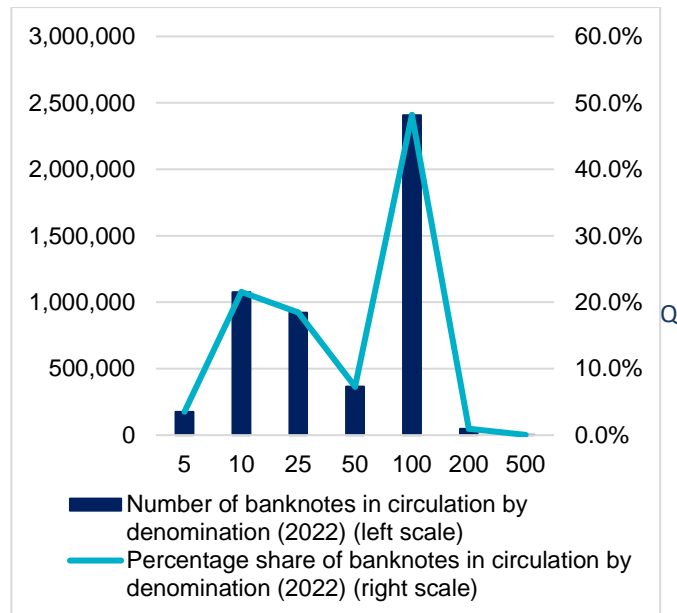
The CBA brings secure banknotes into circulation using numerous cutting-edge security features that make it easy for the public to verify their authenticity and makes them difficult to counterfeit. In taking these actions, the CBA maintains confidence in the florin banknotes, and enhances the efficiency and effectiveness of the payment system. In addition, it provides extensive information on its website, Facebook "Aruba su Florin", Instagram "Centrale Bank van Aruba", mobile app "Aruba su Florin", and through brochures via the commercial banks. These resources enable the public to easily authenticate the florin banknotes. As in the previous two years, the CBA has not registered any cases of counterfeit florin banknotes in 2022.

9.1.2 Currency in circulation

The total number of banknotes brought into circulation increased by 2.2 percent in 2022 compared to 2021. Consequently, the total value of banknotes in circulation went up by approximately Afl. 5.5 million (1.8 percent) from Afl. 298.6 million in 2021 to Afl. 304.0 million at year-end 2022. The aforementioned expansions in the number and value of banknotes in circulation in 2022 occurred despite the widespread use of payment cards, including debit and credit cards, and payments through online banking. The Afl. 100 denomination continues to represent the largest share (in number) of all banknotes issued, comprising 48.2 percent of the total number of banknotes in circulation (see Chart 5).



Chart 5: Banknotes in circulation

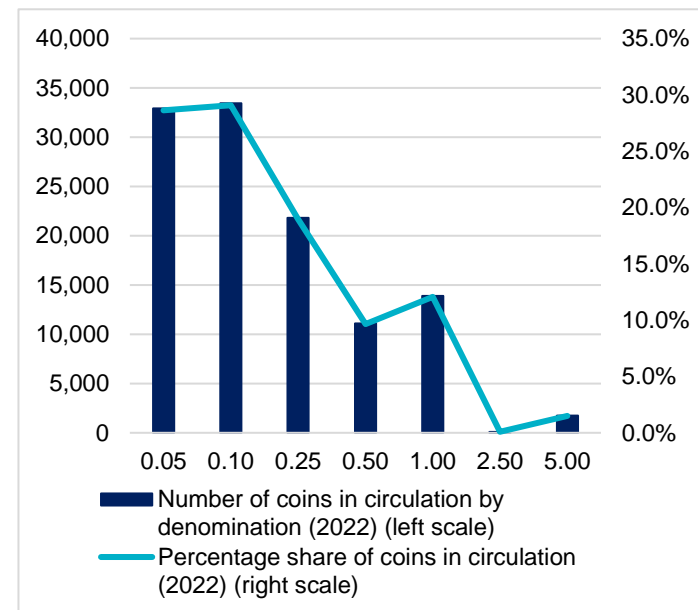


Banknotes series that are no longer legal tender but are still in circulation can be exchanged at the CBA according to the following deadlines:

- **January 31, 2034**, for the 1990/1993 series florin banknotes, and
- **August 12, 2049**, for the 2003 series florin banknotes.

The total number of coins brought into circulation, excluding commemorative coins, grew by 2.7 percent in 2022 compared to the previous year. However, the total value of coins in circulation, excluding commemorative coins, fell by approximately Afl. 3.0 million (-7.2 percent), from Afl. 41.8 million in 2021 to Afl. 38.8 million at year-end 2022. 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 6).

Chart 6: Number and share of coins in circulation (by denomination)



9.1.3 Commemorative coin

In 2022, on behalf of the GOA, the CBA issued one (1) silver commemorative proof quality coin with a nominal face value of Afl. 5. The coin features a Crested Caracara, called 'Warawara' in Papiamentu. The Warawara is a bird of prey that is common in Aruba. The Warawara is a scavenger that also eats lizards and mice, but it feeds on goat carcasses, among other food sources. It produces a rattling screaming sound, often throwing its head back. The Warawara has a wingspan of 120 cm wide and is brown-black in color. There is no difference in appearance between the male and female Warawara. A fun fact about the Warawara is that it would rather walk than fly.



9.2 Non-cash operations

The CBA is also responsible for a safe and efficient domestic payment system. Its roles in this respect include the following:

- As a catalyst and innovator, the CBA actively promotes the adoption of payment systems that are in line with international best practices and contribute to payment innovations that enhance the efficiency, reliability, and security of the payment landscape in Aruba.

- As an operator, the CBA manages the clearing and settlement system called I-Pago. With I-Pago, payments can be done quickly, safely, and easily. I-Pago is based on industry standards and provides a solid foundation for further innovation and new, modern, state-of-the-art payment solutions for the Aruban community.
- As an overseer, the CBA is currently developing a regulatory framework for the oversight of the payment system in Aruba. Once this framework is in place, the CBA will be able to monitor existing and future systems and assess their compliance with the regulatory framework in line with international best practices.



9.2.1 Position paper

The CBA published its second Position Paper, "Enabling Instant Payment Innovations in Aruba", on May 20, 2022, confirming its ambition and vision to further modernize the payments landscape and improve the payment experience in Aruba. The paper provides an outline of the current state of payments, the ideal state, and potential new use cases, and offers a definition of three potential new use cases that can be implemented using the I-Pago payment rail. The latter takes into account market feedback, merchant and end-customer requirements, and successful payment systems and innovations implemented across the globe. These three potential new use cases include person-to-person payments, in-store payments, and e-commerce payments.

They can offer the most benefits to all stakeholders, from end-customers to merchants, making it essential to implement these new use cases for the further modernization of the payments landscape in Aruba. Looking at global trends, the CBA has identified innovative practices in various areas and across all continents. New technologies keep challenging existing payment systems, making continuous innovation a necessity. The CBA will act as an accelerator of innovation while simultaneously ensuring that new payment-related solutions continue to be efficient, reliable, and secure, and benefit all stakeholders, including consumers.

9.2.2 I-Pago tariff and number of transaction

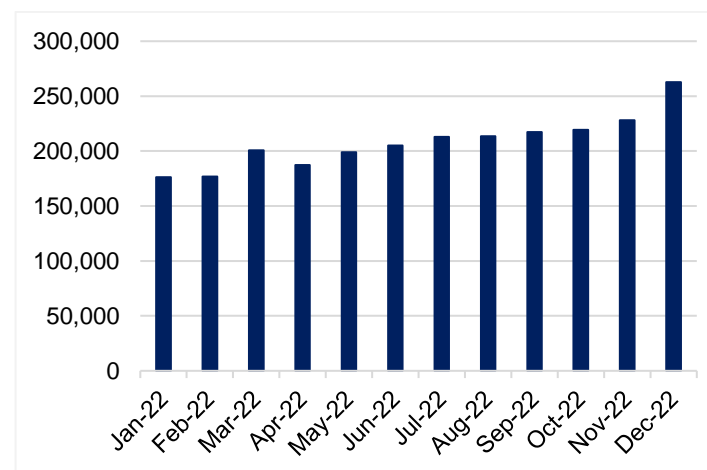
The commercial banks are charged a preliminary tariff during the year based on the actual number of transactions processed through I-Pago in the previous year. At the end of the calendar year, the CBA determines the final tariff for that year based on the actual number of transactions processed. Any amount paid in excess will be settled with the amount payables for the next year.

The actual number of transactions processed through I-Pago in 2022 was higher than the projected number. This resulted in a drop in the final tariff for 2022, i.e., from Afl. 0.35 to Afl. 0.25 applied for transactions above Afl. 250, while all transactions below Afl. 250 remained free of charge. Consequently, the commercial banks were reimbursed for the amounts they overpaid in 2022 based on a higher preliminary tariff that was settled in January 2023. Chart 7 illustrates the steadily increasing trend in the number of transactions processed per month through I-Pago in 2022.

Given the high success rate of I-Pago since its launch in 2020, as evidenced by the continuous increase in the total number of transactions processed over the years, the CBA concludes that its tariff strategy has been successful and has achieved the intended objective in the initial period of I-Pago. In light hereof and as of January 1, 2023, the zero tariff for

transactions below Afl. 250 was eliminated, and the preliminary tariff was set at Afl. 0.23 for all transactions processed through I-Pago, irrespective of the amount involved.

Chart 7: Actual number of transactions processed through I-Pago per month in 2022



Chapter 10. Banker and Advisor to the Government of Aruba

10.1 Banker of the GOA and other services

Pursuant to the CBO, the CBA acts as the banker for the GOA. In this function, it provides banking payment services by executing local and international payment requests of the GOA. These payments are cleared through the current accounts of the Department of Finance (DOF) and the Departamento di Impuesto (DIMP) held at the CBA. Additionally, the CBA acts as an agent for the GOA's domestic debt issuance and settlement.

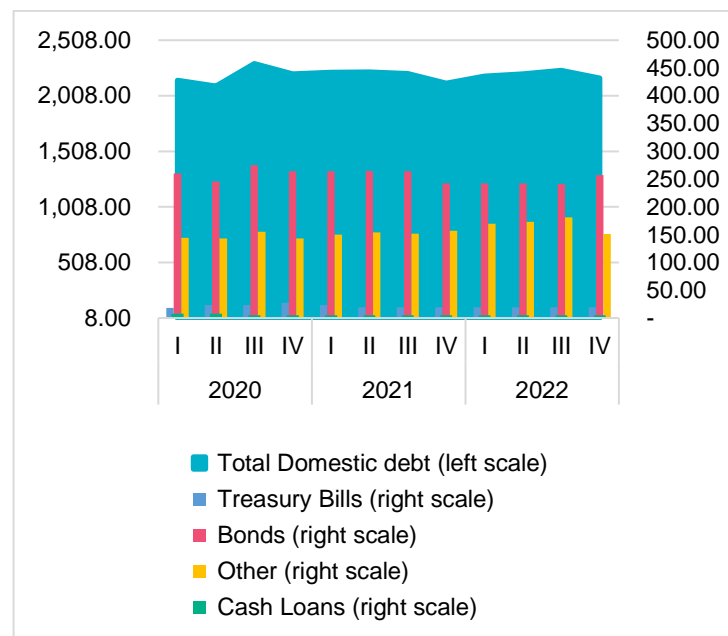
10.1.1 GOA securities issuance during 2022

In 2022, the CBA led two bond issuances on behalf of the GOA, through a tender system on the domestic market for a total amount of Afl. 185.0 million, with yearly coupon rates of 6.0 percent and 6.5 percent, respectively, and maturities of 10 years and 15 years, respectively. The proceeds of these issuances were used to cover the GOA's financing needs ensuing from the execution of its 2022 budget.

In addition, the CBA assisted with the renewal of twelve 3-month treasury bills issued for the outstanding amount of Afl. 105.0 million at year-end 2022, and the issuance of two 6-month cash loans for the total outstanding amount of Afl. 5.0 million at year-end 2022.

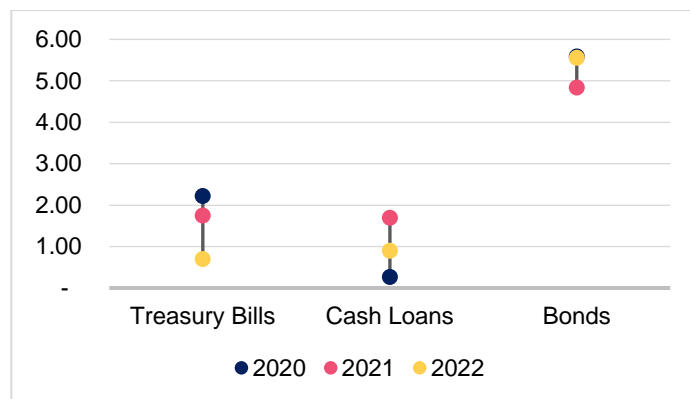
The GOA's outstanding domestic debt expanded slightly, i.e., from Afl. 2,120.2 million by year-end 2021 to Afl. 2,156.1 million by year-end 2022 (see Chart 8). This was due to a higher amount of bonds issued on the domestic market in 2022.

Chart 8: GOA's outstanding domestic debt (in Afl. million)



The average yield on the 3-month treasury bills and that of the 6-month cash loans dropped from, respectively, 1.75 percent to 0.70 percent and from 1.69 percent to 0.90 percent in 2022 compared to the previous year (see Chart 9), respectively, highlighting the ample liquidity position of the commercial banks in 2022.

Chart 9: Average yields of the GOA securities issuance



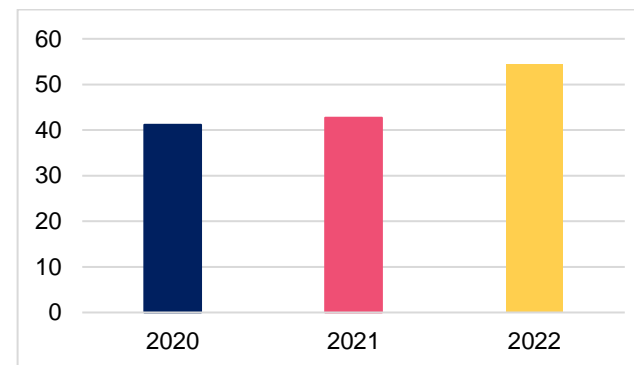
On the other hand, the average yield on the GOA bonds issued in 2022 fluctuated between 5.37 percent and 5.80 percent, which is higher than the average yield of 4.84 percent of the GOA bond issued in 2021.

10.1.2 Foreign exchange commission

The CBA also collects and levies the Foreign Exchange Commission (FEC), which is a commission paid by residents to the GOA for payments to non-residents. The CBA credits the full amount collected to the GOA's account, which is held at the CBA.

In 2022, the CBA collected approximately Afl. 54.5 million in FEC (see Chart 10). This amount is Afl. 11.8 million higher in comparison to 2021 (Afl. 42.7 million), as foreign exchange transactions picked up again as the CBA revoked all foreign exchange restrictions due to the Covid-19 pandemic as of September 1, 2021.

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



Chapter 11.

Strategic Plan — Dilanti Biento

In the first quarter of 2021, the CBA embarked on its new five-year strategic plan for the period 2021–2025, Dilanti Biento. The ultimate outcome of this plan is for the CBA to contribute meaningfully and significantly to further strengthen the resilience of Aruba. In 2022, progress was made on several strategic actions relating to Dilanti Biento, bringing the CBA closer to its intended vision.

Dilanti Biento is based on six strategic pillars that are considered essential elements in transforming the CBA and are intended to support envisioned change and resiliency in the Aruban economy and community.

When Dilanti Biento was developed, the CBA, at the same time as the rest of the world, faced exceptionally ambiguous, complex, and uncertain times. As an organization the CBA learned how quickly the ways in which the operating context and environment can change, and how it must master the balance between flexibility and delivery. Many of these challenges are still present today, such as the lingering effects of the Covid-19 pandemic, food and labor shortages, higher transportation costs, and the impact of the ongoing Russian-Ukrainian war. Despite all that is happening in this world, the CBA continues to make progress with regard to its strategic pillars.

I. Culture and Capability



CULTURE AND CAPABILITY

This pillar promotes a culture that enables bold action focused on inclusiveness, trust, agility, and human centricity.

The CBA continuously invests in the development of its employees. In 2022, it made an inventory of training needs and drafted an action plan. Additionally, several trainings were organized for employees, including a Belbin Team Roles training. The CBA applies the Belbin Team Roles model to improve team performance. The training was aimed at helping employees identify their own behavioral strengths and understand their roles within the team structure. Moreover, the CBA stimulates cross-functional teams within the organization with the purpose of promoting a collaborative culture.

Strategic focus in 2023:

- Deliver on the strategic HR plan.
- Develop and carry out a leadership program, specifically catered to CBA's needs.

II. Digital Transformation



DIGITAL TRANSFORMATION

This pillar aims to transform the CBA's processes and services such that they may be delivered digitally in order to increase efficiency, effectiveness, transparency,

and (data) analytical capabilities in accordance with best practices. The CBA continues to digitize its human resources (HR) processes.

In April 2022 the Working at the CBA portal was launched. Candidates are now able to apply for jobs through this portal. Moreover, the CBA designed Integrated Business Process Management (IBPM) guidelines to establish a consistent and uniform process modeling approach. It also continued working on the implementation of the new financial system that will improve the efficiency and effectiveness of internal financial processes. The options for a new digital licensing portal and software for the New Charts of Account were also explored. Cybersecurity is critical in today's digital landscape due to increasing reliance on technology. Therefore, the CBA conducted a cybersecurity test to measure the effectiveness of its security strategy.

Focus in 2023:

- Digitize other HR processes.
- Implement the new digital licensing web application.
- Develop and implement a cloud strategy.

III. Dynamic Resilience and Regeneration



This pillar thinks beyond sustainability to regeneration. The focus is on transitioning CBA's operations, the financial system, and the economy to a regenerative resilient (eco)system.

In 2022, the CBA stopped purchasing single-use cups and cutleries and provided reusable tumblers to all its employees. It also contributed to several community work

events that aligned with the United Nations Sustainable Development Goals (UNSDGs). Chapter 15 offers additional information on the community work in which the CBA has been involved. Additionally, the CBA participated in a symposium on climate change that addressed impacts on economic development and monetary policy. In the area of sustainable economy, the CBA participated in a seminar on the regulatory perspective regarding green financing. It also conducted economically relevant and high-impact research that is important to the Aruban economy. The outcomes were presented in the report Governing from the Future - Leading with Impact, emphasizing the need to develop Aruba's economy into one that is inclusive, resilient, and sustainable.

Focus in 2023:

- Produce and publish medium-term Gross Domestic Product (GDP) forecasts (2023–2027).
- Conduct an economically relevant and high-impact research with the theme of Leading Inclusive Resilience.

IV. World-Class Knowledge and Communication



This pillar aims at communicating and sharing knowledge internally and externally in effective and innovative ways to develop and foster a collaborative culture, financial literacy, and economic understanding. The CBA recognizes the importance of financial literacy and its benefits to each resident and the economy as a whole. For this reason, the CBA is committed to financial education.

In 2022, the CBA gave presentations on “Nos Florin” to students at three different schools and senior citizens at the Club Kibrahacha 60+. Furthermore, the CBA held several knowledge-sharing sessions for different sectors. These covered topics such as AML/CFT framework, combating proliferation financing (CPF), and CFATF Mutual Evaluation.

Focus in 2023:

- Execute an external communications program.

V. Innovation of Implementation



This pillar promotes new approaches for setting up new or redesigned (internal and external) processes, products, and services to ensure the CBA remains relevant and in step with the times.

The CBA introduced a continuous improvement program in 2022 based on the Lean methodology to stimulate innovation and is making an ongoing effort to improve products, services, and processes. A group of employees participated in a Lean Green Belt training. Additionally, the CBA designed a ‘data analytics sandbox’ that provides a controlled environment for testing and experimenting with new data analytics models and technologies. This enables the CBA to develop new insights and capabilities more quickly. With regard to the payments landscape in Aruba, the CBA explored possibilities for further modernization. In May 2022, it published its second position paper – this included three potential use cases that can be implemented using the I-Pago payment infrastructure.

Focus in 2023:

- Carry out Lean improvement projects.
- Conduct vendor research for the further modernization of the payment landscape in Aruba.
- Introduce ‘Foro di Pago Nacional’ in Aruba. This forum provides an opportunity to meet with stakeholders from the private and public sectors to discuss ideas and opportunities regarding the payment landscape in Aruba.

VI. Forward-thinking Governance



This pillar promotes good governance practices in Aruba that build trust that underpins the economic and financial transformation.

In 2022, the CBA conducted a gap analysis on internal governance compared to international standards and the draft corporate governance code, and prepared an action plan to close the gap. Moreover, the assessment of the measures Aruba has in place in the area of AML/CFT/Countering Proliferation Financing (CPF) resulted in a positive report that was published on July 14, 2022.

Focus in 2023:

- Implement an internal AML/CFT policy.
- Identify the recommendations of the CFATF assessment in the area of AML/CFT/CPF regulation and supervision.
- Establish a Market Conduct unit to begin to supervise institutions that fall under the market conduct decree.

Chapter 12. Operations of the Bank

12.1 Employees

The driving force behind the CBA's compliance with its legal mandate is its employees. Most employees (69.8 percent) have either a Bachelor, Master, or PhD degree. As a knowledge organization, the CBA invests in the continuous development of its employees to assist them to reach their full potential.

By the end of 2022, the CBA consisted of 109 permanent employees of whom 61.5 percent were female and 38.5 percent male. This gender distribution is also reflected in our leadership, where females fill 65.9 percent of the leadership positions. The average tenure is 12 years and 2 months, and the majority (51.4 percent) of the staff have a tenure of less than 10 years (see Chart 11). The average age of employees is 44.3 years, with about one-third (31.2%) of the employees between 36 and 45 years old (see Chart 12).

Chart 11: Percentage of CBA's employees by tenure (in years)

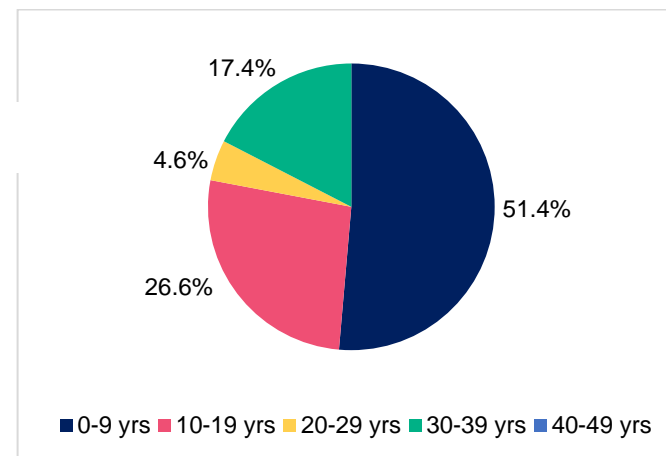
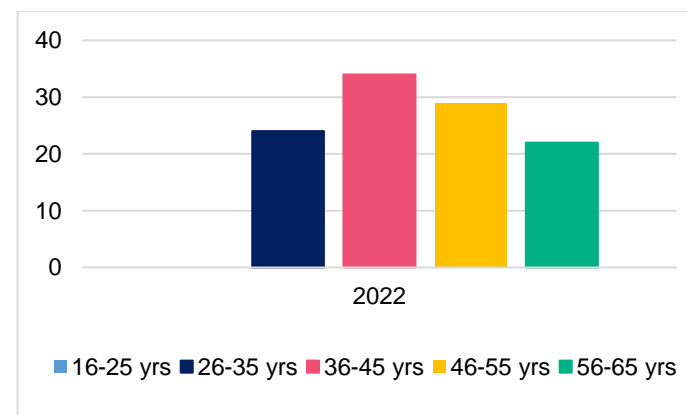


Chart 12: Number of CBA's employees by age distribution (per age group)



In 2022, the CBA welcomed 10 new permanent employees, while 5 permanent employees left the organization. The average age of the employees recruited was 36 years, and 80 percent were male, making the gender distribution within the workforce also more balanced.

Besides diversity in gender, tenure, and age, employees have diverse backgrounds and birthplaces (see Figure 2). In this regard, the CBA's employees are a good representation of the general Aruban community, which is rich in cultural differences.

Figure 2 - Birthplaces and nationalities



12.2 Technology

In line with Dilanti Biento, particularly the strategic pillar 'Digital Transformation', the CBA is diligently working on the necessary improvements in IT infrastructure, as well as carrying out different initiatives that will contribute to its envisioned digital transformation. The following is a glance at projects in progress or completed that relate to technology.

- Digital Licensing Application: The CBA is responsible for issuing foreign exchange licenses.

To make the licensing request process easier and more efficient for its stakeholders, the CBA is working on a new digital licensing application as the current application has reached its end of life and is no longer being used. In 2022, the CBA conducted a request for proposals related to this project, shortlisted vendors, and evaluated their proof of concept.

- Reshaping and Innovating Financial Systems: In 2022, the CBA continued with this project, which started in 2020, to replace CBA's legacy core banking and financial application. To establish an integrated and efficient financial administrative environment, the CBA chose two systems, i.e., Profit from AFAS Software and Olympic from ERI. The first phase of this project went live in May 2023.
- Data Analytics Sandbox: In the year under review, the CBA focused on designing a data analytics sandbox with the aim of strengthening its data analytics capacity. This initiative fuses strategy and innovation into a competitive advantage. This project was completed and implemented in 2023.
- Hardware Revamp: This project encompasses replacing legacy IT physical infrastructure with new top-of-the-line infrastructure and migrating the different virtual servers to the new infrastructure. The hardware revamp focused on speed, user needs, simplicity, and maintainability. The hardware revamp project was for the most part, completed in 2022.
- Disaster Recovery Revamp: In 2022, the CBA began implementing new data backup and recovery testing procedures. It identified a new secondary site to continuously and adequately safeguard CBA's data so that the data could be restored reliably when necessary.

12.3 Information

The CBA strives to perform its operational tasks in an efficient and results-oriented manner. In line with this, it continuously improves the quality of information management. The CBA uses JOIN Now as its information management system.

In 2022, specific folders were improved through the incorporation of additional metadata. In 2023, the Information Center department will focus on the new version management feature of JOIN NOW to minimize time spent reviewing hardcopy documents while also continuing to digitize the existing hardcopy files. This will improve access to information and the efficiency of the relevant work activities.

There also is an ongoing assessment of the data retention period to safeguard important records in compliance with the applicable regulations.

In 2023 the Information Center department will restart the roll-out of the Information Governance (IG) framework within the CBA.

12.4 Security

At the CBA, physical and information security play an important role in safeguarding our employees, systems, data, and other assets.

In 2022, the focus related to information security was on two mainstream activities. First, the CBA pursued a further improvement in the integration of the cyber security fabric by aligning and understanding the workings of internal tooling for optimal defenses, as well as concentrating on cyber security awareness. The latter is crucial to keeping all aspects of the organization safe and guarded. This is a

shared responsibility and includes all employees. Second, the CBA focused on compliance with international frameworks, such as SWIFT customer security programs (CSP). In 2023, the CBA will remain vigilant as it faces a fast-evolving cyber threat landscape and aims to improve its defenses further through continued cyber resilience testing internally and take part in an international exercise. It shares the gained knowledge with the financial sector and critical infrastructure partners.

With regard to physical security, the CBA initiated the project 'Integration of Systems' in 2022. This aims to upgrade and integrate security systems into a physical security information management (PSIM) system with the ultimate goal of improving the effectiveness and efficiency of its security processes and procedures. As a first step, the CBA initiated a gap analysis to determine the current and required security systems and worked on a functional program of requirements. Moreover, it reviewed its strategic physical security policy due to ongoing changes. The main revisions were related to updating the accountability matrix, and renaming and adding a security domain. The revised policy will be effective as of 2023.

The CBA has an Emergency Response Team (ERT) of employees who prepare for and respond to emergencies, including bringing employees and visitors to safety when these situations emerge. This team receives regular in-house training and information sessions. In addition, ERT members engage in an annual re-certification course. Last year, all ERT members passed this course.

12.5 Facility

In line with strengthening Aruba's resilience, the CBA works on reducing its carbon footprint, and thereby help protect the environment. One way is by decreasing its energy consumption, especially taking into account systems with a

high energy demand. For example, the air conditioning system is continuously upgraded to get the best possible energy efficiency. In 2022, the CBA installed new equipment in its air handling system that increased its energy efficiency, gaining cooling capacity while maintaining current energy consumption level.

The CBA also has reduced its carbon footprint by eliminating all disposable cups and cutlery. It is also further expanding its electrical vehicles (EV) as part of its car fleet. As of the first quarter of 2023, the CBA has acquired its 5th EV, while also allowing its staff to make use of its EV charging station at a set price, thus providing charging flexibility to those driving their personal electric vehicles to work. The CBA intends to further introduce best-practice methods for conserving energy, transitioning into an environmentally friendly work environment.

12.6 Communication

The CBA aims to be relevant and impactful in its communication within and outside the organization.

In 2022, several new internal communication channels were introduced, such as weekly and monthly company newsletters. The weekly newsletter is a summary of what the week ahead will bring. The monthly bulletin has more in-depth stories on projects and people, diving deeper into what drives the CBA and its employees, and how the CBA is progressing in its development and learning experiences. Furthermore, the CBA invested time and effort in promoting its core values. The staff received training on the deeper meaning and behavioral components of the core values. The core values have been made visual in the office building, and are embedded in the employee's yearly performance agreements.

With regard to external communication, the CBA designs its communication in the same strong colors and form, thereby making its communication materials easy to recognize and building a solid brand. Social media are used regularly to update on diverse activities, publications, and news, providing a more inclusive approach towards the Aruban community by sharing what the CBA does as an institution.



Chapter 13. Governance

The CBA is an independent institution within the public sector established by law. Its management is assigned to the President, assisted by two Executive Directors. Together, they form the Executive Committee (EC) that is responsible for the execution of the CBA's mandate as outlined in the CBO. The CBA's operations and the management of its assets and the funds entrusted to it, are overseen by the Board of Supervisory Directors (BoSD).

13.1 The BoSD

The BoSD consisted of four members as per year-end 2022. All members, including the Chairman, a representative of the GOA, are appointed and dismissed by the Governor of Aruba. While the Chairman is appointed for an indefinite period, other members are appointed for a 5-year term.

The BoSD nominates the external auditor and approves the budget and financial statements of the CBA. In 2020, Ernst & Young Aruba was appointed as the CBA's external auditor for a three-year period.

The BoSD met with the EC six times during 2022. The matters discussed included, but were not limited to, the following:

- Review and approval of the mid-year and year-end financial statements for 2022
- The 2023 budget
- The CBA's investment strategy and the performance of its investment portfolio

- Ongoing enterprise-wide projects, such as the implementation of a new banking and financial administration system
- Economic, monetary, financial and supervisory developments

Additionally, the Chairman of the BoSD held weekly meetings with the President to discuss ongoing matters.

The CBA strives to have sound corporate governance processes that meet international standards and support proper and effective decision-making throughout the organization. It does this by implementing appropriate checks and balances, due process, accountability, and transparency, while maintaining its institutional independence. The Internal Audit Department plays a key role by providing an independent opinion about the adequacy and operational effectiveness of the CBA's overall governance structure.

13.2 Committees

Ten committees have been established within the CBA to assist the EC with its responsibilities. These are summarized in Figure 3.

Figure 3: CBA's committees



The mandates of these committees are summarized below:

1. **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 USD.
2. **Foreign Exchange Policy Committee** sees to it that effective foreign exchange policies, procedures, and measures are in place to manage international reserves.

3. **Investment Committee (IC)** advises the President on required changes regarding the overall investment strategies and policies related to its financial assets and the 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.
4. **Risk Management & Compliance Committee (RMCC)** sees that all material risks to which the CBA is exposed are correctly identified and effectively managed, with the overarching aim of fostering compliance with the CBA's legal mandate and achieve its strategic objectives. Furthermore, the RMCC ensures that there are adequate policies, procedures, and measures throughout the organization to comply with applicable laws, regulations, contracts, guidelines, internal policies, and procedures.
5. **The Strategic Committee** provides guidance on and monitors the implementation of Dilanti Biento.
6. **The Payment System Committee** promotes an efficient, reliable, and secure payment system, which contributes to maintaining financial stability. Furthermore, it advises the EC on policies, procedures, and measures in the payments domain.
7. **The Budget Committee** prepares the CBA's annual budget. After approval by the EC, the budget is sent for review and approval to the BoSD.
8. **The Project Committee** advises the EC on the feasibility, priority, and planning of enterprise-wide

projects and monitors the progress of these projects.

9. **The Corporate Information Security Committee** ensures that an effective strategic information security framework is in place that meets international standards, thereby also striving to improve the CBA's information security posture on an ongoing basis.
10. **The Pension Committee** advises the EC on the extent to which the current CBA pension plan complies with applicable laws and regulations and compares it with alternative pension plans. This is all with the overarching aim of obtaining the best possible pension plan for the CBA personnel within the applicable legal boundaries.

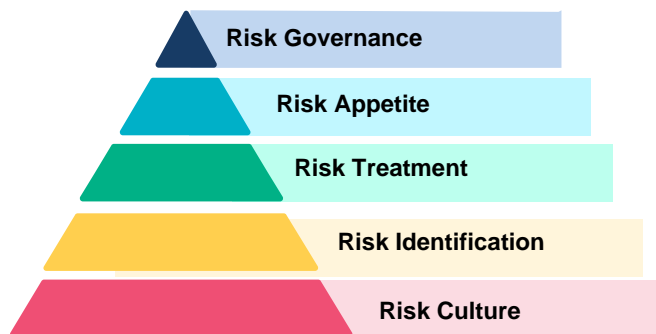
In addition, the CBA has a number of working groups. Some support the activities of the committees, such as the Foreign Exchange Working Group and the Corporate Information Security Working Group. Other working groups focus on specific strategic actions linked to Dilanti Biento, such as the Information Governance Working Group and the Working Group Processes.

In addition, there is the Core Values Working Group, as well as six Think Tanks; one for each strategic pillar. Each Think Tank is led by a Division Manager and consists of a Vice-Chairperson, secretary, and three to five members. The Core Values Working Group ensures that all employees are familiar with the core values and stimulates their adoption as guiding principles in the execution of their professional tasks and duties. The Think Tanks – through the Strategy & Planning Department – provide the Strategic Committee with innovative recommendations on actions to achieve the strategic pillars and outcomes as stated in the Dilanti Biento and the CBA's purpose, i.e., enabling resilience in all of us.

Chapter 14. Risk Management

Risk management is one of the key elements which contributes to the proper execution of the CBA's legal mandate and realization of its strategic objectives. Risk management is embedded in the CBA's daily operations and its management approach, and consists of the following components (see Figure 4):

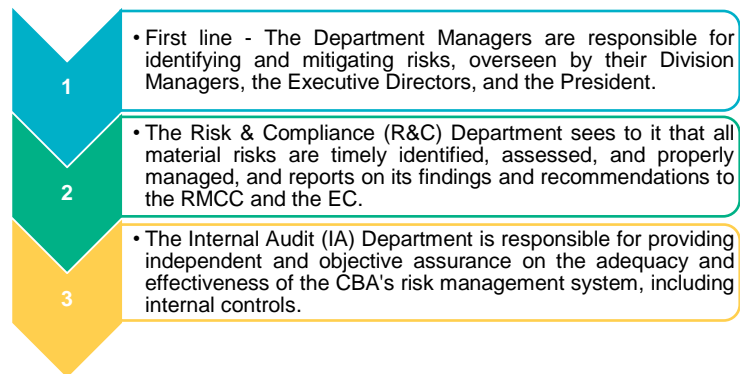
Figure 4: Key components of the CBA's risk management



14.1 Risk governance

The CBA applies the three (3) lines model regarding risk management (see Figure 5).

Figure 5: Three lines model regarding risk management



First line role - Each Department Manager is responsible for managing the identified material risks within areas of his/her responsibility, in consultation with senior management and respective members of the EC to which they report. To address the identified material risks properly, a combination of control measures is embedded within the organization and the CBA's processes. Strategic risks are managed by the EC, with the support of the Strategy & Planning Department.

Second line role - The R&C Department is responsible for ensuring that a sound enterprise-wide risk management system is in place so that all material risks are identified, assessed, and mitigated in a timely fashion and to a level commensurate with the CBA's risk appetite. The R&C Department falls under the Executive Director for Supervision & Enforcement, who chairs the Risk Management & Compliance Committee (RMCC). The RMCC has two executive directors and several department managers. Its purpose is to ensure that all material risks to

which the CBA is exposed are properly identified and effectively managed, with the aim of safeguarding the achievement of CBA's legal mandate and strategic objectives. For the execution of its function, the RMCC relies on information provided and work performed by the R&C Department.

Third line role - The IA Department is responsible for testing the existing controls to mitigate identified risks and ensure that these are well-designed and operating effectively as intended by management.

14.2 Risk appetite and risk treatment

Based upon the CBA's risk appetite, the identified material risks are assessed and, if necessary, mitigated. Risks that fall beyond the CBA's risk appetite are rejected, while material risks are only accepted if they can be managed properly or insured.

14.3 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 Department conducts a periodic Risk Assessment. As part of this exercise, department and division managers identify and assess the most significant risks within their area of responsibility and report these to the R&C Department. This department reviews and discusses the assessments made with the respective department and division managers, after which it reports its findings and recommendations to the RMCC and EC.

On November 1, 2022 the CBA's Incident Policy went into effect. Now, all incidents must be reported to the R&C Department within two weeks of detection. An incident is defined as 1) an unwanted event that 2) took place, 3) was

not promptly identified and stopped by the existing controls and procedures, and 4) caused or could have caused damage or loss to CBA's assets, operations, or reputation. The reporting of incidents allows the CBA to address weaknesses within its risk management and control framework.

14.4 Risk culture

To foster a sound and effective risk management within the CBA, it is necessary to promote a strong risk culture within the CBA organization, whereby the risk owners take full ownership of managing risks that fall within their responsibilities. The CBA nurtures a solid risk culture by setting the tone at the top, organizing risk awareness sessions, and overseeing adherence to its Code of Conduct and core values.

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

14.5 Financial risk

Financial risk is the risk of incurring financial losses when credit, market, and liquidity risks are not sufficiently contained. These risks are monitored strictly by the Investment Committee (IC), which is chaired by the Executive Director of Payment Systems, Treasury, and Banking Operations (PSTBO). The IC is responsible for the proper execution of the general investment policy and ensuing guidelines to manage the CBA's financial assets. The policies and guidelines in the investment area are determined by the President upon the 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. Also, 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 where deemed necessary.

CBA's 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. To mitigate this risk, the CBA has strict investment guidelines regarding credit quality and maximum allocation per type of security in place.
- **Market risk:** 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 unfavorable gold price developments. 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 USD at a rate of Afl. 1.79, this risk is contained because securities can only be held in USD 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 Aruban banking system. 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.

Additionally, with a view to ensuring that these financial risks are acceptable, the CBA implements a prudent investment policy strategy based fully on investing in USD fixed-income securities. It carefully monitors, in close cooperation with its asset managers, developments in the international money and capital markets to maximize the income-generating capacity of its investment portfolio, while complying with investment guidelines and maintaining sufficient liquidity. Any deviation from the investment guidelines requires prior written approval of the President. The IC closely monitors the performance of investments according to guidelines, and reports its findings on a regular basis to the President.

14.6 Operational risk

Operational risk encompasses negative impacts 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 (e.g., the NIST and CIS framework for cybersecurity and the ITIL framework for IT) and remains

informed of 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.

14.7 Compliance risk

Compliance risk can be defined as the effect of not complying with relevant laws, regulations, contracts, and internal policies and procedures, including ethical standards as described in the CBA's Code of Conduct. Non-compliance may lead to financial loss, operational disruption, and reputational damage. The R&C Department monitors adherence to the Code of Conduct by management and staff.

14.8 External risk

External risk relates to risk that the CBA has no or limited control over, such as natural disasters, government policies impacting operations, and unfavorable economic circumstances. This type of risk requires the CBA to stay alert, well informed, and resilient.

14.9 Reputational risk

Reputational risk is the threat to the good name or standing of the CBA, with these threats possibly leading to a loss of stakeholder confidence in the CBA. Reputational risk may materialize when, for example, errors occur in monetary policy or supervision of the financial system, which could negatively impact the financial sector and economy in general. Other examples include the leaking of confidential information and publishing of inaccurate data followed by negative publicity.

Chapter 15. Giving Back to the Community

The CBA has a prominent position in the Aruban community, and as such, it is important to lead by example with regard to corporate social responsibility. In line with this commitment, also taking into account of the ESG's (environmental, social, and governance), the CBA organized and participated in various community projects and events, with a focus on the Aruban flora and fauna and the people during 2022.

15.1 Beach cleanups

Corporate social responsibility and the implementation of sustainable practices are strategic focuses of the CBA. Its commitment to the Aruban community is evident in its social activities, including the organization of three beach cleanups in 2022. Beach cleanups contribute to safeguarding the environment by reducing pollution (mostly plastic) and protecting (marine) life. The CBA's employees cleaned Ranchero Curason on Earth Day (April 22), Bachelor's Beach on Beach Cleanup Day (September 17), and Rincon Beach (June 25). The CBA will continue with yearly (beach) cleanups on Earth Day and Beach Cleanup Day.



15.2 Club Kibrahacha 60+

In October 2022, during Senior Citizen Month, the CBA organized a half-day event, named 'Ban pasa un rato ameno hunto', for the members of Club Kibrahacha 60+, a non-profit organization. During the event, CBA employees engaged with club members through various interactive activities, such as playful sports activities, arts & crafts, plant arrangement, tips on first aid, and an information session on cyber security.



15.3 Aruba Doet

Since 2017, the CBA participated in Aruba Doet, the largest volunteer event in Aruba. The objective is to help the community by assisting organizations in need, such as non-profit organizations and schools. Due to the Covid-19 pandemic, Aruba Doet was cancelled in 2020 and 2021. In 2022, Aruba Doet was once again held. The CBA participated with two teams for two different projects, benefitting the Fundacion Pa Nos Comunidad (FPNC) and Scol Preparatorio Tarcisius. The CBA's employees painted

part of the interior of the FPNC building and the playground at the school.

15.4 Cyber School

In 2020, the CBA launched an initiative called Cyber School Aruba. The aim is to enhance children's online vigilance and digital skills. An eight-week program was introduced in 2021, whereby course topics were provided in the form of 'capture-the-flag' exercises in hacking, cryptography, forensics, and coding. In addition, by applying a teach-the-teacher approach, teachers have made this program their own. The CBA did not undertake this program in 2022, but teachers at one school re-ran it independently. In 2023, further actions to integrate cyber security training in the education system will continue at varying levels. First, the CBA's employees in charge of this initiative will promote this program to school boards to elevate awareness of available teaching materials on the topic of cyber security. Second, they will approach individual secondary schools to conduct the eight-week pilot program, independently.

15.5 Nos Florin

Nos Florin is a presentation, given upon request to different institutions, on our banknotes series 2019 and its features. In 2022, a team of employees gave a presentation on Nos Florin at three different schools and to members of Club Kibrahacha 60+. The CBA values its ability to share knowledge with and create more awareness within the Aruban community about its banknotes and security features. The CBA will continue to provide the Nos Florin presentation to students and other (service) organizations upon request.

15.6 Donations

Each year, the CBA allocates resources toward a budget for donations. The CBA made donations to several organizations in three main categories: education, charity, and environment. The educational donations focused on leadership, field trips for students, and reading to young children. Those donations related for charity purposes were granted to service organizations to provide aid to those in need of (urgent) help or that help others within the Aruban community. The donations related to the environment mainly focused on efforts to preserve Aruba's environment and fauna.



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