Centrale Bank van Aruba

Report 2010

Operational and Financial Report

Address
J.E. Irausquin Boulevard 8
P.O. Box 18
Oranjestad
Aruba

Telephone
(297) 5252-100

Fax
(297) 5252-101

Website
www.cbaruba.org

E-mail
cbaua@setarnet.aw

ORGANIZATION CHART
(As of January 1, 2011)

Board of Supervisory Directors
C.G. Maduro
M.R. Croes
G.G. Oduber

President
J.R. Semeleer

Internal Audit Department
R.S. Anthony

Executive Director
P. Mungra

General Manager Supervisory Issues
Vacant

Prudential Supervision Department
P.S. Tromp-Gomez

Integrity Supervision Department
J.E. van Doorn

Legal Affairs Department
A.V. Croes-Fleming

Information and Physical Security Department
S.D. Tromp

Human Resources and Facilities Department
Vacant

General Manager Economic Policy
Vacant

Statistics Department
W. Atmowirono

Research Department
J.R. Ridderstaat

Executive Director
M.M. Gonzalez

General Manager Operations
Vacant

Operations Department
R.M. Geerman

Accounting Department
L.H. Dubero

Information Systems & Facilities Department
A.G. Frans

Cash and Vault Department
M.A. Britten-Solognier

Secretariat and Archives Department
M.P. Bremo

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List of abbreviations

Afl.	Aruban florin
AML/CFT	Anti-money laundering and combating financing of terrorism
APFA	Stichting Algemeen Pensioenfonds Aruba (the civil servants pension fund)
AVV	Aruba Vrijgestelde Vennootschap (the Aruba Exempt Corporation)
BoSD	Board of Supervisory Directors
CBA	Centrale Bank van Aruba (the central bank of Aruba)
CBO	Central Bank Ordinance
CBCS	Central Bank of Curaçao and St. Maarten
ECB	European Central Bank
ESCB	European System of Central Banks
FATF	Financial Action Task Force
FDA	Stichting Fondo Desaroyo Aruba (the development fund foundation of Aruba)
HRFD	Human Resources and Facilities Department
IAD	Internal Audit Department
ISD	Integrity Supervision Department
ISFD	Information Systems and Facilities Department
IPSM	Information and Physical Security Department
IT	Information Technology
MPC	Monetary Policy Committee
MER	Mutual Evaluation Report
PSD	Prudential Supervision Department
RCUT	Reporting Center for Unusual Transactions
SETAR	Servicio di Telecomunication di Aruba (Setar) N.V. (the publicly owned telecommunications company)
SOFEC	State Ordinance Foreign Exchange Commission
SOFET	State Ordinance Foreign Exchange Transactions
SORUT	State Ordinance on the Obligation to Report Unusual Transactions
WEB	Water en Energie Bedrijf Aruba N.V. (the publicly owned water and power company)

1 POLICY OBJECTIVES OF THE CBA

The Centrale Bank van Aruba (CBA) was founded in 1986, the same year Aruba obtained its Status Aparte. On January 1, 2011, the CBA is celebrating 25 years of contributing to the well-being of the Aruban Community. Although the scope of the activities of the CBA has both widened and deepened during the past 25 years, the main policy objectives have remained more or less the same.

Main policy objectives of the CBA

The CBA has a sui generis legal status and pursues a number of policy objectives arising from the statutory tasks assigned to it as laid down in the Central Bank Ordinance (CBO) (AB 1991, no. GT 32) and other legislation. Achieving these objectives is a fundamental condition towards sound economic and financial development. CBA's principal policy objectives are:

- **Maintain public confidence in the Aruban florin**

The CBA conducts monetary policy to protect the value of the Aruban florin, through the preservation of its fixed exchange rate vis-à-vis the U.S. dollar.

- **Contribute to financial stability**

The CBO also instructs the CBA to promote the stability and integrity of the financial system. The supervisory tasks are carried out mainly via ongoing off-site surveillance and periodic risk-based on-site examinations to assess compliance with the supervisory laws and regulations by the supervised financial institutions.

- **Ensure smooth circulation of the Aruban florin**

The CBA is the sole issuer of safe and secure florin bank notes. As required by the CBO, the CBA is responsible for the design and printing of these bank notes. The CBA withdraws from circulation and destroys damaged or worn florin bills. Furthermore, the CBA is also responsible for promoting the safety, efficiency, and reliability of the payment system.

In line with its policy objectives, the CBA performs the following tasks and related activities:

Tasks	Related activities
a. Conduct monetary policy.	Formulate and implement measures to, inter alia, regulate bank credit and liquidity.
b. Supervise the financial system.	Perform risk-based supervision on financial institutions to protect the interests of depositors and policy-holders and safeguard the stability and integrity of the supervised sectors.
c. Issue coins on behalf of the government.	Bring safe and secure coins into circulation to meet the needs of businesses and the public in general.
d. Promote efficiency in settling domestic payments.	Operate an automated clearing system between the CBA, commercial banks, and a number of government-related institutions.
e. Act as the banker for the government.	Execute payment orders and intermediate in the issuance of government debt paper. In this regard, no credit is granted to the government.
f. Regulate the flow of international payments.	Facilitate and regulate payments between residents and nonresidents and collect foreign exchange tax on behalf of the government.
g. Manage Aruba's official reserves, consisting of gold and foreign exchange holdings.	Invest CBA's foreign currency holdings in accordance with cautious guidelines, aimed at protecting the country's liquidity position.
h. Advise the Minister of Finance on financial matters.	Produce relevant information and provide expert advice.
i. Monitor economic and financial developments.	Collect and analyze financial and economic data for the purpose of monitoring, policymaking, and dissemination through regular (monthly, quarterly, and annual) reports, as well as other publications and presentations.

Internal objectives

To achieve its statutory objectives, the CBA pursues a number of internal objectives. These objectives include:

- To deploy its staff as broadly and flexibly as possible. This multifunctional deployment, which may bring with it a heavy workload, allows the CBA to operate as optimally as possible with a relatively small staff.
- To build up know-how. The CBA continuously invests in the upgrading of its staff members through internal and external training.
- To create an optimally functioning infrastructure. The CBA strives for adequate protection of its infrastructure, both physically and IT-related, an important condition for guaranteeing integrity and continuity of the CBA operations.
- To broaden the scope of insight. To support its main tasks, the CBA continuously invests in the further improvement, expansion, and deepening of its scope of analysis. The collection of (new) statistics and the conduct of (scientific) research are essential for producing high-quality advice necessary to support policy formulation and implementation.

The year 2010 at a glimpse

- As of January 1, 2010, the CBA moved from a direct system of conducting monetary policy towards an indirect system, which entailed the elimination of the credit ceiling and the use of the reserve requirement as the main instrument of monetary policy. The indirect system of conducting monetary policy implied a more active approach in the implementation of monetary policy, meaning that the rate of the reserve requirement could be amended on a monthly basis instead of setting annual targets.
- As of January 1, 2010 the reserve requirement was raised form 9.5 percent to 11 percent to maintain the excess liquidity in the market at the projected end-2009 level.
- As of January 1, 2010, the CBA increased both the minimum risk-weighted capital asset ratio and the prudential liquidity ratio applicable for commercial banks from 12 percent to 14 percent and 15 percent, respectively.
- On January 19, 2010, an amended Ministerial Regulation on the supply of information with respect to judicial documents (AB 2010 no. 4) went into effect, granting the Prosecutor General the authority to pass on data from the judicial records to the President of the CBA.
- On February 10, 2010, the Aruban Parliament enacted a new state ordinance, which allowed the transfer of oversight of compliance with the State Ordinance on the Obligation to Report Unusual Transactions (SORUT) (AB 2010, no. 4) for the financial institutions supervised by the CBA from the Reporting Center for Unusual Transactions (RCUT) to the CBA.
- Both the State Decree on Passing on Supervision Costs to the Insurance Companies (AB 2006 no. 3) and the State Decree on Passing on Supervision Costs to the Money Transfer Companies (AB 2007, no. 18) were amended by the State Decree of March 26, 2010 (AB 2010, no. 13), which went into effect on April 5, 2010, whereby the costs that can be charged on an annual basis to the insurance and money transfer sectors were set at Afl. 300,000 and Afl. 150,000, respectively.
- As of April 1, 2010, the CBA augmented the minimum risk-weighted capital asset ratio for bank-like institutions from 12 percent to 14 percent.
- On May 5, 2010, the Monetary Policy Committee (MPC) was institutionalized with the objective to periodically evaluate and delineate monetary policy.
- As of June 25, 2010, the CBA is entrusted with overseeing compliance with the Sanctions State Decree to Combat Terrorism and Terrorist Financing (AB 2010, No. 27) with respect to the financial institutions under its supervision.
- As of September 1, 2010, the CBA introduced new guidelines for deposit and withdrawal of bank notes for commercial banks and government departments, as well as for the money transport companies.
- On October 1, 2010, the CBA lowered its advance rate by 2 percentage points to 1 percent, based on the continued slowdown in business activity, modest inflation rate, and low interest rates on the international money and capital

markets. Consequently, the legal interest rate, which equals the advance rate plus two percentage points, declined from 5 to 3 percent. This is the interest rate that can be charged in case of default of payment. However, parties are free to enter into a contract in which the penalty fee in case of default of payment, is much higher than the legal interest rate.

- For 2010, the twelve-month average of the consumer price index reached 2.1 percent, up from minus 2.1 percent in 2009.

Financial highlights for 2010

- At end-2010, the CBA's total assets had risen by Afl. 37.6 million or 2.9 percent to Afl. 1.3 billion, compared to end-2009, due to an Afl. 61.0 million increase in the revaluation of gold holdings. This increase was offset by a decline of Afl. 19.2 million in foreign currency assets. On the liability side, the deposits of residents also fell by Afl. 22.3 million.

- Total gross income (net of interest expenses) dropped by Afl. 3.6 million or 10.5 percent to Afl. 30.7 million, mainly the result of a decrease in investment revenues.

- Other expenses edged down slightly by 0.2 percent to Afl. 17.3 million, partly related to a 10.9 percent decrease in personnel expenses; this decline was attributable to the early retirement plan offered to the staff in 2009, which 6 staff members accepted.

- Net profit amounted to Afl. 13.4 million, i.e., Afl. 3.1 million or 18.9 percent lower than in 2009 and was attributed mainly to a decline in the interest revenue of the foreign currency investments. An amount of Afl. 10 million was distributed to the Treasury, and the remaining profit was added to the general reserve.

2 THE BUSINESS OF THE CBA

2.1 Domestic payment system

2.1.1 Currency operations

The CBA has the sole mandate of issuing bank notes and coins in Aruba. In carrying out this function the CBA, with the approval of the Ministry of Finance, determines the quantity, the denomination, the substrate, and the characteristics of the notes and coins. The CBA also manages the design and overlooks the currency manufacturing process. The CBA provides notes and coins to the commercial banks, which in turn supply the public's demand for currency.

The commercial banks redeem surplus bank notes to the CBA. The bank notes are then withdrawn from circulation. The CBA processes the redeemed notes and destroys the unfit ones using a sophisticated and environmentally friendly bank note destruction machine. It is the CBA's aim to have only high quality bank notes in circulation.

In 2010, the CBA also revised its guidelines related to the remittance of bank notes and coins to and from the CBA and introduced guidelines for the money transport companies. Much emphasis was put on the quality requirements of the deposits, so that deposits that do not comply with these requirements are no longer accepted. One of the requirements is that the deposits should be packed in special deposit bags per denomination and bundled in pieces of one hundred.

Bank notes in circulation

Total value of bank notes in circulation amounted to Afl. 197.8 million at the end of 2010, i.e., a slight decrease of 1.4 percent compared to 2009 (Afl. 200.7 million). Table 2.1 gives an overview of the bank notes in circulation per denomination. As can be derived from this table, the total number of bank notes in circulation fell by 6.8 percent in 2010 compared to 2009.

During the last two years, a minor increase was observed compared to 2008. Even with the introduction of payment cards, such as debit and credit cards, and electronic payments, such as online banking, the use of florin bank notes to make payments is still increasing albeit marginally. The Afl. 100 denomination continued to represent the largest share of all notes issued, comprising 45.8 percent of the total bank notes in circulation, while the Afl. 500 bank note remained underused.

Table 2.1: Bank notes in circulation (in numbers)

Denomination	2006	2007	2008	2009	2010
500	13,288	12,744	12,370	11,424	10,521
100	1,365,546	1,573,524	1,640,061	1,554,223	1,536,965
50	327,891	323,192	349,518	316,754	309,430
25	541,032	615,755	671,943	635,320	618,059
10	611,811	649,723	683,235	692,393	703,796
5	177,491	177,168	177,043	176,768	176,586
Total	**3,037,059**	**3,352,106**	**3,534,170**	**3,386,882**	**3,355,357**

Source: CBA.

As can be seen on chart 2.1, the Afl. 100 bill stayed by far the most commonly used denomination for the last 5 years.

Chart 2.1: Bank notes in circulation by denomination

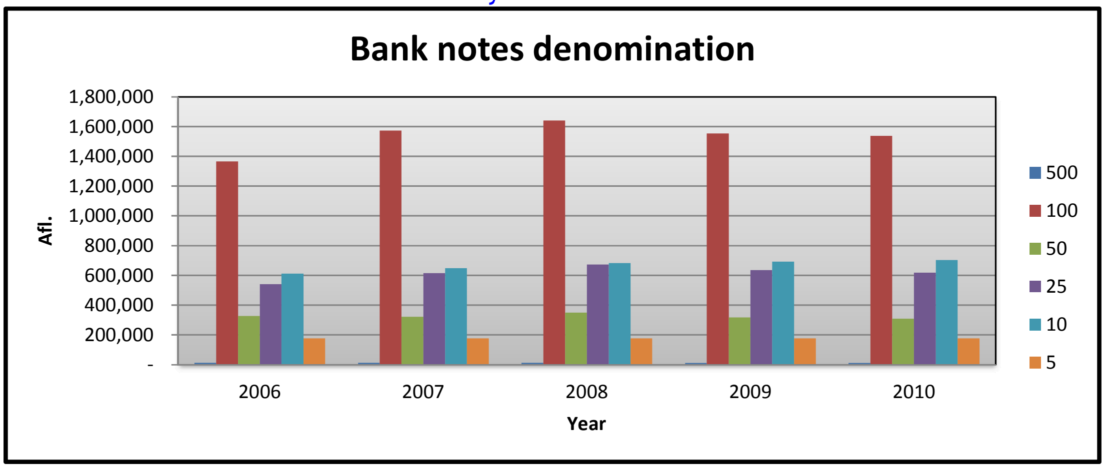


Chart 2.1: The Afl. 100 denomination continues to be the most used bill.

Counterfeit florin bank notes

The number of counterfeit florin bank notes continued to be very low. The CBA regularly provides extensive information on its website and also via the commercial banks to help the public verify the authenticity of the florin bank notes.

Coins in circulation

The CBA is also entrusted with the issuing of coins on behalf of the government. The increase in the number of coins in circulation in 2010, excluding commemorative coins, reached Afl. 26 million (2009: Afl. 25 million). As can be seen from Table 2.2, the smallest two coin denominations, the 5 and 10 cent coins, are the largest in circulation, closely followed by the 25 cent coin.

Table 2.2: Coins in circulation (in number)
(in thousands)

Denomination	2006	2007	2008	2009	2010
5.00	1,018	1,506	1,567	1,570	1,634
2.50	80	81	83	83	84
1.00	6,914	7,297	7,664	7,901	8,272
0.50	5,191	5,487	5,888	6,197	6,561
0.25	9,957	10,708	11,378	11,971	12,579
0.10	15,377	16,553	17,844	18,985	19,828
0.05	15,955	17,109	18,138	19,107	19,960
Total	**54,492**	**58,741`**	**62,562**	**65,814**	**68,948**

Source: CBA

Chart 2.2 illustrates graphically the number of coins in circulation by denomination.

Chart 2.2: Coins in circulation by denomination

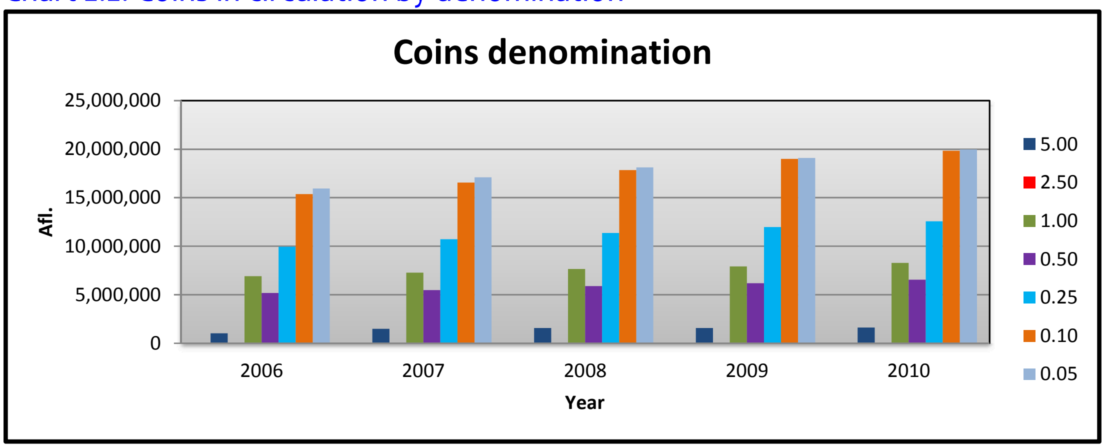


Chart 2.2: The 5 cent and 1 cent denominations remain the most used coins.

Commemorative coins and coin sets

In 2010, the CBA issued on behalf of the government, two silver commemorative proof quality coins with a nominal face value of Afl. 5. The Olympic Judo coin was issued within the framework of the Summer Olympic Games that will be held in London in 2012, and in particular pays tribute to the Judo sport in Aruba. By doing so, the government seeks to boost the practicing of Judo among Aruban youth.

The other commemorative proof coin issued by the CBA has a nominal face value of Afl. 5 and is dedicated to the California Lighthouse, one of the most popular tourist attraction sites in Aruba, offering a magnificent view over the western coast. The 2010 coin set with the theme “Birds in Aruba” was issued to make people aware that nature and birds need protection.

Exposition CBA 2011

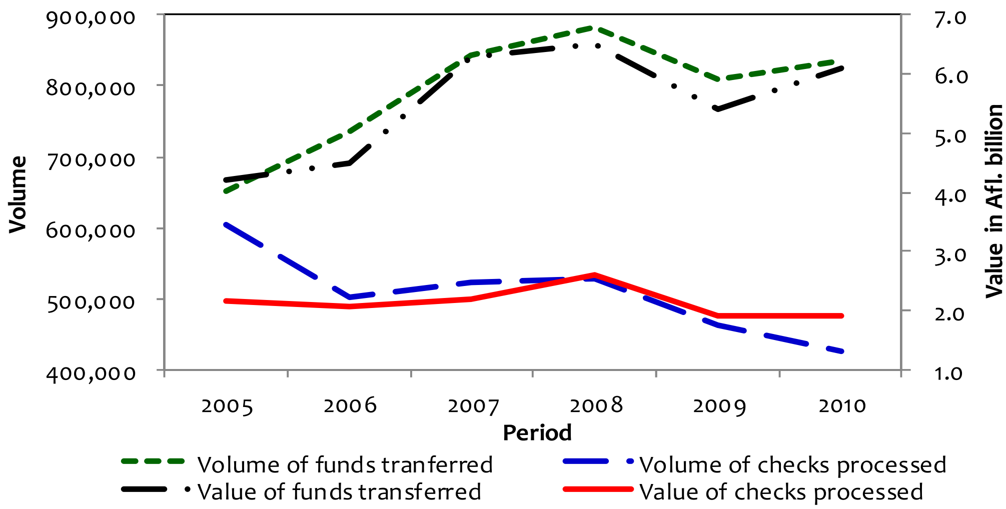
On January 1, 2011, the CBA commemorates its 25th year of existence. To celebrate this occasion, an exposition was organized with the theme "Celebrating 25 years of the CBA and our florin". In this exposition, the CBA displayed all the florin bank notes, coins, coin sets, and commemorative coins it had issued during the past 25 years.

2.1.2 Clearing system

To ensure a safe, secure, and efficient payment and settlement service that allows the community to complete transactions smoothly, the CBA operates a computer network system called the Goldnet Clearing System. This electronic payment system processes payments between the commercial banks, the Department of Finance, a number of government-related institutions, such as the WEB, the SETAR, the APFA, and the CBA.

This batch-clearing system is based on a secured web-client solution through which interbank checks and fund transfers are settled. The payment settlement system continued to operate smoothly in 2010. In 2010 the CBA also upgraded the local clearing application to a newer version that will enable additional clearing services in the near future. The volume as well as the value of transfers processed increased in 2010 in comparison to 2009. The volume of checks processed through the clearing system continued to decline (see Chart 2.3), dropping by 8 percent to 426,000 (2009: 463,000) while the total value remained unchanged at Afl. 1.9 billion. Also, the volume and value of the transfers rose by 3.1 percent to 835,539 transactions and by 13 percent to Afl. 6.1 billion, respectively.

Chart 2.3: Transactions processed by the CBA Clearing System



2.1.3 Banker to the government

Within the scope of the CBO, the CBA functions as the banker for the government and adviser to the Minister of Finance. As part of its treasury services to the government, the CBA accepts deposits from the government and execute its foreign payments.

The CBA also provides services regarding the issuance and settlement of government securities. In conformity with the CBO, the CBA does not charge any fee on the domestic and foreign payments carried out on behalf of the government. These payments are cleared through the Treasury's current accounts, including earmarked accounts held with the CBA, which balances amounted to Afl. 76.3 million at the end of 2010. Government deposits held in earmarked accounts decreased from 2009 to 2010 by Afl. 46.6 million to Afl. 40.3 million at the end of 2010. The development fund account, managed by the Stichting Fondo Desaroyo Aruba (FDA), fell by Afl. 97.1 million to Afl. 7.9 million at the end of 2010.

In 2010, the CBA assisted with the renewal of two 3-month treasury bill issues, for a total amount of Afl. 40 million, that matured in July 2010 and was not renewed, and Afl. 8 million in 6-month cash loan certificates that matured in September 2010. In December 2010, an amount of Afl. 40 million in treasury bills was reissued. The yield on these treasury bills fluctuated between 0.33 percent and 0.63 percent, considerably lower than in 2009 (respectively, 0.58 percent and 1.11 percent). The average yield on these treasury bills moved downwards, reflecting an excess liquidity in the domestic market and the declining trend in interest rates on the international money markets. In 2010, the weighted average yield was 0.51 percent, 0.18 percentage point lower than in 2009. The yield on the cash loan certificates issued in March 2010 was 0.61 percent.

The CBA also intermediated on behalf of the government with respect to the issuance of government bonds at par on the domestic market, which raised a total of Afl. 348 million in 2010. The proceeds of the bond issued in May 2010, totaling Afl. 23.5 million and yielding on average 4.75 percent, were used to finance the deficit of the AZV for 2009. The proceeds of the second bond issue in June 2010, totaling Afl. 180 million and yielding on average 5.75 percent, were used to cover the first tranche of the financing needs of the government for the year 2010. In December 2010, the second tranche of the financing needs of the government for the year 2010 was issued for a total amount of Afl. 144.5 million and an average yield of 4.63 percent.

2.2 International payment system

2.2.1 Daily exchange rate fixing

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 U.S. dollar, and in accordance with article 12 of the CBO, the CBA publishes daily quotations for nine other foreign currencies based on data provided by the European Central Bank (ECB).

These rates are published on a daily basis on the CBA's website and are for amounts up to Afl. 100,000. For transactions greater than Afl. 100,000, the commercial bank can request a new quotation. In 2010, the selling rate of the euro against the florin varied between Afl. 2.15 and Afl. 2.62, while the buying rate fluctuated between Afl. 2.13 and Afl. 2.59. At the end of 2010, the euro had depreciated against the florin, pushing the selling rate down by 7.2 percent or Afl. 0.19 to Afl. 2.40 compared to 2009.

2.2.2 Foreign exchange transactions

Foreign exchange outflows surpassed inflows in 2010 resulting in a net sale of Afl. 26.3 million in foreign exchange, Afl. 15.7 million lower than in 2009. This outflow was attributed mainly to the net sale to the government. The net sale of foreign exchange to the government grew by Afl. 32.2 million (20.9 percent) to Afl. 186.6 million, while the net purchase of foreign exchange from the commercial banks fell by Afl. 19.2 million (12.5 percent) to Afl. 134.6 million.

Other foreign exchange transactions of the CBA led to an Afl. 25.7 million net inflow compared to an Afl. 41.4 million net outflow in 2009. The latter was attributed mainly to the settlement of the gold option collar contract by the CBA in April 2009.

In general, foreign exchange transactions with the government results in a net sale of foreign exchange to the government or a net outflow of funds to abroad. However, in 2008, the net purchase of foreign exchange from the government amounted to Afl. 112.0 million, largely induced by the incidental receipt from the Dutch government of part of the proceeds of the sale of the shares of Plant Hotel N.V.

Total foreign exchange purchases grew by Afl. 7.1 million (0.9 percent) to Afl. 841.9 million in 2010, reflecting mainly an increase of 11.4 percent in foreign exchange purchase from the commercial banks. This increase was offset partially by a 61.9 percent drop in interest earnings on foreign investments of the CBA and purchases of foreign exchange from other customers, including the government. In 2010, the government received Afl. 1 million from the Dutch government related to, inter alia, development aid.

On the other hand, total foreign exchange sales decreased by Afl. 8.6 million (1.0 percent) to Afl. 868.2 million in 2010, reflecting a growth of Afl. 100.4 million (17.9 percent) in foreign exchange sales to the commercial banks combined with an Afl. 109.0 million or 34.5 percent contraction in other outgoing foreign exchange transactions. The latter was caused largely by an Afl. 17.1 million or 8.3 percent drop in the government's foreign exchange spending, mainly related to foreign debt service payments and tourism promotion abroad, while in 2009 there was a settlement of the CBA's gold contract mentioned above.

Table 2.3 Foreign exchange transactions
(in Afl. million)

	2008	2009	2010
Net purchase/sale (-) from/to commercial banks	229.1	153.8	134.6
Net purchase/sale (-) from/to government	112.0	-154.4	-186.6
of which government' foreign exchange spending	-232.2	-205.3	-188.2
Net purchase/sale (-) from/to other customers	74.3	-41.4	25.7
Net purchase/sale (-) of foreign exchange	415.4	-42.0	-26.3

Source: CBA

2.2.3 Foreign exchange regulations

The foreign exchange regulations in Aruba are laid down in the State Ordinance Foreign Exchange Transactions (AB 1990 Gt 6) (SOFET), which, inter alia, state that current transactions are in principle free, while capital transactions require a license. Although capital transactions are bound by a license, the CBA over the years continued to liberalize capital transactions with nonresidents.

Based on the Notice concerning Foreign Exchange Transactions 02/K.1, resident natural persons are allowed to transfer yearly up to a maximum amount of Afl. 300,000 without a special foreign exchange license. For legal entities (excluding commercial banks), this threshold is Afl. 750,000. Additionally, institutional investors must comply, at all times, with the 40-60 percent investment rule, which requires that part of their investments is held locally.

Pursuant to the Notice concerning Foreign Exchange Transactions RV 2009/1, resident companies that have notified the CBA of their foreign accounts, are in possession of an exemption from adhering to the provisions of the articles 11 and 12 of the SOFET, and comply with the conditions mentioned in the exemption, are allowed to make transfers to and from notified foreign accounts without any administrative restriction.

Based on the Notice concerning Foreign Exchange Transactions AW 2005/1, commercial banks must obtain a special foreign exchange license when granting loans to nonresidents exceeding the amount of Afl. 1,000,000 per annum and per individual or group of nonresident borrowers, as well as for certain transfers or sales of financial instruments such as bonds and notes to nonresidents.

Compared to 2009, the number of special foreign exchange licenses granted by the CBA dropped by 80 or 22.2 percent to 280 in 2010, (see Table 4.2). This drop was attributable primarily to the liberalization of the foreign exchange arrangements for transfers to and from notified foreign accounts, which resulted in a decline of the special foreign exchange licenses with 78 or 40 percent compared to 2009. The total value of the transactions for which licenses were granted in 2010 fell by Afl. 1.5 billion or 50.7 percent to Afl. 1.4 billion, caused mainly by decreases in the amount of transactions related to transfers to and from reported foreign accounts, real estate and investment participations locally and abroad, as well as other capital transactions.

On the other hand, the amount of transactions related to foreign loans (including refinancing) and portfolio investment rose by, respectively, Afl. 341.0 million or 89.9 percent to Afl. 720.1 million and Afl. 2.4 million or 54.5 percent to Afl. 6.8 million. The rise in the amount of foreign loans, including refinancing, was due in part to two foreign loans related to large infrastructure projects. In addition, transactions related to the granting of guarantees to nonresidents amounted to Afl. 341.9 million.

In 2010, the number of declarations for transfer of dividend payments to nonresident shareholders rose by 2 or 5.9 percent to 36, representing a total amount of Afl. 131.7 million compared to 2009.

Table 2.4 Overview of foreign exchange licenses issued
(Amounts in Afl. million)

	2009		2010	
Description	**Number**	**Amount**	**Number**	**Amount**
Participation in local companies by nonresidents	4	206.2	2	42.5
Transfers to and from notified foreign accounts	195	1,269.9	117	63.8
Portfolio investment abroad	5	4.4	4	6.8
Participation abroad	2	13.2	0	0
Lending/Borrowing abroad	47	352.8	38	455.1
Refinancing	10	26.3	10	265.0
Granting guarantee abroad	0	0	5	341.9
Selling/ Buying real estate	88	850.1	84	120.4
Other capital transactions	9	159.0	20	125.3
Total	**360**	**2,881.9**	**280**	**1,420.8**

2.2.4 Foreign exchange commission

Pursuant to article 2, paragraph 1 of the State Ordinance Foreign Exchange Commission (SOFEC), residents must pay a 1.3 percent foreign exchange commission on their payments to nonresidents. These payments may be effectuated through, inter alia, local foreign exchange banks or via foreign accounts reported to the CBA.

However, based on the State Decree Regulation Exemption Foreign Exchange Commission certain transactions are exempted from the payment of the foreign exchange commission by certain groups of companies (including government-related companies). On October 10, 2010, the Netherlands Antilles ceased to exist with a change in the five islands' constitutional status. Curaçao and Sint Maarten became autonomous countries within the Kingdom of the Netherlands. On the other hand, Bonaire, Sint Eustatius, and Saba are now autonomous special municipalities of the Netherlands and adopted the USD as legal tender. Transactions in Netherlands Antillean guilders currently are exempted from the foreign exchange commission, but the government intends to withdraw this exemption.

Based on article 12 of the State Ordinance on the Free Zone, free-zone companies may request an exemption for the payment of foreign exchange commission related to their foreign payments for goods and services that have to be re-exported.

Also, offshore companies, which have obtained an exemption according to article 19 of the SOFET, as well as Aruba Exempt Corporations, the so-called AVVs, which were incorporated before January 1, 2006, are, by virtue of law, nonresidents and, therefore, not subject to the foreign exchange commission. However, due to the amendment in the tax regime of the AVV, all AVVs incorporated after January 1, 2006, are considered resident and, for that reason, should pay the foreign exchange commission unless they have obtained an exemption as defined in article 19 of the SOFET.

The government is responsible for determining the policy concerning the foreign exchange commission, while the CBA is entrusted with its collection. In 2010, the total amount of foreign exchange commission collected rose by Afl 7 million or 20.4 percent to Afl. 41.2 million, compared to 2009. The CBA transferred Afl. 41.3 million to the Treasury in 2010, which includes the transfer of the amount accrued in 2009.

2.3 Managing the official foreign exchange reserves

The CBA manages Aruba's official foreign exchange reserves as laid down in article 12, sub 1 of the CBO, and applies, among other things, the B-9 rule for commercial banks and the 40-60 percent investment rule for institutional investors. The B-9 rule assigns a certain level of foreign exchange reserves to the commercial banks to hold as working balances and use to finance the foreign transactions of their clients. The 40-60 percent investment rule aims to maintain a certain level of investments of institutional investors domestically.

The CBA's policy regarding the management of the official foreign exchange reserves remained unchanged in 2010. The CBA pursues a prudent investment policy to minimize potential losses. The foreign exchange reserves of the CBA are invested largely in U.S. dollars and in U.S. government and U.S. Agency securities, securities issued by qualifying supranational financial institutions, and money-market instruments comprising mostly certificates of deposits, time deposits, and treasury bills.

2.4 Monetary policy

In 2010, the monetary policy framework of the CBA experienced some significant changes. The most comprehensive was the move away from a direct system of monetary policy towards an indirect system. This move entailed the elimination of the credit ceiling, implying that commercial banks are no longer restricted to a maximum level of credit growth, and a more effective use of a reserve requirement, which became the main policy instrument. Thus, the monetary policy has become more dynamic, as adjustment in the reserve requirement rate set, can be amended on a monthly basis, instead of being constrained by the setting of annual targets for credit growth, the main monetary policy instrument in the past.

Consistent with the CBA's expectations, a continuation of an economic contraction during 2010 was reflected in a sustained weak domestic credit demand. This weak demand was manifested in a 3.1 percent drop in consumer credit, and a meager 0.5 percent decrease in business loans over 2010. For 2011, the CBA forecasts total domestic credit to increase slightly but will remain sluggish in comparison to historical levels.

Following its move towards indirect monetary policy tools, in 2011, the CBA will monitor developments in economic and monetary fundamentals on a monthly basis, including forecasts of variables including: (1) net foreign assets; (2) inflation; (3) banking sector credit; (4) bank liquidity; and (5) gross domestic product. To this end, the CBA established a so-called Monetary Policy Committee in May 2010 to formulate its policy stance. Timely and regular communication of CBA's policy stance is regarded as conducive to providing transparency and accountability to the general public. To this end, the MPC aims to disseminate its policy decisions on a regular basis through the local media.

2.5 Financial sector supervision

The main objective of financial sector supervision is to maintain the integrity and the financial soundness of the sectors and institutions supervised. Off-site surveillance and risk-based on-site examinations are carried out by the CBA on a continuous basis to assess compliance with the laws and regulations governing the banks, money transfer companies, insurance companies, company pension funds and trust service providers. In addition, the CBA holds regular bilateral meetings with the supervised institutions and their representative organizations.

On January 19, 2010, an amended Ministerial Regulation on the supply of information with respect to judicial documents (AB 2010, no. 4) went into effect. According to his Regulation, the Prosecutor General was granted the authority to provide data from the judicial records to the President of the CBA, thereby enhancing the possibilities for the CBA to conduct fit and proper testing on directors, co-policy makers, and shareholders. Furthermore, on February 10, 2010, in compliance with the Financial Action Task Force (FATF) recommendations contained in the Mutual Evaluation Report (MER) of Aruba dated October 16, 2009, the Aruban Parliament approved the transfer of the oversight of compliance with the provisions of the SORUT with regard to the institutions supervised by the CBA from the RCUT to the CBA.

As of June, 25 2010, the CBA is entrusted with overseeing compliance with the Sanctions State Decree to Combat Terrorism and Terrorist Financing (AB 2010, No. 27), with respect to the financial institutions under its supervision.

As part of the Kingdom of the Netherlands, Aruba is a member of the FATF, the internationally recognized standard-setter for anti-money laundering and combating terrorist financing. The government of Aruba has committed itself to implement the 40+9 FATF recommendations and, thus, to bring its anti-money laundering and combating financing of terrorism (AML/CFT) framework in line with FATF standards. Over the years, these standards have been revised and expanded. Therefore, ongoing review of the legislative framework and practices in these areas vis-à-vis the FATF standards is necessary. The MER on Aruba, adopted by the FATF on October 16, 2009, provides a road map for further strengthening the AML/CFT framework.

As noted in the MER, the CBA's supervisory scope should be extended further. A proposal has been made to extend the scope of the existing supervisory laws. Furthermore, the CBA currently is drafting a proposal for a state ordinance with respect to the supervision of investment businesses. This state ordinance also will cover (electronic) stock exchanges, investment companies and advisors, as well as fund services businesses.

2.6 Organizational affairs

At the end of December 2010, the CBA employed 76 persons full-time. During that year, the CBA entered into a labor contract with 10 new employees, one employee left, while the secondment period of 1 employee from DNB ended. The management of the CBA would like to thank its staff for their commitment and support during 2010.

As of September 1, 2010, Mr. A.J. Swaen, Chairman of the Board of Supervisory Directors (BoSD) for 8 years, was replaced by Mr. C.G. Maduro. On February 28, 2011, Mr. G.G. Oduber resigned as a member of the BoSD, having reached the end of his tenure. As of March 1, 2011, Mr. J.M. Veel and Mr. A.A.D.A. Carlo were appointed as members of the BoSD. The management of the CBA wishes to express its appreciation to Mr. Swaen and Mr. Oduber for their contribution and commitment to the CBA and welcomes the new board members.

2.6.1 Training, courses, and seminars

CBA's staff participated in a number of local and foreign courses, seminars, and conferences during 2010. Also, in February 2010, the CBA organized a physical security awareness training for its staff and executives of the Aruba Banker's Association. The training was given by Mr. C. Williams, a Physical Security Expert from Wachovia Bank in Atlanta, Georgia.

In May 2010, the CBA hosted the workshop "Anti Money Laundering/ Combating the Financing of Terrorism" that was given by the "Nederlands Compliance Instituut" and the "Stichting Opleidingen Financiële Sector". This workshop was attended by representatives of Aruba's financial institutions .

In October-November 2010, the CBA coordinated the "Opleiding Besturen van een Arubaans Pensioenfonds", which was organized and facilitated by the "Stichting Pensioen Opleidingen" from the Netherlands with the objective of enhancing the knowledge of the boards of directors of the local pension funds.

To conclude, in November 2010, the CBA organized the two-day 'Symposium on Enhancing Integrity in the Dutch Caribbean", which was attended by all the financial sector supervisors and regulators within the Dutch Kingdom. On the second day also the managements of the financial institutions were invited to attend.

With the assistance of an external consulting firm, the CBA organized several workshops on core values for its own employees. As a result of these workshops, the CBA introduced the following core values for the CBA: (1) open communication, (2) cooperation, (3) integrity, (4) responsibility, (5) willingness to change, and (6) excellence. The CBA also held workshops for managers and deputy managers on competency management.

Also, in 2010, the CBA, based on the MER of October 16, 2009, issued by the FATF, organised several information sessions primarily aimed towards financial institutions and non-financial businessess and professions. In January 2010, the first information session was organized by the CBA to present the main findings and recommendations in the area of anti-money laundering and combatting of terrorism financing contained in the MER and also its follow-up action plan to address the shortcomings mentioned in that report. In June 2010, the second information session was organised for the supervised financial institutions regarding the introduction of a handbook for the detection and prevention of money laundering and financing of terrorism. In September 2010, information sessions were organized to introduce the handbook that was sent out in draft for consultation, and to inform the sector on the prepatory work being undertaken to bring investment businesses under the CBA's effective supervision.

2.6.2 Organizational changes

In 2010, the CBA with the assistance of an external consulting firm, continued to streamline and improve the efficiency of several of its processes, after initiating an evaluation of the functions and tasks of the Human Resources, and Facilities Department. Also, an evaluation of the permanent positions/ functions at the Supervision Department followed. In 2010, some of the tasks of the Facilities Department were integrated into the Information Systems Department and the Information and Physical Security Department, thus enabling the Human Resources and Facilities Department (HRFD) to dedicate more time to matters related to personnel management. The Information Systems Department was renamed the Information Systems and Facilities Department (ISFD), reflecting a broadening of its responsibilities, which now include among other things, the maintenance of the CBA's building.

As of January 1, 2011, the Integrity Unit within the Supervision Department became a separate department and was named the Integrity Supervision Department (ISD). The Supervision Department was renamed the Prudential Supervision Department (PSD), and is primarily responsible for the prudential supervision of the financial sector, which entails promoting the financial stability of this sector. However, this department will assists the ISD in the executions of its tasks. The CBA believes that splitting the Supervision Department into two separate departments will improve the efficiency and the effectiveness of the execution of the new tasks assigned to the CBA.

2.6.3 Major activities in 2010 and outlook for 2011

Information Technology

The Central Bank of Aruba continued to pursue the latest information technology trends, based upon cost and benefit analysis by investing in virtualization strategies and technologies. The CBA uses virtualization as a driver toward more centralized IT services and to achieve a higher level of agility. Approximately 90 percent of its server environment is virtualized, and the CBA also moved to a Windows 7 virtualized desktop environment. Desktop virtualization combined with server virtualization has significantly improved the CBA's business continuity preparedness and enables the IT environment to become more responsive to business needs. To adequately support the supervision of the financial institutions and to enable the personnel of the CBA to work off premises, secure remote access to information processing resources also has been facilitated through RSA technology.

In 2011 the ISFD will execute an upgrade of the current server infrastructure of the CBA so it can accommodate current operational demands and future growth. Consequently, this upgrade will facilitate CBA's internal processes with new information processing tools such as database technologies that support data marts, document imaging, and business intelligence reporting tools. The CBA will also continue to invest in technologies that will facilitate CBA's ability to quickly recover its technology infrastructure in the case of a disaster. To back this initiative, several projects will be executed in 2011 to support the first preliminary disaster recovery exercise.

Furthermore, the CBA will upgrade its current network infrastructure with additional bandwidth to better accommodate the local Clearing network and to facilitate future cloud computing investments that should contribute to the overall simplification of CBA's disaster recovery initiatives.

Archives Department

Due to new developments in the area of documentation and information management, and the growth in personnel as well the expansion in tasks executed, the CBA began the process to update procedures related to its archive management. To this end, the CBA hired an external consultancy bureau to assist with the assessment and implementation of this task.

3 GOVERNANCE AND ACCOUNTABILITY

The financial year 2010 was characterized by various important developments. In this section, the focus is on corporate governance and risk management, with special attention to investments and financial risks.

3.1 Governance structure

The CBA is a legal entity incorporated under Aruban law, and its independence is regulated in article 2, paragraph 2, of the CBO, in which it is stated that the CBA is a legal entity and as such, a bearer of rights and duties.

Management structure

The CBA is managed by a President assisted by one or two Executive Director(s), appointed by the Governor of Aruba, the Executive Committee. The President is accountable for the CBA's actions and determines the policy and conducts the management of the CBA in the broadest sense. The Executive Committee, consisting of the President and Executive Directors, operates according to the general regulations set out in the State Decree giving directives for the President, the Executive Director(s), and the BoSD. As stated in this decree, all papers of value and letters concerning financial transactions must in principle have two signatures. On June 1, 2010, two Executive Directors were appointed and, subsequently, two General Manager positions became vacant. As of January 1, 2011, the management team of the CBA consists of the President, 2 Executive Directors, 12 Department Managers, and 1 Deputy Manager temporarily filling the vacant position of the Manager of the HRFD. The CBA also has an Investment Committee that advises on matters related to CBA's investments, and a Budget Committee responsible for the preparation and submission of CBA's budget to the BoSD for approval.

BoSD

The BoSD of the CBA consists of at least three and at most five members. The Government Commissioner is the Chairman of the BoSD, and is appointed and dismissed by the Governor of Aruba. As of September 1, 2010, a new Chairman was appointed. The members of the BoSD are appointed for a term of five years. At the end of 2010, the BoSD consisted of three members. As of March 1, 2011, two new members were appointed and one member resigned from the BoSD. The BoSD supervises the CBA's operations and oversees the management of the CBA's property as well as the funds entrusted to it. On request, the Executive Committee reports on policies pursued, as well as on the administration and management conducted. The BoSD meets at least four times a year and exercises its duties according to the rules set forth in the aforementioned State Decree. Its tasks include, among other things, the approval of the budget and the adoption of the financial statements.

After approval by the BoSD, the budget is submitted to the Minister of Finance and Parliament, while the financial statements are submitted to the Minister of Finance. The BoSD is also responsible for appointing the CBA's external auditor.

In 2010, the BoSD held 8 scheduled meetings and advised on several issues. In addition, the Chairman of the BoSD held weekly meetings with the President to discuss matters related to the CBA.

The employment conditions for the staff, including pension provisions, are determined by the BoSD and the President after they have consulted with the Minister of Finance. The remuneration of the BoSD is determined by the Minister of Finance, after he has consulted with the members of said Board and the President. Also, additions to the general reserve and the forming of earmarked reserves are determined by the CBA, after prior written approval of the Minister of Finance.

The CBA attaches great importance to matters regarding good corporate governance. The CBA's principal objectives are laid down in the CBO, and it makes sure that the appropriate levels of accountability and checks and balances are in place.

3.2 Risk management

The CBA faces a number of risks with regard to the performance of its (main) tasks. Some of these risks are general, while others are unique to central banks. Risk management is integral to the CBA's daily operations, with management's efforts directed towards ensuring that detailed procedure manuals, proper segregation of duties, and clear delineation of roles and responsibilities are in place and integrated in departmental processes. The CBA is in the process of setting up a Risk Management Committee, which will be responsible for establishing a standardized risk management system for the CBA. This committee will monitor and provide advice on all material risks and will make recommendations on the steps taken or that need to be taken to mitigate these risks. In 2010, the CBA started the process of hiring a Risk Compliance Officer, who will be responsible for developing and maintaining compliance risk management programs, guidelines, and policies. For the budget cycle of 2010, the department managers were requested to carry out a risk self-assessment. The identified risks, together with the steps taken or that needed to be taken, were included in a risk matrix.

Several risks were identified by each department. The most fundamental risk is the reputational risk. Reputational risks result when policy errors occur regarding monetary policy or supervision of the financial system that could have a negative impact on the economy in general and on the CBA's credibility in particular.

Other risks include but are not limited to the following:

- Risk associated with the holding of foreign currency reserves (market, credit, and counterparty risks). The steps taken to mitigate these risks are further elaborated in paragraph 3.3.
- Risk associated with processing and storing currency, including risk of theft and robbery.
- Risk associated with bringing into circulation bank notes and coins that are not adequately guarded against counterfeit.
- Risk associated with the operations of the local payment system, which could arise from technical faults.
- Risk associated with non-compliance (compliance risk) with the prevailing laws and regulations.
- Risk associated with the dissemination of confidential information.
- Risk that data published by the CBA are inaccurate.

The CBA views risk management as an integral part of the day-to-day responsibility of the Department Managers, Executive Directors, and the President. The CBA has an Internal Audit Department (IAD) that independently supports the Executive Committee in matters related to evaluation on the effectiveness of controls, risk management, and governance processes.

In 2011, the IAD will expand its audit scope to other departments within the CBA, apart from the operational departments, which include Accounting, Cash and Vault, Operations, and HRFD. The IAD will assess if the work processes and instruments of internal control of these departments offer sufficient guarantee that the risks associated with the tasks carried out are adequately managed. To guarantee the continuity of and safeguard its IT-systems and processes, the CBA has an IPSD, which is responsible for protecting business information and information systems of the CBA, and is in charge of the physical security of the CBA property. The IPSD, in close cooperation with the ISFD and the IAD, formulates policy, rules, and procedures regarding both the information and physical security of the CBA.

As part of their continuous efforts to ensure the business continuity of the CBA, the ISFD and IPSD are involved in a project to address the aspects of technical disaster recovery. This project entails recovery of the IT infrastructure and data in the event of a disaster. Since January 1, 2010, the CBA has been engaged in a multi-year contract with a renewed IT company to provide disaster recovery services. This company will provide the CBA with a remote data center location and IT equipment to perform data recovery and restore vital IT operations.

3.3 Investment and financial risks

Foreign reserve management has an impact on the size and structure of the CBA's balance herewith sheet, as well as its financial performance. To minimize these risks associated herewith, the CBA implements a prudent investment policy strategy, which is fully fixed-income based. Against this background, the CBA invests in products that meet high standards in terms of credit quality and liquidity. Within these strict parameters, the CBA seeks to diversify and optimize its return.

The Investment Committee meets once a week to discuss, among other things, matters related to current market trends and economic developments that could impact its foreign exchange reserves as well as the investment performance. Once a month, the committee discusses the performance report of each asset manager, providing information for tactical or strategic changes in the investment policy.

Implementation of the strategic decisions is delegated to the asset managers. The portfolios are further categorized in a duration ladder, which consists of a medium-term portfolio managed by an external asset manager with an average duration of 1-3 years, a medium-term portfolio managed by the internal asset manager with an average duration of 1-3 years, and the long-term portfolio with an average duration of 1-10 years that is also managed by the internal asset manager.

Strict investment guidelines have been established for the asset managers; prior written approval of the President is required for any deviation from these guidelines. The IAD verifies that investments are executed according to the stipulated guidelines. In 2010, the Investment Committee began evaluation of several proposals from well-known custodian service providers with the intention of merging its portfolios under one custodian service provider. This effort also includes the possibility of acquiring an analytics tool to carry out performance and risk analysis on the CBA's total portfolios. The analytic tool will support the Investment Committee in analyzing and foreseeing potential risks within the portfolios. In 2010, the Committee started with the revision of CBA's investment strategy.

The CBA continuously monitors and analyzes international as well as local developments and their (possible) effect on its foreign currency reserves and investments, in order to adjust its investment guidelines in relation to the acceptable level of risk exposures.

3.3.1 Investment portfolio

At the end of 2010, the total foreign investments of the CBA amounted to Afl. 966.9 million, excluding gold and the foreign exchange holdings held in current accounts with foreign banks. Foreign investments comprised 73.4 percent of the CBA's total assets and 95.2 percent of its total foreign currency assets. The commercial banks and the government of Aruba can make a call on the foreign currency assets of the CBA to settle transactions in foreign currencies. To meet any request swiftly, the CBA maintains part of its foreign currency assets (up to 15 percent of its total foreign exchange holdings) on current accounts with foreign banks, mostly in U.S. dollars. These amounts are invested overnight, but can also be invested in time deposits with an average duration of 3 months.

In 2010, 63 percent of the CBA's total investment portfolio was invested in US agency bonds and 31.7 percent in Treasury notes, while 5.3 percent was invested in sovereign bonds. The CBA earned an average return of 2.8 percent on its total investment portfolio, excluding gold, compared to 3.4 percent in 2009. This decrease was related mostly to the persisting low interest rate environment in the United States.

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4 FINANCIAL STATEMENTS

Balance sheet as of December 31, 2010[1)], after profit distribution

(in Afl. thousand)

	2010	2009
Assets		
1. Gold	**280,945**	**219,935**
2. Foreign currency assets	**1,015,839**	**1,035,014**
2.1 Due from banks	43,857	72,573
2.2 Government and other paper	966,897	955,648
2.3 Bank notes	130	152
2.4 Interest receivables	4,955	6,641
3. Other assets	**20,783**	**24,975**
3.1 Receivables	7,711	10,642
3.2 Stocks of coins	212	429
3.3 Printing cost of bank notes	1,010	1,347
3.4 Other fixed assets	3,112	2,525
3.5 Premises	8,738	10,032
	1,317,567	**1,279,924**

The Executive Board:
J.R. Semeleer, President
M.M. Gonzalez, Executive Director
P. Mungra, Executive Director

[1)] Abbreviated

(in Afl. thousand)

	2010	2009
Liabilities and equity		
1. Bank notes in circulation	**197,797**	**200,663**
2. Deposits of residents	**859,275**	**881,582**
2.1 Government	86,307	106,232
2.2 Banks	763,975	669,000
2.3 Other	8,993	106,350
3. Deposits of nonresidents	**1,185**	**3,132**
4. Money in custody	**952**	**2,087**
5. Payables and accrued expenses	**4,615**	**4,785**
6. Pension Provision	**2,822**	**2,859**
7. Revaluation account	**164,608**	**101,932**
8. Capital and reserves	**86,313**	**82,884**
8.1 General reserve	76,313	72,884
8.2 Capital	10,000	10,000
	1,317,567	**1,279,924**

Oranjestad, June 23, 2011
Adopted by the Supervisory Board:
C.G. Maduro, Chairman
M.R. Croes
A.A.D.A. Carlo
J.M. Veel

Profit and loss account for the year 2010 [2)]

(in Afl. thousand)

	2010	2009
1. Net interest revenues	28,075	33,134
2. Foreign exchange revenues	1,200	1,354
3. Coins revenues	858	(543)
4. Various revenues	565	336
Total income	**30,698**	**34,281**
5. Printing cost of bank notes	337	337
6. Personnel expenses	10,280	11,538
7. Operating expenses	4,959	3,824
8. Depreciation	1,693	1,601
Total expenses	**17,269**	**17,300**
9. Net losses related to gold transactions	-	429
Profit	**13,429**	**16,552**

Profit distribution		
Allocated to the Treasury	10,000	10,000
General reserve	3,429	6,552

[2)] Abbreviated

NOTES TO THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT FOR 2010

1. GENERAL

Pursuant to article 31, paragraph 1 and 3 of the CBO, the President and Executive Directors shall prepare each year, before the first of July, the CBA's draft balance sheet and profit and loss account for the previous financial year. They shall submit these statements, after they have been audited by the external accountant, for approval to the Board of Supervisory Directors. In the first meeting following their submission, the annual accounts shall be approved by the Board and a copy sent to the Minister of Finance. The CBA's financial year equals the calendar year.

2. PRINCIPLES OF VALUATION AND DETERMINATION OF RESULTS

Comparison with previous year.

The principles of valuation and determination of results remained unchanged in 2010.

Accounting policies

The CBA adheres to the accounting policies as stated in the CBO. For the accounting policies not defined in this Ordinance, the CBA applies those of the European Central Bank (ECB) and the European System of Central Banks (ESCB) as of January 1, 2003. The application of the accounting policies of the ECB and ESCB did not lead to any changes in the principles of valuation and determination of results for 2010.

Gold, marketable securities, and on-balance sheet claims and liabilities denominated in foreign currency are valued at market prices on the last working day of the financial year. The other assets and liabilities are shown on a historical cost basis or at their nominal value.

Regarding the recognition of income, the accounting policies of the ECB and ESCB prescribe that unrealized losses should be recorded in the profit and loss account when exceeding previous revaluation gains registered in the corresponding revaluation account. This accounting treatment is not in conformity with article 31, paragraph 2 of the CBO, which requires that changes in the valuation of the gold and foreign exchange reserves and business assets of the CBA occurring during the financial year should be reported on the liabilities side of the balance sheet. Therefore, in the financial statements, unrealized losses have been charged to the revaluation account.

Conversion of foreign currencies

Assets and liabilities denominated in foreign currencies are converted into Aruban florin (Afl.) at the rate of exchange (middle rate) prevailing at the balance sheet date. Transactions in foreign currencies during the reporting period are incorporated in the financial statements at the rate of settlement. The exchange rate for one U.S. dollar is fixed at Afl. 1.79, in accordance with the State Decree value of the Aruban florin (AB 1992 no. GT 6).

Premises and other fixed assets

Premises and other fixed assets are recorded at historical cost less accumulated depreciation and are amortized according to the straight-line method over the estimated life of the asset, starting from the moment of use. The CBA's building is depreciated in 20 years; renovations and landscaping are depreciated in 10 years. Other fixed assets consist of computer hardware and software, furniture, and equipment. The estimated life of computer hardware and software is 3 years, that of furniture and motor vehicles 3 years, and equipment 5 years.

Revenue recognition

Income and expenses are recognized in the period in which they are earned or incurred. Realized gains and losses are included in the profit and loss account. Unrealized gains and losses are not recognized as income or expenses, but are transferred directly to the revaluation account.

Premiums or discounts obtained when buying securities are calculated and presented as part of interest income.

3. NOTES TO THE BALANCE SHEET

Assets

The figures in parentheses following the descriptions refer to the corresponding items in the balance sheet.

Gold (1)

Effective December 31, 2001, the gold holdings of the CBA are valued on a quarterly basis at the prevailing market price for gold. On December 31, 2010, the market price for gold was US$ 1,410.25 or Afl. 2,524.35 (2009: US$ 1,104 or Afl.1,976.16) per fine troy ounce. In the year under review, the gold holdings did not change and amounted to 111,294.2 fine troy ounces.

Gold holdings:	Fine troy ounces		Value in Afl. thousand	
	2010	**2009**	**2010**	**2009**
	111,294.2	111,294.2	280,945	219,935

Foreign currency assets (2)

Foreign currency assets are generally denominated in U.S. dollars, while relatively small amounts are held in Euros, British pounds, and Netherlands Antillean guilders (ANG).

Due from banks (2.1)

Comprise current accounts held at foreign credit institutions. The CBA deals directly with credit institutions in the Netherlands, the United Kingdom, the U.S.A. and also the Centrale Bank van Curaçao en St. Maarten, previously known as the Bank van de Nederlandse Antillen. To minimize foreign exchange risks, total non-U.S. dollar holdings (excluding ANG) are limited to a maximum of US$ 0.5 million.

Government and other paper (2.2)

Consists of investments through CBA's asset managers, based on investment guidelines, in:
1. Government and U.S. Agencies securities;
2. Securities issued by qualifying supranational financial institutions; and
3. Money market instruments, comprising mostly certificates of deposit, time deposits, and treasury bills.

The investment guidelines of the asset managers, based on conservative parameters, stipulate among other things, the investment objectives, benchmarks, average duration, and eligible investment instruments, which should all be denominated in U.S. dollar, per investment portfolio. For investments in government and U.S. Agencies securities, a minimum investment grade of Aaa & AAA is required, while for money market instruments (excluding treasury bills) the minimum investment grade is A-1 & P-1. These guidelines also maximize the share of eligible investment instruments within each investment portfolio as well as their minimum credit quality. At the end of December 2010, the investments of the CBA consisted entirely of U.S. dollar-denominated fixed income securities.

Other assets *(3)*

- ***Receivables*** *(3.1)*

Includes mainly mortgage and personal loans granted to the CBA's personnel, prepaid expenses, and foreign checks in transit. At the end of December 2009, the MICR machine, which is used to encode checks so they can be read electronically and processed, encountered technical problems. This problem resulted in a backlog of Afl. 4,077,328 in local checks deposited to be processed. The situation was remediated in the beginning of 2010, resulting in a substantial decrease in this item in 2010 compared to 2009. As of April 5, 2010, the amended State Decree on Passing on Supervision Costs to the money transfer companies became effective, authorizing the CBA to pass on to this sector part of the supervision costs incurred. Based on the mentioned state decree, an accrual of Afl. 100,000 was made at the end of December 2010, consisting of the costs to be passed on to this sector for the year 2010. The invoicing of these costs will take place in 2011.

(in Afl. thousand)

	2010	**2009**
Loans and advances to personnel	618	590
Mortgage loans to personnel	6,237	5,236
Prepaid expenses	207	296
Local checks in transit	-	4,077
Foreign checks in transit	376	363
Receivable for-passed on supervision costs	110	13
Administrative fine for late submission filings	-	45
Accrual usage fee clearing system	88	-
Other	75	22
Total	7,711	10,642

- ***Printing cost bank notes*** *(3.3)*

In 2008, the CBA ordered extra bank notes in the amount of Afl. 1.7 million. In 2009, these notes were brought into circulation. The printing costs of these notes are amortized over a period of 5 years, starting January 1, 2009.

- *Other fixed assets (3.4)*

The sub-items included in this item are:

(in Afl. thousand)

	Computer Hardware & Software	Office equipment & Inventory	Security	Motor Vehicle	Total
Book value as of January 1, 2010	1,594	683	102	146	2,525
Changes:					
Additions	894	252	219	68	1,433
Disposals	-	(6)	-	(67)	(73)
Depreciation charge	(410)	(286)	(49)	(101)	(846)
Depreciation write back	-	6	-	67	73
Closing net book value	2,078	649	272	113	3,112
On December 31, 2010					
Cost or valuation	6,242	5,778	1,013	406	13,439
Accumulated depreciation	(4,164)	(5,129)	(741)	(293)	(10,327)
Book value as of December 31, 2010	2,078	649	272	113	3,112

- *Premises (3.5)*

This item comprises the CBA's building at J.E. Irausquin Boulevard 8, renovations, and landscaping. At the end of 2008, an amount of Afl. 575,000 was accrued to replace the iron fence surrounding the CBA's building. In 2009, a decision was made to upgrade the perimeter security through the installation of infrared pillars and to renovate the fence in 2010. Both projects were completed by the end of 2010. Because the actual costs were lower than the amount accrued in 2008, the remaining balance of Afl. 301,935 was reversed at the end of December 2010.

Liabilities

Bank notes in circulation (1)

Bank notes are issued pursuant to article 7, paragraph 1 of the CBO.

(in Afl. thousand)

Denomination	**2010**	**2009**
5.00	883	884
10.00	7,038	6,924
25.00	15,451	15,883
50.00	15,471	15,838
100.00	153,693	155,422
500.00	5,261	5,712
Total	197,797	200,663

Deposits of residents (2)

- ***Government*** *(2.1)*

This item consists of deposits of the Government of Aruba held at the CBA.

- ***Banks*** *(2.2)*

This item comprises:

(in Afl. thousand)

	2010	**2009**
Current accounts	205,776	194,618
Reserve requirement	348,199	286,620
Time deposits	210,000	187,762
Total	763,975	669,000

Current accounts of the commercial banks are held primarily for transaction purposes. The reserve requirement comprises mandatory deposits held by the commercial banks in accordance with the monetary policy requirements of the CBA.

The maturity of time deposits may range from 7 days to 24 months.

- ***Other** (2.3)*

This item consists of deposits of the FDA, public nonfinancial corporations and other institutions.

Deposits of nonresidents (3)

This item consists of Aruban florin deposits of nonresident banks.

Money in custody (4)

Funds received in custody from third parties in conformity with the State Ordinance on Consignment of Money (AB 1991, no. GT 66).

Payables and accrued expenses (5)

(in Afl. thousand)

	2010	2009
Local checks outstanding	39	35
Foreign checks outstanding	376	363
Unclaimed principal/ coupons of Aruban government securities	89	97
Foreign exchange commission collected and due to the government of Aruba	2,054	2,168
Wage tax and social securities premiums withheld	207	178
Accrual for consultancy charges	335	125
Accrual for the upgrade of the Integrated Bank Application software	560	560
Accrual for asset management fee and custodian charges	180	136
Accrual for maintenance fence	-	575
Other payables	775	548
Total	**4,615**	**4,785**

The item "Other payables" consists largely of an Afl. 79,100 accrual for two projects related to IT-Security, an Afl. 40,000 accrual for the publication of the annual report 2010, and an Afl. 42,000 accrual for expenses related to surveys and other expenses. The item "Foreign exchange commission collected and due to the government" decreased slightly in 2010 compared to 2009. A total amount of Afl. 41.3 million in foreign exchange commission collected was transferred to the government of Aruba in 2010.

Pension provision (6)

Pursuant to article 21 of the CBO, the CBA is required to provide a pension plan for its employees. This pension plan was based upon an APFA-equivalent pension until 1996. In that year, the CBA entered into a collective pension plan with a private insurance company based on a fixed pension contribution scheme for most of its employees. Only a small number of employees, who prior to entering service with the CBA were civil servants, were given the option of keeping their pension plan with APFA, joining the new pension plan of the CBA or maintaining an APFA-equivalent pension plan. Therefore, the item "pension provision" consists of the claims ensuing from the special pension arrangements made for these small number of employees. The ensuing liabilities for 2010 are based upon actuarial calculations, whose underlying actuarial assumptions are equivalent to the pension scheme based on the Pension Ordinance Civil Servants (AB 1991 GT 25). The main actuarial assumptions are:

Discount rate:	4%
Life expectancy table man	GBM9500
Life expectancy table woman	GBV9500
Age adjustment (years)	-2
Pension payment	Continuous

The changes in this provisions are as follows:

(in Afl. thousand)

	2010	2009
Pension provision as of January 1	2,859	1,965
Pension payments	(186)	(168)
Employer and employees contribution	149	1,062
Pension provision as of December 31	2,822	2,859

In 2009, an amount of Afl. 1.1 million was added to the provision compared to the addition of Afl. 149,000 for 2010. Following, the outcome of the actuarial report prepared in 2009, an substantial amount had to be added in 2009 to the pension provision. The actuarial calculations will be made once every three years.

Revaluation account (7)

Pursuant to article 31, paragraph 2 of the CBO, revaluation differences of gold, securities, and foreign exchange holdings are included in a revaluation account.

(in Afl. thousand)

	2010	**2009**
Revaluation account as of January 1	101,932	158,617
Change in the value of gold due to sale	-	(97,209)
Net changes in the market value of gold	61,010	47,604
Net changes in the value of foreign exchange	(16)	9
Net changes in the value of securities	1,682	(7,089)
Revaluation account as of December 31	164,608	101,932

Capital and reserves (8)

- *General reserve (8.1)*

This item comprises:

(in Afl. thousand)

	2010	**2009**
Beginning balance	72,884	66,332
Retained earnings	3,429	6,552
Balance at the end of the year	76,313	72,884

In accordance with article 33, paragraph 1 of the CBO and taking into consideration article 4 of said ordinance, the BoSD decided, after securing the approval of the Minister of Finance, to add Afl. 3.4 million of the profit of 2010 to CBA's general reserve.

- *Capital (8.2)*

Pursuant to article 3, paragraph 1 of the CBO, capital amounted to Afl. 10,000,000 at the end of 2010.

4. NOTES TO THE PROFIT AND LOSS ACCOUNT

The figures in parentheses following the description refer to the corresponding items in the profit and loss account.

Net interest revenues (1)

Interest revenues comprise mostly interest income, revaluation gains and losses on investments portfolios as well as management fees and charges for custodian services.

(in Afl. thousand)

	2010	2009
Interest revenues (net of expenses)	28,406	33,400
Interest expenses	(331)	(266)
Net interest revenues	28,075	33,134

With regard to the interest expenses a special remuneration is paid on the current account of the CBCS and some earmarked accounts of the Government of Aruba. Interest rates on current accounts, if applicable, and on time deposits are determined weekly using the U.S. money market rates as guidance. In 2010 an interest rate of 0.05 percent was paid on a 7-day time deposit held by a commercial bank at the CBA.

Foreign exchange (2)

This item consists of net transaction profits.

Coins revenues (3)

Pursuant to article 12, paragraph 1 of the State Ordinance Governing the Monetary System, coins are minted exclusively for the account of the Government of Aruba, whereas, in conformity with article 7 of the CBO, the CBA is entrusted with the issuing of these coins. Furthermore, in accordance with article 12, paragraph 2 of the former ordinance, the difference between the face value and the cost of minting of the coins (seignorage) is included in the CBA's profit and loss account. Unlike bank notes, coins issued are not included in the CBA's liabilities.

Various revenue (4)

(in Afl. thousand)

	2010	2009
Net usage fee clearing system	86	88
Passed-on supervision costs	379	212
Other income	100	36
Total	565	336

For 2010, the passed-on supervisory costs increased compared to 2009, because the CBA made an accrual of Afl. 100,000 for the supervision costs 2010 that will be charged to the money transfer companies in 2011. Furthermore, an amount of Afl. 279,000 was passed on to the insurance companies. Other income consists mainly of administrative fines for late submission annual filings and of the trade-in value of a company car.

Personnel expenses (6)

(in Afl. thousand)

	2010	2009
Salaries	7,489	6,519
Early retirement plan	-	1,277
Social security contributions	805	790
Pension premiums	1,323	2,282
Medical insurance and medical expenses	343	295
Other	320	375
Total	10,280	11,538

At balance sheet date, the CBA employed 76 persons full-time (2009: 68 persons). During 2010, the CBA entered into a labor contract with 10 new employees, one employee left, and the secondment period of 1 employee from the Nederlandsche Bank ended. In 2009, based on an actuarial report, an amount of Afl. 1.1 million was added to the pension provision compared to the increment of Afl. 144,683 for 2010. The actuarial calculations were made for a period of three years.

Since 2005, the CBA had an agreement with an insurance company for a supplementary medical insurance plan for its personnel and their families. The total cost for this plan amounted to approximately Afl. 200,000 in 2010.

Operating expenses (7)

(in Afl. thousand)

	2010	2009
Utilities	419	358
Cleaning and maintenance	326	227
Maintenance and licenses computers	653	442
Security	119	169
Fire insurance	36	31
Reuters	32	31
Telephone	160	194
Postage	32	36
Printing	59	130
Office supplies	92	78
Vehicles	57	54
Courses, seminars, and meetings	553	436
Literature and subscription	63	59
Membership contribution	88	97
Office inventory and furniture	40	10
Representation	51	47
Donations	30	32
Transportation and storage of bank notes	19	35
Remuneration to Board of Supervisory Directors	140	204
Legal	316	319
Audit	46	48
Property tax	126	134
Seminars	58	61
Consultants	1,077	357
Remaining expenses	367	235
Total	4,959	3,824

Profit distribution

In accordance with article 33, paragraph 1 of the CBO and taking into consideration article 4 of the CBO, the BoSD decided, with the approval of the Minister of Finance to add Afl. 3.4 million to the CBA's general reserve. The remaining profit amounting to Afl. 10 million was allocated to the Treasury.

Report of the independent auditor on the Summary Financial Statements

The accompanying summary financial statements, which comprise the summary balance sheet as at December 31, 2010 after profit distribution, the summary profit and loss for the year 2010, and related notes, are derived from the audited financial statements of the Centrale Bank van Aruba for the year ended December 31, 2010 (as set out on pages 25 to 40). We expressed an unmodified audit opinion on those financial statements in our report dated June 23, 2011. Compared with the audited financial statements, the summary financial statements include the decision of the Board of Supervisory Directors made in 2011 in accordance with article 33, paragraph 1 of the Central Bank Ordinance. The Board of Supervisory Directors decided to allocate the profit for the year 2010 of Afl. 13,429,317 by distributing Afl. 10,000,000 to the Treasury and including Afl. 3,429,317 in the General Reserve. In divergence to the audited financial statements of the Centrale Bank van Aruba, this decision has been incorporated in the summary financial statements. The part of the profit for the year 2010 that was distributed to the Treasury is included in the account 'Deposits of Residents' in the balance sheet of the summary financial statements. Apart from the distribution of profit, the summary financial statements do not reflect the effect of events that occurred subsequent to the date of our report on those financial statements.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements on the basis described in Note 2.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, "Engagements to Report on Summary Financial Statements".

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of the Centrale Bank van Aruba for the year ended December 31, 2010 are consistent, in all material respects, with those financial statements, on the basis described in Note 2, except for the fact as described in the first paragraph of this report of the independent auditor on the summary financial statements.

Aruba, September 26, 2011

PricewaterhouseCoopers Aruba

Edsel N. Lopez