# Operational and *Financial*

# Report 2011

CENTRALE BANK VAN ARUBA

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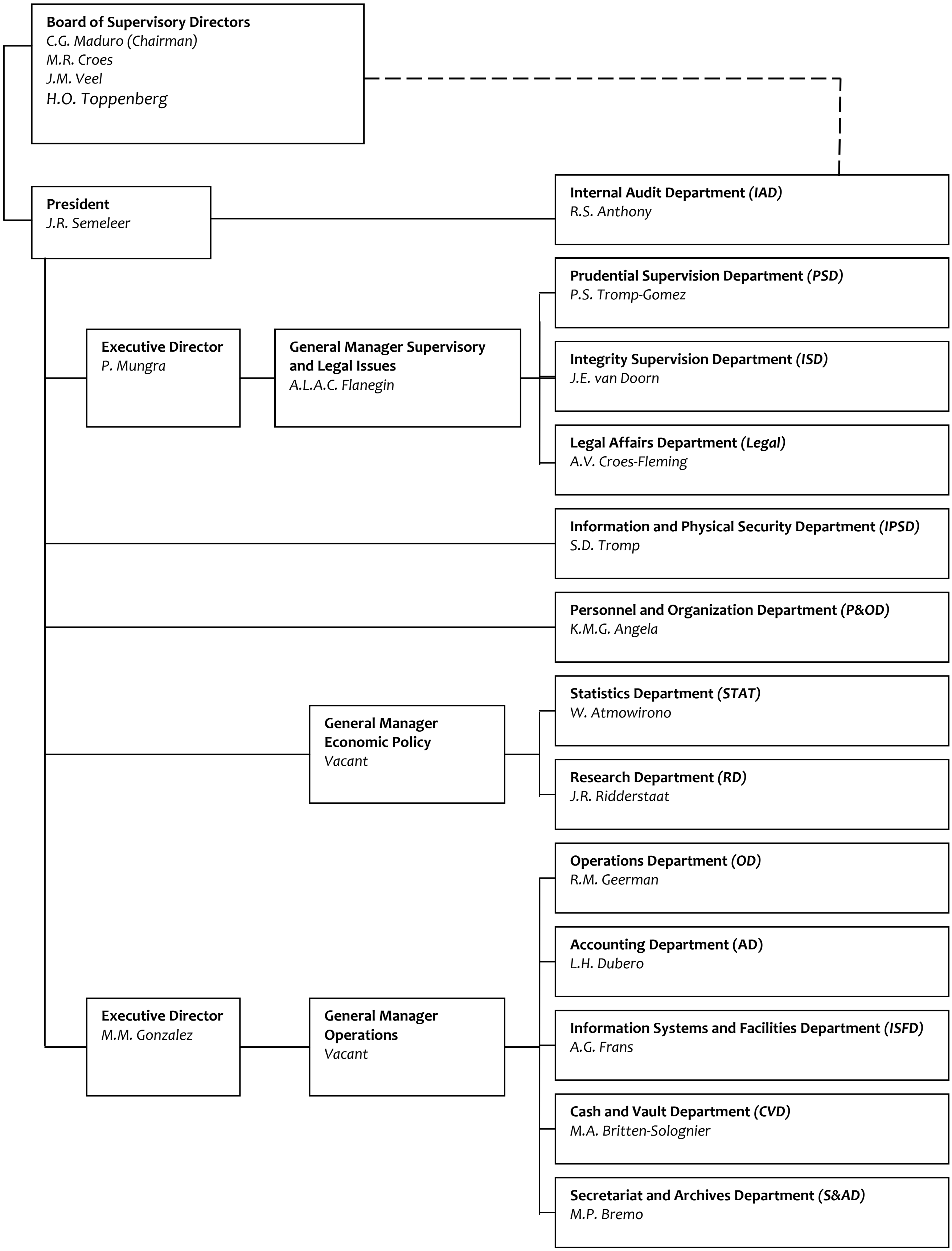
# ORGANIZATION CHART

(As of March 1, 2012)



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## *List of abbreviations*

| | |
|---|---|
| Afl. | Aruban florin |
| AML/CFT | Anti-money laundering and combating financing of terrorism |
| ANG | Netherlands Antillean Guilder |
| APFA | Stichting Algemeen Pensioenfonds Aruba (the civil servants pension fund) |
| ATA | Aruba Tourism Authority |
| AVV | Aruba Vrijgestelde Vennootschap (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 |
| DNB | De Nederlandsche Bank N.V. |
| DNFBP | Designated Non-Financial Businesses and Professions |
| ECB | European Central Bank |
| ESCB | European System of Central Banks |
| FATF | Financial Action Task Force |
| FDA | Stichting Fondo Desaroyo Aruba (Foundation Development Fund Aruba) |
| MPC | Monetary Policy Committee |
| MER | Mutual Evaluation Report |
| ONCS | OnNet Clearing System |
| RMC | Risk Management Committee |
| SETAR | Servicio di Telecomunicacion di Aruba (Setar) N.V. (the government-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 |
| SOSCS | State Ordinance on the Supervision of the Credit System |
| SOSIB | State Ordinance on the Supervision of the Insurance Business |
| U.S. | United States |
| WEB | Water en Energie Bedrijf Aruba N.V. (the government-owned water and power company) |

# 1 POLICY OBJECTIVES

The Centrale Bank van Aruba (CBA) has a *sui generis* legal status and pursues a number of policy objectives arising from the statutory tasks as assigned 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 to:

- **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 assigns the CBA the responsibility to promote the stability and integrity of the financial system. The supervisory-related activities are carried out mainly via ongoing off-site surveillance and periodic risk-based on-site examinations to assess the supervised institutions' compliance with relevant laws and regulations.

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

The CBA is the sole issuer of safe and secure florin bank notes. In accordance with the CBO, it is responsible for the design and printing of these bank notes. The CBA withdraws from circulation and destroys damaged or worn florin bills. Furthermore, it contributes to an efficient domestic payment system by managing the OnNet Clearing System (ONCS).

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 of financial institutions to protect the interests of depositors and policy-holders and safeguard the stability and integrity of the supervised sectors. |
| c. Issue florin bank notes. | Bring safe and secure bank notes into circulation to meet the needs of the businesses and public. |
| d. Issue coins on behalf of the government. | Bring safe and secure coins into circulation to meet the needs of businesses and the public. |
| e. Promote efficiency in settling domestic payments. | Operate an automated clearing system between the CBA, commercial banks, and a number of government-related institutions. |
| f. Act as the banker for the government. | Execute payment orders and intermediate in the issuance of government debt paper. |

| **Tasks** | **Related activities** |
|---|---|
| g. Regulate the flow of inter-national payments. | Regulate payments between residents and nonresidents and collect foreign exchange commission on behalf of the government. |
| h. Manage Aruba's official reserves, consisting of gold and foreign currency holdings. | Invest CBA's foreign currency reserves in accordance with prudent guidelines, aimed at preserving these reserves and herewith the confidence in the Aruban florin peg with the U.S. dollar. |
| i. Advise the Minister of Finance on financial matters. | Produce relevant macroeconomic, financial and monetary analysis and provide expert policy advice. |
| j. 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. |

## 2 A QUICK LOOK AT THE YEAR 2011

- In conducting monetary policy, the CBA applies an indirect system, of which the reserve requirement is the main instrument.

- During 2011 the reserve requirement rate and the advance rate were maintained at 11 percent and 1 percent, respectively. Although a downward trend had been observed, the net international reserves remained adequate when benchmarked against GDP, the money supply, and current account payments, supportive of the fixed exchange rate regime of the Aruban florin with the US dollar and the resulting relative price stability objective. Consequently, the legal interest rate, which equals the advance rate plus two percentage points, also was kept at 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 could be much higher than the legal interest rate.

- As of January 2011, the civil servants' pension fund (APFA) came under the CBA's supervision.

- As of January 2011, the CBA introduced revised guidelines for the declaration and payment of foreign exchange commission for commercial banks, money transfer companies, and holders of foreign accounts. The revised guidelines require, among other things, that foreign exchange commission due should be paid to the CBA monthly instead of quarterly.

- On May 1, 2011, the CBA fully revised the "Personal Questionnaire", the so-called PQ, for the purpose of fit and proper testing of (prospective) key persons (e.g., members of the managing and supervisory board) at the supervised financial institutions.

- In June 2011, the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) State Ordinance came into effect. The CBA is now the sole supervisory authority in the area of AML/CFT.

- As of June 1, 2011, the AML/CFT Handbook for supervised financial institutions and trust service providers was introduced.

- On December 15, 2011, the CBA announced its decision to re-introduce regulation of pawnshops/compra y venta companies based on section 48, paragraph 3, of the State Ordinance on the Supervision of the Credit System (SOSCS), due to the rapid growth of this sector and persistent negative rumors suggesting questionable practices within this sector.

- In December 2011, the CBA issued a policy paper on liquidity risk management aimed at providing guidance to the banks in the area of sound liquidity risk management practices.

- In December 2011, the CBA released a policy paper on business continuity management for the banking sector. This paper aims to promote and ensure safe and sound practices in the area of business continuity management by setting minimum standards in this area. These standards went into effect in January 2012.

- For 2011, the 12-month average of the consumer price index reached 4.4 percent, up from 2.1 percent in 2010.

- Effective January 1, 2012, the government of Aruba revoked the exemption of foreign exchange commission on transactions settled in Netherlands Antillean guilder (ANG). A foreign exchange commission of 1.3 percent is now due on transactions carried out in ANG, insofar as they fall under the scope of article 2 of the State Ordinance Foreign Exchange Commission (SOFEC).

## Financial highlights for 2011

- At end 2011, CBA's total assets dropped by Afl. 22.9 million or 1.7 percent to Afl. 1,294 million compared to end 2010. This drop was due to an Afl. 55.2 million decline in foreign currency assets, which was partly offset by an Afl. 32.7 million increase in the revaluation of gold holdings. On the liability side, the deposits of residents fell by Afl. 64.9 million, largely the result of an Afl. 197.1 million contraction in the deposits of the commercial banks.

- Total gross income (net of interest expenses) shrank by Afl. 7.6 million or 24.9 percent to Afl. 23.1 million, mainly associated with a decrease in net interest revenues resulting from lower foreign investment revenues.

- Other expenses went up by 7.7 percent or Afl. 1.3 million to Afl. 18.6 million, partly related to a 12.7 percent increase in personnel expenses, attributable to the hiring of additional staff related to the extension of the CBA's mandate.

- Net profit amounted to Afl. 4.5 million, i.e., Afl. 9 million or 66.8 percent lower than in 2010 and was mainly caused by a decline in the foreign currency investments revenue, due to a lower average balance held on the investment portfolios and persistent historically low interest rates in the U.S. fixed income market.

# 3 THE BUSINESS OF THE CBA

## 3.1 Domestic payment system

### 3.1.1 Currency operations

The CBA has the sole mandate of issuing bank notes and coins in Aruba. In carrying out this mandate, the CBA determines the quantity, denomination, substrate, and characteristics of the notes and coins. With respect to the issuing of coins, the CBA executes this task with the approval of the Minister of Finance. The CBA provides bank notes and coins to the commercial banks, which in turn meet the public's demand for currency.

The commercial banks redeem surplus bank notes to the CBA, which are withdrawn from circulation. The CBA processes the redeemed notes, of which the unfit ones are destroyed via an environmentally friendly bank note destruction machine. The CBA aims at having only high quality bank notes in circulation.

#### Bank notes in circulation

Following a 0.93 percent decline in 2010, the value of bank notes in circulation grew by 3.1 percent to Afl. 204.0 million at the end of 2011. Table 3.1 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 went up by 3.5 percent in 2011 compared to 2010, despite the widespread use 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. The Afl. 100 denomination continued to represent the largest share of all bank notes issued, comprising 46.0 percent of the total bank notes in circulation, while the Afl. 500 bank note remained underused.

Table 3.1: Bank notes in circulation (in numbers)

| Denomination | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| 500 | 12,744 | 12,370 | 11,424 | 10,521 | 10,130 |
| 100 | 1,573,524 | 1,640,061 | 1,554,223 | 1,536,933 | 1,595,865 |
| 50 | 323,192 | 349,518 | 316,754 | 309,424 | 301,808 |
| 25 | 615,755 | 671,943 | 635,320 | 618,046 | 632,728 |
| 10 | 649,723 | 683,235 | 692,393 | 703,778 | 754,703 |
| 5 | 177,168 | 177,043 | 176,768 | 176,555 | 176,435 |
| **Total** | **3,352,106** | **3,534,170** | **3,386,882** | **3,355,257** | **3,471,669** |

Source: CBA.

As also shown in chart 3.1, the 100 florin bill remained by far the most commonly used denomination.

## Chart 3.1: Bank notes in circulation by denomination

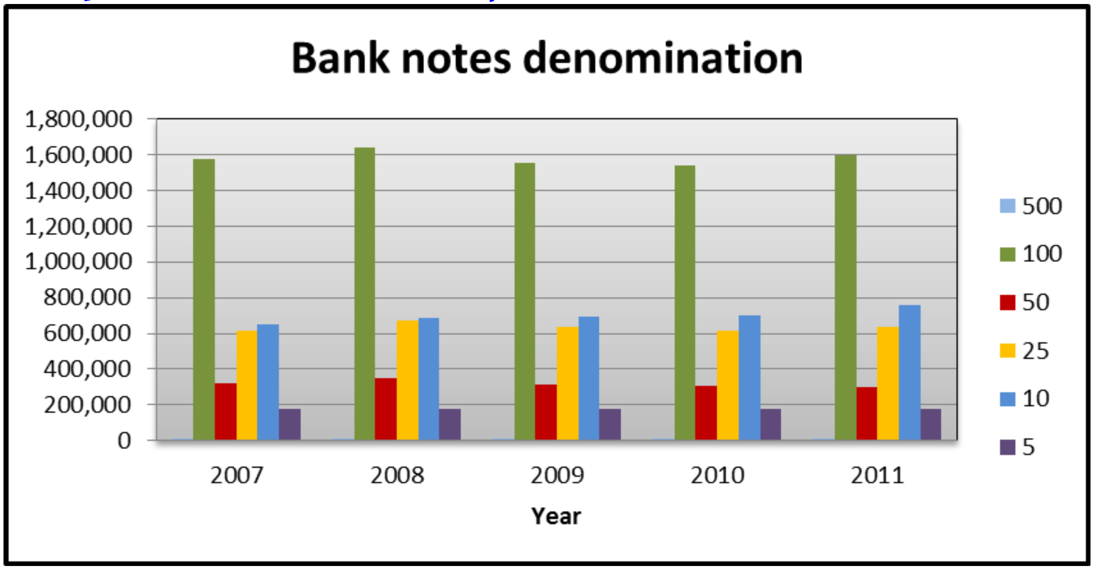



**Chart 3.1:** The Afl. 100 denomination continues as the most used bill.

## Counterfeit florin bank notes

The number of counterfeit florin bank notes stayed very low. Nonetheless, in 2011, a few cases of counterfeit florin bank notes were encountered. In response, the CBA immediately initiated a media campaign to increase public awareness of the security features of the bank notes. The CBA provides extensive information on its website and also via the commercial banks to assist the public in verifying the authenticity of the florin bank notes.

## Coins in circulation

The CBA also is entrusted with issuing coins on behalf of the government. The increase in the value of coins in circulation in 2011, excluding commemorative coins, reached Afl. 27.5 million (2010: Afl. 26 million). As depicted in Table 3.2, the two smallest coin denominations, the 5 and 10 cent coins, are the largest in circulation, followed closely by the 25 cent coin.

## Table 3.2: Coins in circulation (in number) (in thousands )

| Denomination | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| 5.00 | 1,512 | 1,572 | 1,587 | 1,633 | 1,739 |
| 2.50 | 79 | 81 | 81 | 84 | 91 |
| 1.00 | 7,306 | 7,671 | 7,909 | 8,269 | 8,675 |
| 0.50 | 5,476 | 5,877 | 6,187 | 6,559 | 6,928 |
| 0.25 | 10,681 | 11,350 | 11,946 | 12,576 | 13,286 |
| 0.10 | 16,389 | 17,678 | 18,825 | 19,822 | 20,925 |
| 0.05 | 17,080 | 18,109 | 19,080 | 19,957 | 21,108 |
| **Total** | **58,523** | **62,338** | **65,615** | **68,900** | **72,752** |

Source: CBA

Chart 3.2 illustrates graphically the number of coins in circulation by denomination.

## Chart 3.2: Coins in circulation by denomination

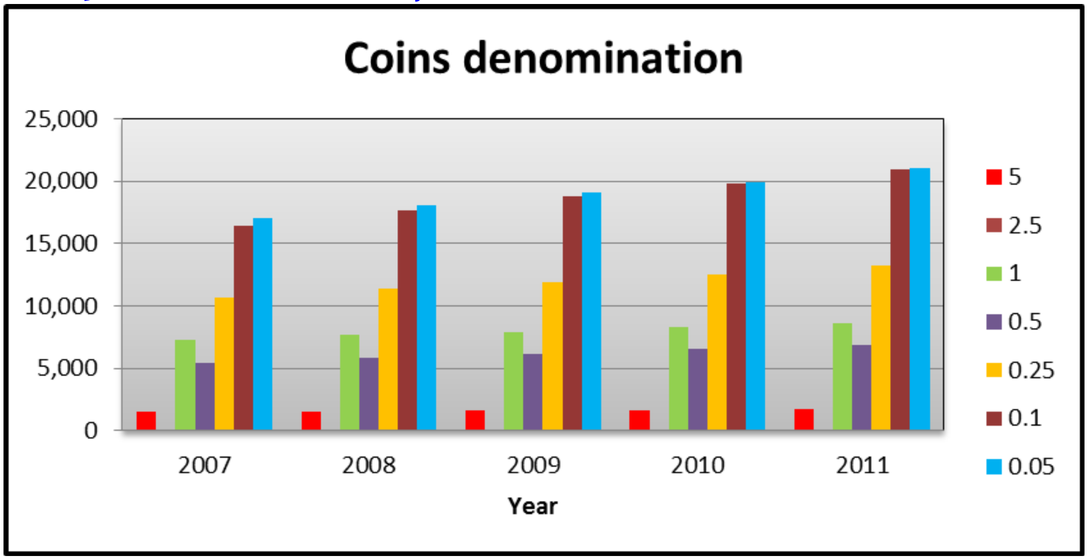
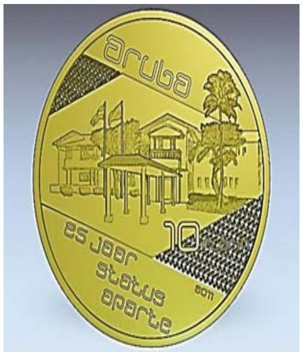



**Chart 3.2:** The 5 cent and 1 cent denominations remain the most used coins.

## Commemorative coins and coin sets

In 2011, on behalf of the government, the CBA issued one silver and one gold commemorative proof quality coin with nominal face values of Afl. 5 and Afl. 10, respectively, depicting the government office building. These coins were brought into circulation to commemorate the 25th year of 'Status Aparte' of Aruba and the 35th year of Aruba's national flag and anthem. The CBA also circulated Aruba's first colored silver commemorative coin with a nominal face value of Afl. 5 in 2011, depicting the portraits of her Majesty Queen Beatrix, Prince Willem-Alexander, and Princess Máxima. This special coin commemorated the Royal Family's visit to Aruba in October 2011. The 2011 coin set carried the theme 'Reptiles in Aruba' aimed also at increasing public awareness that reptiles must be protected for future generations.





CBA's 25th anniversary

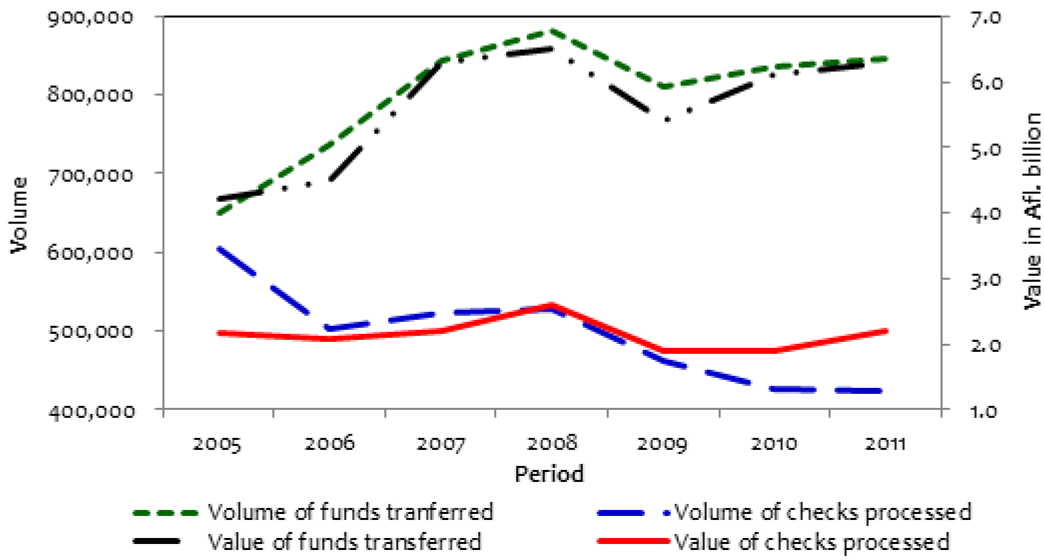
On January 1, 2011, the CBA commemorated its 25th anniversary. In celebration hereof, the CBA donated florin bank notes and coins boxes, especially designed for educational purposes, to all elementary and kindergarten schools in Aruba. These boxes are part of the elementary school curriculum. With this donation, the CBA also strives to enhance the knowledge of the youth about the Aruban bank notes and coins.

### 3.1.2 Clearing system

To contribute to a safe, secure, and efficient payment system that allows the public to complete transactions smoothly, the CBA operates a computer network system called the OnNet Clearing System (ONCS) (previously known as the Goldnet Clearing System). This batch-clearing 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 system is based on a secured web-client solution through which interbank checks and fund transfers are settled.

The ONCS continued to operate smoothly in 2011, and the volume as well as the value of transfers processed increased by 11,231 transactions (1.3 percent) to 846,770 transactions and by Afl. 0.2 billion (3.3 percent) to Afl. 6.3 billion, respectively, compared to 2010. The volume of checks processed fell further in 2011 by approximately 1 percent to 423,000 checks (2010: 426,000 checks) (see Chart 2.3). However, the total value of checks processed expanded to Afl. 2.2 billion (2010: Afl. 1.9 billion).

**Chart 3.3:** Transactions processed by the CBA Clearing System




## 3.1.3 Banker to the government

Within the scope of the CBO, the CBA also functions as the banker for the government and advisor to the Minister of Finance. As part of its treasury services to the government, the CBA accepts deposits from the government and carries out its foreign payment instructions as well as a small part of its local payments.

The CBA additionally 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 the earmarked accounts held at the CBA, the balances of which amounted to Afl. 183.5 million at the end of 2011. Government deposits held in earmarked accounts increased slightly to Afl. 41.9 million at the end of 2011. The development fund account, managed by the Stichting Fondo Desaroyo Aruba (FDA), rose by Afl. 24.9 million to Afl. 32.8 million at the end of 2011, due to the transfer of deposits from the commercial banks to the CBA.

In 2011, the CBA assisted with the renewal of two 3-month treasury bill issues, of, respectively, Afl. 40 million and Afl. 25 million. Furthermore, in April 2011, Afl. 8 million was issued in 6-month cash loan certificates that were re-issued in September 2011. The yield on the treasury bills fluctuated between 0.63 percent and 1.63 percent, considerably higher than in 2010 (when the yield fluctuated between 0.33 percent and 0.63 percent). Their weighted average yield was 1.01 percent in 2011, 0.50 percentage point higher than in 2010. The average yield on the cash loan certificates issued in 2011 was 0.75 percent. The average yield on the treasury bills moved upward, reflecting a tightening of the available liquidity on the domestic money market. In contrast, the interest rates on the international money market remained rather stable but historically low.

The CBA also intermediated on behalf of the government with respect to the issuance of government bonds at par on the domestic market, raising a total amount of Afl. 453.7 million in 2011. Several bonds were issued, respectively, in June 2011 totaling Afl. 193.8 million and yielding on average 5.26 percent, in September 2011 totaling Afl. 29.5 million and yielding 4.50 percent, in November 2011 totaling Afl. 100 million and yielding 5.50 percent, and in December 2011 totaling Afl. 130,4 million and yielding on average 5.20 percent. The proceeds from these bond issues were used to cover the government's financing needs for 2011.

## 3.2 International payment system

### 3.2.1 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 banks can set other exchange rates. In 2011, the selling rate of the Euro against the Aruban florin varied between Afl. 2.32 and Afl. 2.68, while the buying rate fluctuated between Afl. 2.27 and Afl. 2.65. For the second consecutive year, the Euro depreciated against the florin, pushing the selling rate down by 3.3 percent or Afl. 0.08 to Afl. 2.33 at the end of 2011, when compared to 2010.

### 3.2.2 Foreign exchange transactions

In 2011, foreign exchange outflow related transactions surpassed those of foreign exchange inflows resulting in a net sale of Afl. 65.4 million in foreign exchange, i.e., Afl. 58.0 million higher than in 2010. The drop in net purchases of foreign exchange from the commercial banks exceeded the fall in net sales of foreign exchange to the government. The net purchases of foreign exchange from the commercial banks shrank by Afl. 97.1 million (67.1 percent) to Afl. 47.6 million, while the net sales of foreign exchange to the government fell by Afl. 39.2 million (21.6 percent) to Afl. 142.7 million. The CBA's other foreign exchange transactions remained virtually unchanged in 2011 when compared to 2010.

In general, foreign exchange transactions carried out by the CBA on behalf of the government of Aruba result in a net sale of foreign exchange to the government. However, in 2011 net sales of foreign exchange to the government were lower, largely because of the settlement of tourism promotion transfers by the Aruba Tourism Authority (ATA) as of April 2011.Because of is *sui generis* legal status as of January 2011, ATA's payments to nonresidents effectuated through commercial banks are no longer reflected in the government's foreign exchange transactions.

The CBA's total foreign exchange purchases grew by Afl. 19.9 million or 2.4 percent to Afl. 852.7 million in 2011, mirroring mainly increases of, respectively, Afl. 19.5 million in foreign exchange purchases from the commercial banks and Afl. 7.4 million in foreign exchange purchases from others, including the government. These increases were partially offset by an Afl. 7.0 million drop in interest earnings on the CBA's foreign investments.

Total foreign exchange sales of the CBA expanded by Afl. 77.9 million or 9.3 percent to Afl. 918.1 million in 2011, reflecting an Afl. 116.6 million growth in foreign exchange sales to the commercial banks, partly offset by an Afl. 38.7 million contraction in other outgoing foreign exchange transactions. The latter was caused mostly by an Afl. 35.7 million drop in the government's foreign exchange spending, with lower payments for tourism promotion abroad, government's representatives abroad, and foreign debt services of, respectively, Afl. 28.4 million, Afl. 3.9 million, and Afl. 3.0 million.

Table 3.3 Foreign exchange transactions
(in Afl. million)

| | **2009** | **2010** | **2011** |
|---|---|---|---|
| Net purchases/sales (-) from/to commercial banks | 153.8 | 144.7 | 47.6 |
| Net purchases/sales (-) from/to government | -154.4 | -181.9 | -142.7 |
| *of which government's foreign exchange spending* | -205.3 | -183.3 | -147.6 |
| Net purchases/sales (-) from/to others | -41.4 | 29.8 | 29.7 |
| Net purchase/sale (-) of foreign exchange | -42.0 | -7.4 | -65.4 |

### 3.2.3 Foreign exchange regulations

During 2011, foreign exchange regulations did not change. As stipulated in the State Ordinance Foreign Exchange Transactions (AB 1990, Gt 6) (SOFET), current transactions are in principle free, while all capital related transactions require a license from the CBA. The annual upper limits for executing capital transactions without any administrative restrictions were kept at Afl. 300,000 for resident natural persons and at Afl. 750,000 for resident legal entities (excluding commercial banks). Additionally, institutional investors must comply, at all times, with the 40-60 percent investment rule set by the CBA, which requires that a large part of their investments be made locally.

Pursuant to the Notice concerning Foreign Exchange Transactions AW 2005/1, commercial banks also require a special foreign exchange license when granting loans to nonresidents exceeding the amount of Afl. 1 million 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.

In addition, resident companies, which have notified the CBA of their foreign accounts, have obtained an exemption from adhering to the provisions of articles 11 and 12 of the SOFET. When these companies also are compliant with the conditions mentioned in said exemption, they are allowed to make transfers to and from said notified foreign accounts without any administrative restriction, based on the Notice concerning Foreign Exchange Transactions RV 2009/1.

In 2011, the number of special foreign exchange licenses granted by the CBA dropped by 35 or 12.5 percent to 245 compared to the previous year (see Table 3.4). This fall was largely attributable to a 38.1 percent (or 32 licenses) decline in special foreign exchange licenses granted for selling/buying of real estate. However, the total value of the transactions for which licenses were granted rose by Afl. 220.5 million or 15.5 percent to Afl. 1.6 billion in 2011, caused mainly by an increase of Afl. 395.9 million or 87.0 percent in the amount of transactions related to lending/borrowing abroad. This increase was due partly to a foreign loan related to an infrastructural project. On the other hand, refinancing of loans declined by 97.7 percent, representing a total amount of Afl. 258.8 million.

Moreover, in 2011, a higher number of licenses were granted to nonresidents for participation in local companies; however, the total value of these transactions dropped by Afl. 35.1 million to Afl. 7.4 millions. Licenses for transactions related to the granting of guarantees to nonresidents remained unchanged at 5 licenses, while the total value of these licenses increased by Afl. 34 million to Afl. 375.9 millions.

### Table 3.4 Overview of special foreign exchange licenses issued
(Amounts in Afl. million )

| | 2010 | | 2011 | |
|---|---|---|---|---|
| **Description** | **Number** | **Amount in Afl.** | **Number** | **Amount in Afl.** |
| Participation in local companies by nonresidents | 2 | 42.5 | 8 | 7.4 |
| Transfers to and from notified foreign accounts | 117 | 63.8 | 114 | 78.0 |
| Portfolio investment abroad | 4 | 6.8 | 6 | 8.9 |
| Participation residents in companies abroad | 0 | 0 | 2 | 0.9 |
| Lending/Borrowing abroad | 38 | 455.1 | 38 | 851.0 |
| Refinancing | 10 | 265.0 | 3 | 6.2 |
| Granting of guarantees to nonresidents | 5 | 341.9 | 5 | 375.9 |
| Selling/ Buying real estate | 84 | 120.4 | 52 | 177.3 |
| Other capital transactions | 20 | 125.3 | 17 | 135.7 |
| **Total** | **280** | **1,420.8** | **245** | **1,641.3** |

In 2011, the number of declarations for transferring dividends to nonresident shareholders remained at 36, representing a total amount of Afl. 365.3 million, a 177.4 percent rise compared to the previous year (2010: Afl. 131.7 million).

### 3.2.4 Foreign exchange commission

Based on article 2, paragraph 1, of the SOFEC, residents must pay a 1.3 percent foreign exchange commission on their payments to nonresidents. These payments may be effectuated through, inter alia, domestic commercial banks or via foreign accounts reported to and approved by the CBA.

However, based on the State Decree Regulation Exemption Foreign Exchange Commission certain transactions conducted by certain groups of companies (including government-related companies), are exempted from the payment of the foreign exchange commission. As of January 1, 2012, the government revoked the exemption of foreign exchange commission on transactions in Netherlands Antillean guilder.

Pursuant to article 12 of the State Ordinance on the Free Zone, free-zone companies may request an exemption from the payment of foreign exchange commission on foreign payments for the import of goods and services for the purpose of re-export.

Also, offshore companies, which have obtained an exemption based on article 19 of the SOFET, as well as Aruba Exempt Corporations, the so-called AVVs, which were incorporated before January 1, 2006, and, by virtue of law, are considered nonresidents, are not subject to the payment of foreign exchange commission.

The government of Aruba is responsible for determining the policy concerning the foreign exchange commission, while the CBA, pursuant to article 5 of the SOFEC, is entrusted with the levy and collection thereof. In 2011, the CBA transferred an amount of Afl. 50.6 million to the Treasury. The total amount of foreign exchange commission collected rose by Afl. 8.7 million or 21.2 percent in 2011 to Afl. 50 million compared to 2010. The amount transferred to the Treasury in 2011 included the amount accrued by the end of 2010. As of January 2011, the CBA introduced revised guidelines for commercial banks, money transfer companies, and holders of foreign accounts, requiring, among other things, that the foreign exchange commission due is paid to the CBA monthly instead of quarterly.

## 3.3 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 allows commercial banks to hold a certain level of foreign exchange reserves as working balances and to settle the foreign transactions of their clients. The 40-60 percent investment rule requires institutional investors to maintain a certain level of their investments domestically.

The CBA's policy regarding the management of the official foreign exchange reserves remained unchanged in 2011. 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 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.

## 3.4 Monetary policy

In 2011, the CBA maintained an indirect system in conducting monetary policy, with the reserve requirement as its main policy instrument. The Monetary Policy Committee (MPC) held 10 meetings during 2011, monitoring monetary developments, as well as the economic outlook. Indicators taken into considerations were, among others, the level of net foreign assets (and official reserves), (core) inflation, the development in banking sector credit, and domestic output. The ensuing levels 0f net foreign assets and official reserves were adequate considering a number of ratios (months of current account payments, percentage of broad money, and level of short-term external debt). Based on the reviewed data, the MPC maintained the reserve requirement rate and the advance rate at 11 percent and 1 percent, respectively.

Consistent with the CBA's expectations, economic activities strengthened significantly in 2011, mainly following the restart of operations at the Valero refinery in January 2011. The improvement in economic activities manifested itself in, among other things, a 3.7 percent rise in business loans, and a 4.6 percent increase in housing mortgages. On the other hand, consumer credit fell by 0.9 percent, indicating that consumers were still cautious with respect to borrowing. Admittedly, part of the fall in consumer credit may be explained by a possible consolidation of consumer debt in housing mortgages. The more frequent assessments of the adequacy of the monetary policy allow the CBA to react swiftly to deviating monetary and/or economic conditions.

## 3.5 Financial sector supervision

The CBA is the sole supervisory authority in Aruba with respect to the financial sector. Currently, it is entrusted with the supervision of the banking and insurance sectors, the company pension funds, money transfer companies, and trust service providers. Furthermore, the CBA is tasked with overseeing compliance with the AML/CFT State Ordinance that was enacted in June 2011. CBA's supervision aims primarily at maintaining the soundness and integrity of the financial system. Prudential supervision is focused on the monitoring of the financial solidity of the supervised institutions, while integrity supervision concentrates mainly on integrity aspects.

In general, prudential supervision entails supervision of the requirements regarding the financial institutions' own funds, solvency, liquidity, risk management, corporate governance, and technical provisions. Integrity supervision is geared towards controlling the integrity risks at the financial institutions and Designated Non-Financial Businesses and Professions (DNFBPs). Integrity risk management comprises prevention of involvement in criminal activities (including but not limited to money laundering and terrorist financing) and other breaches of the law or acting contrary to the generally accepted standards. In addition, it enhances the promotion of ethical behavior and an ethical corporate culture.

Ongoing off-site surveillance and periodic risk-based on-site examinations are carried out by the CBA to assess compliance with the supervisory laws and regulations governing the above-mentioned supervised institutions. In addition, the CBA holds regular bilateral meetings with the supervised institutions and their representative organizations.

As part of the Kingdom of the Netherlands, Aruba is a member of the Financial Action Task Force (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 AML/CFT framework in line with FATF standards. Since the adoption of the FATF Mutual Evaluation Report (MER) on Aruba on October 16, 2009, Aruba has made significant progress in eliminating the deficiencies mentioned in the MER. In light of that progress, Aruba was moved to the regular follow-up process. Thus, it is not required to report on the progress made at each FATF-plenary meeting.

As noted in the MER, the CBA's supervisory scope should be extended further. To that end, a proposal has been drafted to extend the scope of the existing sectoral supervisory laws. The CBA proposal aims at broadening the scope of the SOSCS to electronic money institutions and trust companies providing trust services to local companies. With respect to the State Ordinance on the Supervision of the Insurance Business (SOSIB), the CBA proposal establishes the possibility to bring re-insurance companies, insurance brokers, and funeral insurers with in-kind benefits under the scope of the SOSIB by State Decree. Moreover, this proposal aims to enhance the possibilities for information exchange with foreign supervisors, harmonizes the requirements in the sectoral supervisory laws with regard to fit and proper testing, and introduces a uniform requirement in the area of sound and controlled business operations. Finally, the CBA is currently drafting a proposal for a state ordinance with respect to the supervision of investment businesses. This state ordinance will cover investment companies, investment managers, securities brokers, and (electronic) stock exchanges.

## 3.6 Organizational affairs

At the end of December 2011, the CBA employed 85 persons full-time compared to 76 in 2010. During 2011, the CBA entered into labor contracts with thirteen new employees, two employees resigned, one left due to retirement, while the secondment period of one employee from De Nederlandsche Bank N.V. (DNB) ended. The management of the CBA would like to thank its staff members for their loyalty and ongoing commitment and dedication to the CBA during 2011.

On February 28, 2011, Mr. G.G. Oduber resigned as a member of the Board of Supervisory Directors (BoSD), after serving the CBA for more than six years. As of March 1, 2011, Messrs. J.M. Veel and A.A.D.A. Carlo were appointed as members of the BoSD, while Mr. H.O. Toppenberg joined the BoSD on August 1, 2011. On August 11, 2011, Mr. Carlo, upon his own request, resigned as a board member. The management of the CBA wishes to express its appreciation to Messrs. Oduber and Carlo for their contribution and welcomes at the same time the new board members, Messrs. Veel and Toppenberg.

In 2011, the CBA celebrated its 25th anniversary. To commemorate this event, the CBA organized a 4-week exhibition in both Oranjestad and San Nicolas. During these events, the CBA exposed also its bank notes, coins and commemorative coins. As mentioned in paragraph 3.1.1, the CBA donated educational banknotes and coins to all elementary and kindergarten facilities in Aruba for use in their school curriculum.

For the first time, an audited review of CBA's mid-year financial figures was done. This review was carried out by the CBA's external auditor. In addition, as of July 2011, the BoSD receives monthly financial reports, previously compiled on a quarterly basis. The CBA also achieved its goal to have the external auditor complete the year-end audit by early 2012. On January 31, 2012, the Auditors of the CBA issued an unqualified opinion with respect to the 2011 financial statements of the CBA, which subsequently was adopted by the BoSD.

### 3.6.1 Training, courses, and seminars

CBA staff participated in a number of local and foreign courses, seminars, and conferences during 2011.

In addition to other general information gatherings, on June 30 and September 15, 2011, the CBA (in cooperation with the Meldpunt Ongebruikelijke Transacties (MOT)) held information sessions regarding the new AML/CFT State Ordinance for legal practitioners (lawyers and notaries), accountants and high-value dealers (jewelers, real estate-brokers, and car dealers), respectively. On August 30, 2011, the CBA organized a meeting with Aruban notaries and their staff to discuss several topics with respect to the implementation of the AML/CFT State Ordinance, while on September 6, 2011, a similar meeting was held with the Casino Association of Aruba.

From March 21-25, 2011, the CBA hosted the Caribbean Group of Banking Supervisors (CGBS) Anti-Money Laundering Examination Seminar. This seminar was facilitated by the Association of Supervisors of Banks of the Americas (ASBA) and was conducted by the Federal Reserve System (USA). The seminar targeted junior to intermediate level examiners and was designed to increase participants understanding of the operational, legal, and reputational risks with regard to money laundering and terrorist financing.

### 3.6.2 Internal organization

In 2011, the CBA continued to streamline and improve the efficiency of its processes. As of July 2011, all the remaining tasks related to facilities of the former Human Resources and Facilities Department were transferred to the Information Systems and Facilities Department (ISFD) and the Secretariat and Archive Department (S&AD), allowing the Personnel and Organization Department (P&OD) to concentrate on its core tasks, which includes strategy and policy advising in the area of human resource management. The P&OD has moved from a predominantly administrative department to a full fledged HRM business partner for line management. In 2011, the project to review the existing job descriptions and the job evaluation process was initiated. In addition, the department began digitalization of the personnel files. To support the expanding legal mandate of the CBA, key positions were filled in various departments, e.g., the Integrity Supervision Department (ISD), the Prudential Supervision Department (PSD), the Research Department (RD), and the Operations Department (OD).

In 2011, the Internal Audit Department (IAD) enhanced its tasks, procedures and activities. In addition, the processes and procedures of a number of departments, such as the Cash and Vault Department (CVD), were reviewed and updated in 2011. Other departments will follow soon. Also, the vacancy for the Risk & Compliance Officer was filled; this individual reports directly to the manager of IAD.

The CBA continued to pursue the latest information technology trends by investing in virtualization strategies and technologies based upon cost and benefit analysis. The use of virtualization as a driver toward more centralized IT services and to achieve a higher level of agility is an important tool. To this end, the Information Systems and Facility Department (ISFD) upgraded the entire server infrastructure to implement the latest Blade Server Technologies with the objective to adequately support the internal processes. Furthermore, it enhanced the current network infrastructure with additional bandwidth to better accommodate the ONCS network and to facilitate future cloud-computing investments that should contribute to the overall simplification of CBA's disaster recovery initiatives. In 2012, the ISFD will execute several projects including advanced business analysis and reporting tools to further improve internal processes. Additionally, it will focus on the ability to expand current collaboration accessibility with unified communication solutions that will further enhance working off premises. Furthermore, a pilot project 'Bring Your Own Devices (BYOD)' will be implemented, which should enable the staff to use tablets and mobile technology that are driven by a variety of platforms, such as IOS or Android-based systems.

In the field of business continuity, the CBA particularly focused on recovering the technology infrastructure that supports its core business processes. In this regard, the Information and Physical Security Department (IPSD) executed two successful business continuity exercises to recover the technology infrastructure at an offsite location. In addition, IPSD performed audits and reviews on selected software applications within CBA's IT environment. In 2012, the IPSD will focus on continuing to build a robust solution for addressing enterprise-wide business continuity.

In the field of information security, the IPSD has been constantly engaged in designing, implementing, and evaluating processes and procedures. In May 2011, the 'Information Security Policies and Procedures' handbook for the CBA staff was introduced. Its introduction was accompanied by a presentation to raise awareness on information security. In the field of physical security, the focus also was on staff training to enhance awareness within the CBA. The IPSD intends to repeat these exercises periodically. In addition, the physical security staff completed the "Minerva Training Program".

Due to new developments in the area of documentation and information management, and the expansion in personnel and tasks executed, the CBA began to update procedures related to its archive management. An external consultancy bureau was hired to assist with the assessment and implementation of this project. In June 2011, a study group was installed to implement the recommendations of the report 'Structuring the information management at the CBA'. To be able to execute this project, the personnel of the Secretariat and Archive Department (S&AD) attended several trainings related to information management in 2011.

# 4 GOVERNANCE AND ACCOUNTABILITY

The financial year 2011 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.

## 4.1 Governance structure

The CBA is a legal entity incorporated under Aruban law, and its independence is laid down in article 2, paragraph 2, of the CBO, and is a bearer of rights and duties. While its principal objectives are stipulated in the CBO, the CBA attaches great importance to matters regarding good corporate governance, making sure that appropriate levels of accountability and checks and balances are in place.

### Management structure

The CBA is managed by a President assisted by two Executive Directors, who together form the Executive Committee. The members of the Executive Committee are appointed by the Governor of Aruba. The President, assisted by the Executive Committee, determines the policy and manages the CBA in the broadest sense. This committee operates according to the general regulations set out in the State Decree giving directives for the President, the Executive Directors, and the BoSD. As stated in this decree, all papers of value and letters concerning financial transactions must in principle have two signatures.

As of March 1, 2012, the management team of the CBA consists of the President, the two Executive Directors, one General Manager, and 13 Department Managers. Two General Manager positions are still vacant. In addition, the CBA has an Investment Committee that advises on matters related to investment strategy, policy, and instruments, a Budget Committee responsible for preparing and submitting CBA's budget to the BoSD for approval, and a Risk Management Committee.

### 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. The members of the BoSD are nominated for a term of five years. At the end of 2011, the BoSD consisted of four members (including the chairman). In 2011, three new members were appointed, and two members resigned from the BoSD. The BoSD supervises the CBA's operations and oversees the management of its property as well as the funds entrusted to it. On request, the Executive Committee reports on policies pursued, as well as on administration and management. The BoSD meets with the Executive Committee 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, and the financial statements are submitted to the Minister of Finance. The BoSD also is responsible for appointing the CBA's external auditor.

In 2011, the BoSD held 9 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 consulting the Minister of Finance. The remuneration of the BoSD is determined by the Minister of Finance, after consulting the members of said Board and the President. Also, additions to the general reserve and the forming of earmarked reserves are determined by the Executive Committee following prior written approval of the Minister of Finance.

## 4.2 Risk management

The CBA faces a number of risks with respect 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 Risk Management Committee is tasked with establishing a standardized risk management system for the CBA. This committee monitors and provides advice on all material risks and recommends on the steps needed to mitigate these risks. In 2011, the CBA hired a Risk and Compliance Officer who is responsible for developing and maintaining compliance and risk management programs, policies, and procedures. At the end of 2011, the department managers had to carry out a risk self-assessment for their respective departments. The identified risks, together with the steps taken or steps planned, were included in a risk matrix.

The most fundamental risks are legal and reputational risks. Reputational risk results when policy errors occur regarding monetary policy or supervision of the financial system that could negatively impact the economy in general and CBA's reputation 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 4.3.

- Risk associated with processing and storing currency, including risk of theft and robbery.
- Risk related to 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 related to non-compliance with the prevailing laws and regulations (compliance risk).
- Risk associated with the dissemination of confidential information.
- Risks of publishing inaccurate data.

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

In 2012, the IAD will expand its audit scope to departments other than the operational departments, which include AD, CVD, OD, and P&OD. It will assess whether the work processes and instruments of internal control of these departments sufficiently guarantee adequate management of the risks associated with the tasks carried out. To guarantee the continuity of and safeguard its IT systems and processes, the IPSD, is responsible for protecting business information and information systems of the CBA, and is also in charge of the security of the CBA property. The IPSD, in close cooperation with the ISFD and the IAD, formulates policy, rules, and procedures concerning 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 technical disaster recovery. This project entails planning for 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 renown IT company to provide disaster recovery services. This company provides the CBA with a remote data center location and IT equipment to perform data recovery and restore vital IT operations in case of a disaster.

## 4.3 Investment and financial risks

Foreign exchange reserve management impacts the size and structure of the CBA's balance sheet, as well as its financial performance. To minimize the associated risks, the CBA implements a prudent investment policy strategy, which is fully fixed-income-based. Against this background, the CBA invests in financial instruments 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 weekly to discuss, among other things, matters related to current market trends and economic developments that could impact its foreign exchange reserves as well as investment performance and related risks. Once a month, the committee discusses the performance report of each asset manager, providing information for strategic or tactical changes in the investment policy.

Implementation of the strategic decisions is delegated to the asset managers. The portfolios are further categorized by a duration ladder, which consists of a medium-term portfolio with an average duration of 0-3 years that is managed by an external asset manager, and a medium-term portfolio with an average duration of 0-3 years and a long-term portfolio with an average duration of 0-10 years that are managed internally.

Strict investment guidelines have been established for asset managers; any deviation from these guidelines requires prior written approval of the President. The IAD verifies that investments are executed according to the stipulated guidelines.

In 2011, the Investment Committee continued with the evaluation of proposals from several 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 CBA's total investment portfolio. The analytic tool will support the Investment Committee in analyzing and foreseeing potential risks within the portfolios.

In 2011, the Investment Committee further revised 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 in order to adjust its investment guidelines maintaining thereby an acceptable level of risk exposures.

# 5 FINANCIAL STATEMENTS

## Balance sheet as of December 31, 2011[1)], before profit distribution

(in Afl. thousand)

| | 2011 | 2010 |
|---|---|---|
| **Assets** | | |
| **1. Gold** | **313,666** | **280,945** |
| **2. Foreign currency assets** | **960,650** | **1,015,839** |
| 2.1 Due from banks | 54,993 | 43,857 |
| 2.2 Government and other paper | 902,104 | 966,897 |
| 2.3 Bank notes | 182 | 130 |
| 2.4 Interest receivables | 3,371 | 4,955 |
| **3. Other assets** | **20,379** | **20,783** |
| 3.1 Receivables | 7,677 | 7,711 |
| 3.2 Stocks of coins | 417 | 212 |
| 3.3 Printing cost of bank notes | 673 | 1,010 |
| 3.4 Other fixed assets | 3,504 | 3,112 |
| 3.5 Premises | 8,108 | 8,738 |
| | **1,294,695** | **1,317,567** |

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

[1)] Abbreviated

(in Afl. thousand)

| | 2011 | 2010 |
|---|---|---|
| **Liabilities and equity** | | |
| **1. Bank notes in circulation** | **203,989** | **197,797** |
| **2. Deposits of residents** | **784,405** | **849,275** |
| 2.1 Government | 183,534 | 76,307 |
| 2.2 Banks | 566,912 | 763,975 |
| 2.3 Other | 33,959 | 8,993 |
| **3. Deposits of nonresidents** | **825** | **1,185** |
| **4. Money in custody** | **952** | **952** |
| **5. Payables and accrued expenses** | **3,600** | **4,615** |
| **6. Pension provision** | **2,757** | **2,822** |
| **7. Revaluation account** | **207,392** | **164,608** |
| **8. Capital and reserves** | **90,775** | **96,313** |
| 8.1 General reserve | 76,313 | 72,884 |
| 8.2 Capital | 10,000 | 10,000 |
| 8.3 Profit of the year | 4,462 | 13,429 |
| | **1,294,695** | **1,317,567** |

Oranjestad, January 31, 2012
Adopted by the Supervisory Board of Directors:
C.G. Maduro, Chairman
M.R. Croes
J.M. Veel
H.O. Toppenberg

## Profit and loss account for the year 2011 [2)]

(in Afl. thousand)

| | 2011 | 2010 |
|---|---|---|
| 1. Net interest revenues | 19,086 | 28,075 |
| 2. Foreign exchange revenues | 912 | 1,200 |
| 3. Coins revenues | 1,465 | 858 |
| 4. Various revenues | 1,591 | 565 |
| **Total income** | **23,054** | **30,698** |
| 5. Printing cost of bank notes | 337 | 337 |
| 6. Personnel expenses | 11,582 | 10,280 |
| 7. Operating expenses | 4,657 | 4,959 |
| 8. Depreciation | 2,016 | 1,693 |
| **Total expenses** | **18,592** | **17,269** |
| **Profit** | **4,462** | **13,429** |

| | | |
|---|---|---|
| **Profit distribution** | | |
| Allocated to the Treasury | - | 10,000 |
| General reserve | - | 3,429 |

[2)] Abbreviated

# NOTES TO THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT FOR 2011

## 1. GENERAL

Pursuant to article 31, paragraphs 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 BoSD. In the first meeting following their submission, the annual accounts shall be approved by the BoSD 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

### 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).

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.

### Comparison with previous year

The principles of valuation and determination of results remained unchanged in 2011.

## 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). The exchange rate for one Netherlands Antillean guilder (ANG) is also fixed at Afl. 1.00.

## 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 motor vehicles 3 years, furniture 5 years, and equipment 3 to 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 30, 2011, the market price for gold was US$ 1,574.50 or Afl. 2,818.35 (2010: US$ 1,410.25 or Afl.2,524.35) per fine troy ounce. In the year under review, the gold holdings amounted to 111,294.165 fine troy ounces, a slight change compared to 2010.

| **Gold holdings:** | **Fine troy ounces** | | **Value in Afl. thousand** | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | 111,294.165 | 111,294.177 | 313,666 | 280,945 |

The small decrease in troy ounces in 2011 occurred because the Bank of England (BoE), the custodian of the CBA's gold bars, performed an inspection on all gold bars held in its vault to verify if they met the current standards for physical appearance of the London Bullion Market Association (LBMA). As a result of this inspection, the CBA was informed that 8 gold bars did not comply with the aforementioned standard, and the CBA agreed to substitute the non-LGD (London Good Delivery) bars with LGD standard bars. The difference, being only 0.012 troy ounces and amounting to £ 10.86 or Afl. 31.80, was paid out in cash to the CBA. This small difference was adjusted in the profit and loss account.

## Foreign currency assets (2)

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

### *Due from banks (2.1)*

These assets comprise current accounts held at foreign credit institutions. The CBA deals directly with credit institutions from the Netherlands, the United Kingdom, the U.S.A., and also the Centrale Bank van Curaçao en St. Maarten. 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)*

This item consists of investments through CBA's asset managers, based on investment guidelines, in:

1. Government and U.S. agency 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, all denominated in U.S. dollars, per investment portfolio. For investments in government and U.S. agency 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 2011, the investments of the CBA consisted entirely of U.S. dollar-denominated fixed income securities.

## Other assets *(3)*

### *Receivables (3.1)*

These include mainly mortgage and personal loans granted to the CBA's personnel, prepaid expenses, receivable for passed-on supervision costs, foreign checks in transit, and other receivables. This amount decreased compared to 2010, mainly due to declines in mortgage loans to personnel and foreign checks sent for collection. Receivable for passed-on supervision costs increased compared to 2010, because in 2011 credit institutions and pension funds were invoiced for the first time for supervision costs, and not all the invoices sent for collection were paid before year-end. Also, at the end of 2011, Afl. 100,000 had been accrued, consisting of the costs to be passed on to the money transfer companies covering the year 2011. The invoicing of these costs will take place in 2012. Prepaid expenses in 2011 were higher than in 2010 due to the payment in 2011 of the IT infrastructure support and maintenance contract, which covers a period of three years.

(in Afl. thousand)

| | **2011** | **2010** |
|---|---|---|
| Loans and advances to personnel | 805 | 618 |
| Mortgage loans to personnel | 6,021 | 6,237 |
| Prepaid expenses | 521 | 207 |
| Foreign checks in transit | 45 | 376 |
| Receivable for passed-on supervision costs | 214 | 110 |
| Usage fee clearing system | 20 | 88 |
| Other | 51 | 75 |
| Total | 7,677 | 7,711 |

### *Stock of coins (3.2)*

This stock comprises commemorative coins available for sale and is valued at the selling price.

### *Printing cost of 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)*

This item includes the following sub-items:

(in Afl. thousand)

| | Computer Hardware & Software | Office Equipment & Inventory | Security | Motor Vehicle | Total |
|---|---|---|---|---|---|
| **Book value as of January 1, 2011** | **2,078** | **649** | **272** | **113** | **3,112** |
| Changes: | | | | | |
| Additions | 1,177 | 79 | 93 | 192 | 1,541 |
| Disposals | - | (9) | - | (181) | (190) |
| Depreciation charge | (728) | (239) | (81) | (101) | (1,149) |
| Depreciation write back | - | 9 | - | 181 | 190 |
| **Closing net book value** | **2,527** | **489** | **284** | **204** | **3,504** |
| | | | | | |
| On December 31, 2011 | | | | | |
| Cost or valuation | 7,419 | 5,847 | 1,106 | 417 | 14,789 |
| Accumulated depreciation | (4,892) | (5,358) | (822) | (213) | (11,285) |
| | | | | | |
| **Book value as of December 31, 2011** | **2,527** | **489** | **284** | **204** | **3,504** |

### *Premises (3.5)*

Premises comprise the CBA's building at J.E. Irausquin Boulevard 8, renovations, and landscaping. In 2011 the CBA decided to expand its parking space. The item "Asset under Construction" represents the construction cost of the parking lot.

| | Building | Rebuilding and Landscaping | Asset under Construction | Total |
|---|---|---|---|---|
| **Book value as of January 1, 2011** | **7,433** | **1,305** | **-** | **8,738** |
| **Changes:** | | | | |
| Investments | - | - | 237 | 237 |
| Disinvestments | - | - | - | - |
| Depreciation charge | (615) | (252) | - | (867) |
| **Closing net book value** | **6,818** | **1,053** | **237** | **8,108** |
| | | | | |
| On December 31, 2011 | | | | |
| Cost or valuation | 12,102 | 2,522 | 237 | 14,862 |
| Accumulated depreciation | (5,284) | (1,469) | - | (6,753) |
| | | | | |
| **Book value as of December 31, 2011** | **6,818** | **1,053** | **237** | **8,108** |

## Liabilities

## Bank notes in circulation (1)

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

(in Afl. thousand)

| **Denomination** | **2011** | **2010** |
|---|---|---|
| 5.00 | 882 | 883 |
| 10.00 | 7,547 | 7,038 |
| 25.00 | 15,818 | 15,451 |
| 50.00 | 15,090 | 15,471 |
| 100.00 | 159,587 | 153,693 |
| 500.00 | 5,065 | 5,261 |
| | | |
| Total | 203,989 | 197,797 |

## 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)

| | 2011 | 2010 |
|---|---|---|
| Current accounts | 132,028 | 205,776 |
| Reserve requirement | 329,884 | 348,199 |
| Time deposits | 105,000 | 210,000 |
| Total | 566,912 | 763,975 |

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. The deposits of the FDA consist of funds made available by the Aruban and Dutch governments in the framework of a joint development program, which is being managed by FDA. Its outstanding balance increased in 2011 compared to 2010 because of the contribution of the Aruban government.

## **Deposits of nonresidents (3)**

This item consists of Aruban florin deposits of nonresident banks.

## **Money in custody (4)**

This item consists of 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)

| | 2011 | 2010 |
|---|---|---|
| Local and foreign checks outstanding | 76 | 415 |
| Unclaimed principal/ coupons of Aruban government securities | 138 | 89 |
| Foreign exchange commission collected and due to the government of Aruba | 1,313 | 2,054 |
| Wage tax and social securities premiums withheld | 225 | 207 |
| Accrual for consultancy charges | 205 | 335 |
| Accrual for the upgrade of the Integrated Bank Application software | 560 | 560 |
| Accrual for asset management fee and custodian charges | 171 | 180 |
| Accrual for the construction of a parking space | 238 | - |
| Other payables | 674 | 775 |
| Total | **3,600** | **4,615** |

The item "Other payables" consists largely of an Afl. 224,033 accrual for several IT projects, including one project related to IT Security, an Afl. 40,000 accrual for the publication of the 2011 annual report, an Afl. 66,000 accrual for the publication of an art book, and several other expenses. The item "Foreign exchange commission collected and due to the government of Aruba" decreased compared to 2010, due to the foreign exchange commission of Afl. 50.6 million transferred to the government of Aruba in 2011 (2010: Afl. 41.3 million). This amount comprised Afl. 49.9 million that was collected in 2011 and the outstanding balance on this account at the end of 2010. Due to unforeseen circumstances, the upgrade of the financial software did not take place in 2011 but will occur in the first half of 2012.

## Pension provision (6)

Pursuant to article 21 of the CBO, the CBA is required to provide a pension plan for its employees. Until 1996, this pension plan was based on an APFA-equivalent pension. 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 this small number of employees and the pension arrangement of one pensioner who chose to have an APFA-equivalent pension plan. The ensuing liabilities up to December 2011 are based on 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 (men) | GBM9500 |
| Life expectancy table (women) | GBV9500 |
| Age adjustment (years) | -2 |
| Pension payment | Continuous |

The changes in this provision are as follows:

(in Afl. thousand)

| | **2011** | **2010** |
|---|---|---|
| Pension provision as of January 1 | 2,822 | 2,859 |
| Pension payments | (186) | (186) |
| Employer and employee contribution | 121 | 149 |
| Pension provision as of December 31 | 2,757 | 2,822 |

At the end of December 2010, the Pension Ordinance Civil Servants was revoked and a new pension scheme (NPR 2011) was introduced. This new pension scheme has no maximum pension salary. The provision with regard to the "bovenmatige" amount (the difference between the actual and maximum pension base according to the revoked pension ordinance) remained unchanged. The CBA reached an agreement with the employees concerning how to proceed with their pension arrangement. Four employees agreed to keep their pension plan with APFA, while two employees decided to enter the CBA's collective pension. The pension provision for the pensioners was adjusted at the end of 2011 based on the actuarial report prepared in 2009. The actuarial calculations are 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)

| | 2011 | 2010 |
|---|---|---|
| Revaluation account as of January 1 | 164,608 | 101,932 |
| Net changes in the market value of gold | 32,721 | 61,010 |
| Net changes in the value of foreign exchange | (11) | (16) |
| Net changes in the value of securities | 10,074 | 1,682 |
| Revaluation account as of December 31 | 207,392 | 164,608 |

## Capital and reserves (8)

### *General reserve (8.1)*

This item comprises:
(in Afl. thousand)

| | 2011 | 2010 |
|---|---|---|
| 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 and the Executive Committee decided in the meeting of June 23, 2011, 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. As of the date of the publication of this report, the profit of 2011 has not yet been allocated.

### *Capital (8.2)*

Pursuant to article 3, paragraph 1 of the CBO, capital amounted to Afl. 10 million at the end of 2011.

## 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)

| | 2011 | 2010 |
|---|---|---|
| Interest revenues (net of expenses) | 19,345 | 28,406 |
| Interest expenses | (259) | (331) |
| Net interest revenues | 19,086 | 28,075 |

Net interest revenues reached Afl. 19.1 million, i.e., Afl. 9.0 million less than in 2010. The drop was due to a decrease in revenues received from the U.S. dollar-denominated investment portfolios, as a result of reduced average balances held on the investment portfolios and a persistent low interest rate environment.
A special remuneration is paid on the current account of the CBCS and some earmarked accounts of the Government of Aruba held with the CBA. Interest rates on current accounts, if applicable, and on time deposits are determined weekly using the U.S. money market rates as guidance. In 2011 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 resulting from the margin between the buying and selling rates applied by the CBA.

### 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)

| | 2011 | 2010 |
|---|---|---|
| Net usage fee clearing system | 83 | 86 |
| Passed-on supervision costs | 1,220 | 379 |
| Other income | 288 | 100 |
| Total | 1,591 | 565 |

For 2011, this item increased considerably compared to 2010, mainly due to higher revenues related to the passed-on supervisory costs to the institutions supervised by the CBA. In 2010 the passed-on supervision costs consisted of the costs passed on to the insurance companies and the money transfer companies. In 2011 it also included the costs passed on to the credit institutions and pension funds. Other income consists mainly of the trade-in value of two company cars.

## Personnel expenses (6)

(in Afl. thousand)

| | 2011 | 2010 |
|---|---|---|
| Salaries | 8,338 | 7,489 |
| Social security contributions | 1,031 | 805 |
| Pension premiums | 1,445 | 1,323 |
| Medical insurance and medical expenses | 338 | 343 |
| Other | 430 | 320 |
| Total | 11,582 | 10,280 |

At balance sheet date, the CBA employed 85 persons full-time (2010: 76 persons). During 2011, the CBA entered into a labor contract with 13 new employees, terminated the labor contract with two employees by mutual agreement, while the secondment period of one employee from the Nederlandsche Bank was completed, and one employee reached her pension age. In 2011, based on an actuarial report, an amount of Afl. 121,619 was added to the pension provision compared to an increment of Afl. 144,638 in 2010. The actuarial calculations were made for a period of three years starting with 2009.

Since 2005, the CBA has had an agreement with an insurance company for a supplementary medical insurance plan for its personnel and their families. The total cost of this plan amounted to approximately Afl. 222,000 in 2011.

## Operating expenses (7)

(in Afl. thousand)

| | **2011** | **2010** |
|---|---|---|
| Utilities | 447 | 419 |
| Cleaning and maintenance | 351 | 326 |
| Maintenance and licenses computers | 627 | 653 |
| Security | 75 | 119 |
| Fire insurance | 31 | 36 |
| Reuters | 35 | 32 |
| Telephone | 161 | 160 |
| Postage | 17 | 32 |
| Printing | 134 | 59 |
| Office supplies | 81 | 92 |
| Vehicles | 58 | 57 |
| Courses, seminars, and meetings | 513 | 553 |
| Literature and subscription | 74 | 63 |
| Membership contribution | 79 | 88 |
| Office inventory and furniture | 19 | 40 |
| Representation | 36 | 51 |
| Donations | 82 | 30 |
| Transportation and storage of bank notes | 42 | 19 |
| Remuneration to Board of Supervisory Directors | 163 | 140 |
| Legal | 109 | 316 |
| Audit | 61 | 46 |
| Property tax | 223 | 126 |
| Seminars | 41 | 58 |
| Consultants | 804 | 1,077 |
| Anniversary celebration | 281 | - |
| Remaining expenses | 113 | 367 |
| Total | 4,657 | 4,959 |

*Report on the Financial Statements*
We have audited the accompanying financial statements 2011 of the Centrale Bank van Aruba, Aruba (the Bank) as included in chapter 5, which comprise the balance sheet as at December 31, 2011, the profit and loss account for the year 2011, and the notes, comprising a summary of the accounting policies and other explanatory information to the balance sheet and the profit and loss account.

*Responsibility of the President and Executive Director*
The President and Executive Directors of the Bank are responsible for the preparation and fair presentation of the financial statements. The President and Executive Directors have elected to prepare the financial statements in accordance with the Central Bank Ordinance and the accounting policies of the European Central Bank (ECB) and the European System of Central Banks (ESCB) as described in Note 2 to the financial statements. Furthermore, the President and Executive Directors are responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's responsibility*
Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standard on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessment, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit.

*Opinion with respect to the financial statements*
In our opinion, the financial statements give a true and fair view of the financial position of the Centrale Bank van Aruba, as at December 31, 2011 and its financial

performance for the year then ended in accordance with the Central Bank Ordinance and the accounting policies of the European Central Bank (ECB) and the European System of Central Banks (ESCB) as described in Note 2 to the financial statements.

Aruba, January 31, 2012
PricewaterhouseCoopers Aruba

Original signed by Edsel N. Lopez