Operational and Financial Report 2012

September 2013

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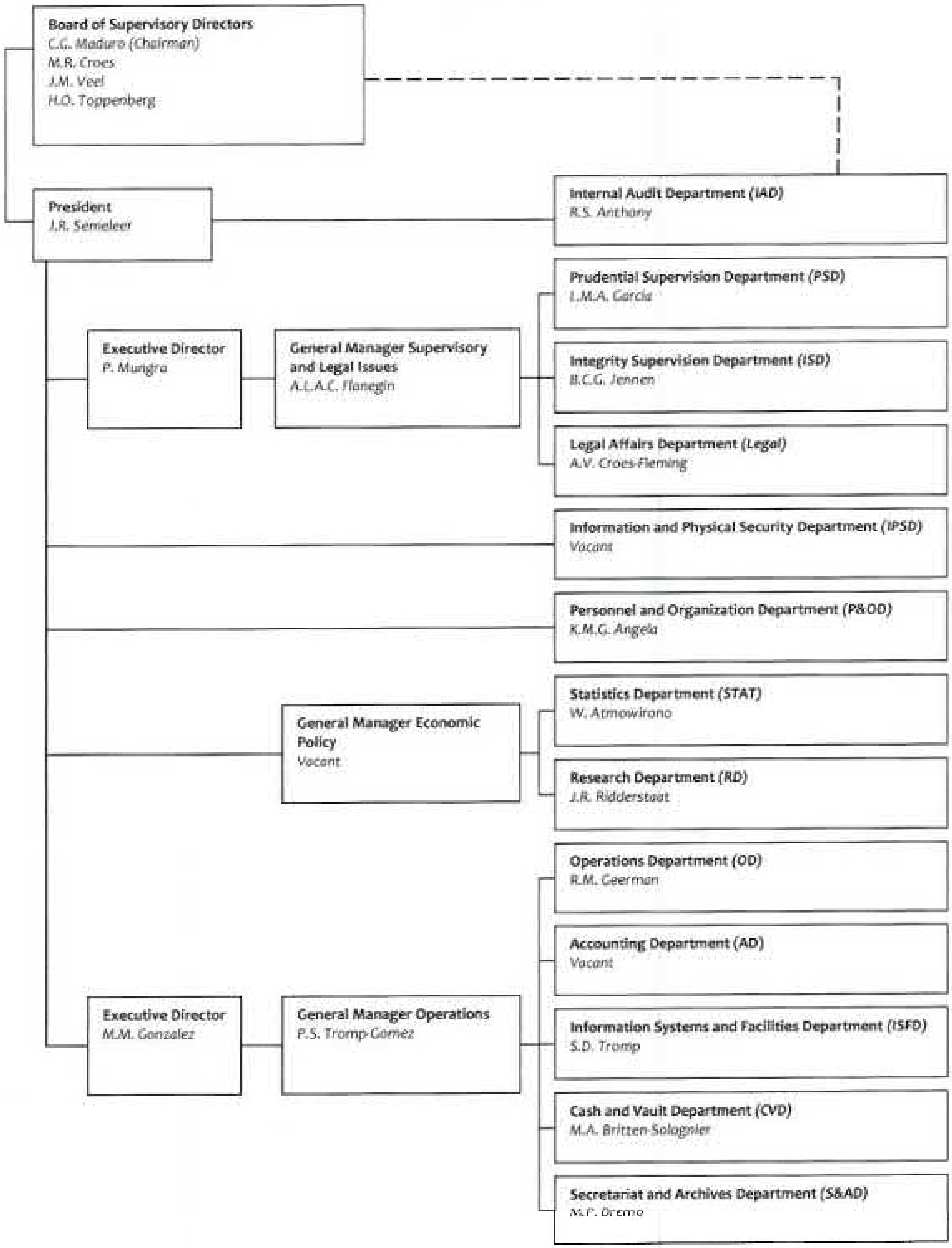
ORGANIZATION CHART

(As of September 1, 2013)



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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)
AZV	Algemene Ziektekostenverzekering (the general health insurance)
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
CMO	Collateralized Mortgage Obligations
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)
GDP	Gross Domestic Product
MER	Mutual Evaluation Report
MPC	Monetary Policy Committee
MPI	Minted Photo Image
NDA	Non Disclosure Agreement
ONCS	OnNet Clearing System
RMC	Risk Management Committee
SETAR	Servicio di Telecomunicacion di Aruba (Setar) N.V. (the government-owned telecommunications company)
SIAD	Servicio di Impuesto y Aduana (Aruban Tax & Customs Authority)
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
SVB	Sociale Verzekeringsbank
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 assigned to it in the Central Bank Ordinance (CBO) (AB 1991, no. GT 32) and other legislation. Achieving these objectives is a fundamental condition for 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 stability of the value of the Aruban florin through the preservation of its fixed exchange rate vis-à-vis the U.S. dollar. To this end, an adequate level of international reserves is maintained at all times.

- **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 soundness of the supervised institutions and/or their compliance with relevant laws and regulations.

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

The CBA is the sole issuer of florin bank notes. In accordance with the CBO, the CBA is responsible for the design and printing of secure and safe 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, maintain the adequacy of the international reserves.
b. Supervise the financial system.	Perform risk-based supervision of financial institutions to protect the interests of depositors and policy-holders and promote 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 businesses and the 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 international 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 thus 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 the publication of regular reports, as well as by giving presentations.

2 A QUICK LOOK AT THE YEAR 2012

- In conducting monetary policy, the CBA applies the reserve requirement as its main instrument. During 2012 the reserve requirement rate was maintained at 11 percent, while the advance rate was kept at 1 percent. Although a downward trend had been observed, the international reserves remained adequate when benchmarked against Gross Domestic Product (GDP), the money supply, and, most importantly, the 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. The legal interest rate 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 deviate from the legal interest rate.

- At the end of 2011, the Government of Aruba in conjunction with the Governments of Curaçao and Sint Maarten, decided to abolish the exemption of foreign exchange commission on intra-island payments denominated in Netherlands Antillean guilder (ANG). Consequently, effective January 1, 2012, a foreign exchange commission of 1.3 percent is now also 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).

- During 2012, further strengthening of the regulatory framework of the CBA continued. The State Ordinance on the Supervision of the Insurance Business (SOSIB) and the State Ordinance on Company Pension Funds (SOCPF) were amended as a result of the enactment of the State Ordinance on the General Pension on that same date. The main changes to the SOCPF are the introduction of fit and proper criteria for "key persons", the requirement to have sound and controlled business operations, and the possibility for the CBA to impose administrative sanctions against a company pension fund and/or its board members in case of non-compliance with the stipulations of the SOCPF or the regulations issued by the CBA pursuant to this ordinance. With respect to the SOSIB, the required solvency margin for life insurers, as meant in section 14, paragraph 1 of the SOSIB, will be raised gradually over the next four years, i.e. by 1 percentage point each year from 4 percent to 8 percent.

- As of April 1, 2012, the CBA's revised policy with respect to pawnshops/ compra y venta companies came into effect, based on section 48, paragraph 3 of the State Ordinance on the Supervision of the Credit System (SOSCS). Pawnshops already operating in Aruba received a one-year transitional period to meet the requirements laid down in the policy paper and to submit a request to the CBA for dispensation of section 48, paragraph 1 of the SOSCS.

- For 2012, the 12-month average of the consumer price index reached 0.6 percent, down from 4.4 percent in 2011. This development was induced by the reductions of water and electricity tariffs in August and November 2012, respectively.

Financial highlights for 2012

- At year-end 2012, CBA's total assets amounted to Afl. 1,429.2 million, i.e. Afl. 134.5 million or 10.4 percent higher when compared to year-end 2011. This increase was due to an Afl. 117.3 million gain in the foreign currency assets of the CBA and an Afl. 17.8 million rise in the revaluation of gold holdings. The gain in the foreign currency assets was due to an issuance of bonds on the international capital market by the government of Aruba in the amount of US$ 252.4 million (Afl. 451.8 million). The net proceeds were deposited at the CBA, as the banker of the government.

- On the liability side, the deposits of residents grew by Afl. 98.7 million in 2012, largely the result of an Afl. 256.2 million increase in the deposits of the commercial banks, which was offset in part by an Afl. 138.6 million contraction in the deposits of the government. The government made substantial payments locally as well as to abroad. The increase in the deposits of the commercial banks was also related to payments made by the government to the Algemene Ziektekosten Verzekering (AZV), the Sociale Verzekeringsbank (SVB), the Aruba Tourism Authority (ATA) and its creditors.

- Total gross income (net of interest expenses) decreased in 2012 by Afl. 0.4 million or 1.8 percent to Afl. 22.6 million (December 2011: Afl. 23.1 million). The decrease was associated mainly with a drop in net interest revenues resulting from lower foreign investment revenues. However, these lower foreign investment revenues were offset by increased foreign exchange revenues following the receipt of the funds related to the aforementioned bond issue on the international capital market by the government of Aruba.

- Total expenses went up by 1.6 percent or Afl. 0.3 million to Afl. 18.9 million at end 2012 (December 2011: Afl. 18.6 million), mostly owed to an Afl. 1.4 million (12.3 percent) increase in personnel expenses, attributable to the hiring of additional staff due to the extension of the CBA's mandate. On the other hand, the operating and depreciation expenses went down by, respectively, Afl. 0.5 million (11.0 percent) and Afl. 0.6 million (31.1 percent).

- At end 2012, net profit amounted to Afl. 3.8 million, i.e., Afl. 0.7 million or 15.9 percent lower than in 2011. This reduction in the net profit was caused mainly by a decline in foreign currency investment 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 to issue 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 on behalf 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 CBA redeems surplus bank notes from commercial banks and withdraws them from circulation. The CBA processes the redeemed notes, destroying the unfit notes via an environmentally friendly bank note destruction machine. The aim of the CBA is to have only high quality bank notes in circulation.

Bank notes in circulation

Table 3.1 provides an overview of the bank notes in circulation per denomination. As can be derived from this table, for the second consecutive year, the total value of bank notes in circulation incurred a growth, increasing by 10.3 percent to Afl. 225.0 million at the end of 2012. The total number of bank notes in circulation went up by 8.6 percent in 2012 compared to 2011. Despite the widespread use of payment cards, including debit and credit cards, and electronic payments through online banking for example, the use of florin bank notes to make payments continued to grow in 2012. The Afl. 100 denomination still represents the largest share of all bank notes issued, comprising 46.8 percent of the total bank notes in circulation, while the Afl. 500 bank note remained the most underused.

Table 3.1: Bank notes in circulation (in numbers)

Denomination	2008	2009	2010	2011	2012
500	12,370	11,424	10,521	10,130	10,157
100	1,640,061	1,554,223	1,536,933	1,595,866	1,766,549
50	349,518	316,754	309,424	301,808	341,701
25	671,943	635,320	618,046	632,727	701,902
10	683,235	692,393	703,778	754,701	774,928
5	177,043	176,768	176,555	176,424	176,338
Total	**3,534,170**	**3,386,882**	**3,355,257**	**3,471,656**	**3,771,575**

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

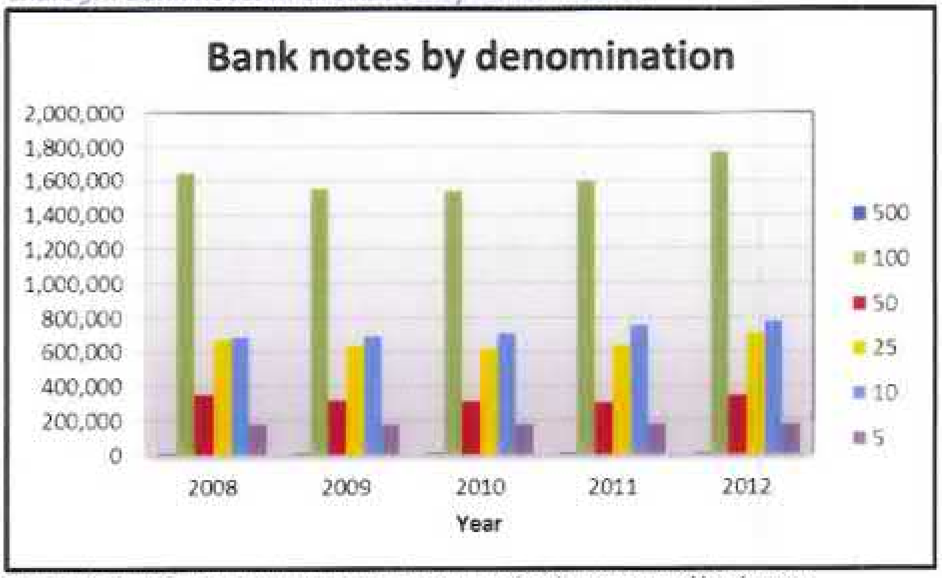


Chart 3.1: The Afl. 100 denomination continues to be the most used bank note.

Counterfeit florin bank notes

The number of counterfeit florin bank notes were very low over the years. Nonetheless, in 2012, a few cases of counterfeit florin bank notes were encountered. The CBA immediately initiated a media campaign to increase public awareness of the security features of the florin bank notes. In addition, the CBA provides extensive information on its website, and via the commercial banks through the availability of brochures, to assist the public in verifying the authenticity of the florin bank notes.

Coins in circulation

The CBA is also entrusted with issuing coins on behalf of the government. The total value of coins in circulation in 2012, excluding commemorative coins, increased by Afl. 1.2 million (4.4 percent) to Afl. 28.7 million (2011: Afl. 27.5 million). As depicted in Table 3.2, the two smallest coin denominations, the 5 cent 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	2008	2009	2010	2011	2012
5.00	1,572	1,587	1,633	1,739	1,787
2.50	81	81	84	91	92
1.00	7,671	7,909	8,269	8,675	9,104
0.50	5,877	6,187	6,559	6,928	7,141
0.25	11,350	11,946	12,576	13,286	14,231
0.10	17,678	18,825	19,822	20,925	21,733
0.05	18,109	19,080	19,957	21,108	22,450
Total	**62,338**	**65,615**	**68,900**	**72,752**	**76,538**

Source: CBA

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

Chart 3.2: Coins in circulation by denomination

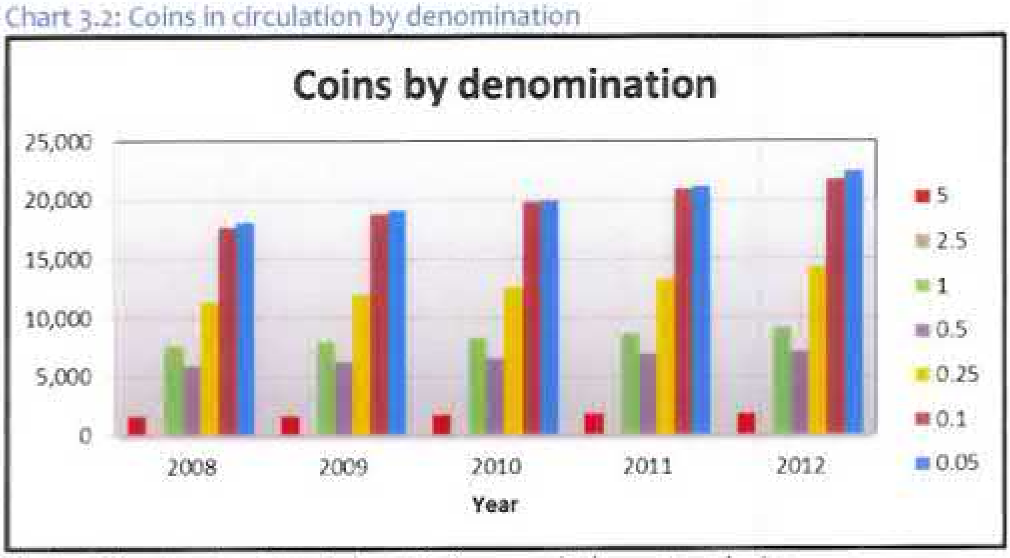


Chart 3.2: The 5 cent and 10 cent denominations remain the most used coins.

Commemorative coins

In 2012, on behalf of the government, the CBA issued one silver commemorative proof quality coin with a nominal face value of Afl. 5. The coin depicts the Aruban owl ('Shoco') and was brought into circulation in honor of the proclamation of the 'Shoco' as a national symbol of Aruba. The coin is not only equipped with a color image and a coat of arms in Minted Photo Image (MPI), but it is also the first coin in the world utilizing augmented reality technology. The latter will enable the public, via smartphones, to access a website that contains information on this coin.

Coin sets

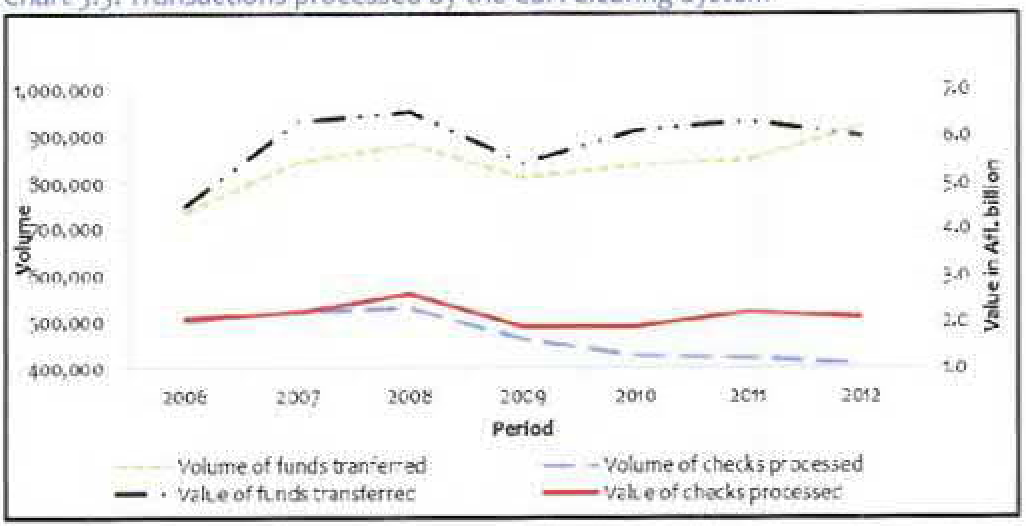
The 2012 coin set carried the theme 'Fishing in Aruba' in recognition of fishery on the island. Fishing is an integral part of the Aruban culture. Throughout the island's development, regardless of the economic driving force molding it at any particular time, fishing has remained a tradition widely practiced by many members of the Aruban community, whether for leisure or as an income-generating activity.

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 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 Water en Energie Bedrijf Aruba N.V. (WEB), the Servicio di Telecomunicacion di Aruba N.V. (SETAR), the Stichting Algemeen Pensionfonds Aruba (APFA), and the CBA. This system is based on a secured web-client solution through which local interbank checks and fund transfers are settled.

The ONCS continued to operate smoothly in 2012. The volume of fund transfers channeled through the ONCS increased by 73,197 transactions (8.6 percent) to 919,967 transactions, while the value of transfers handled dropped by Afl. 0.3 billion (4.8 percent) to Afl. 6.0 billion compared to 2011. The volume as well as the value of checks processed fell further in 2012 by approximately 15,287 checks (3.6 percent) to 407,713 checks (2011: 423,000 checks) and by Afl. 0.1 billion (4.5 percent) to Afl. 2.1 billion (2011: Afl. 2.2 billion), respectively, compared to 2011 (see Chart 3.3).

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 current accounts of the Department of Finance and the Servicio di Impuesto y Aduana (SIAD), including its earmarked accounts held at the CBA. The total balance of these accounts amounted to Afl. 44.9 million at the end of 2012. Government deposits held in earmarked accounts decreased to Afl. 21.3 million at the end of 2012 (2011: Afl. 41.9 million). In addition, the development fund account, managed by the Stichting Fondo Desaroyo Aruba (FDA), declined by Afl. 19.0 million to Afl. 13.8 million at the end of 2012, mostly due to payments related to ongoing projects of the FDA.

In 2012, the CBA assisted with the issuance of one 3-month treasury bill amounting to Afl. 65 million and renewal of two 3-month treasury bill issues of Afl. 45 million and Afl. 20 million, respectively. Furthermore, 6-month cash loan certificates of Afl. 8 million that matured in October 2012 were not re-issued. The yield on the treasury bills fluctuated between 1.43 percent and 2.01 percent, considerably higher than in 2011 (when the yield fluctuated between 0.63 percent and 1.63 percent). The weighted average yield on the 3-month treasury bills was 1.95 percent in 2012, 0.94 percentage point higher than in 2011. This upward move reflected a tightening of the available liquidity on the domestic money market.

The CBA did not intermediate on behalf of the government with respect to the issuance of government bonds on the domestic market in 2012 as the government covered its financing needs via domestic loans as well as placement of bonds on the international capital market.

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, section 3 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 valid for amounts up to Afl. 100,000. For transactions greater than Afl. 100,000, the commercial banks can set other exchange rates. In 2012, the selling rate of the Euro against the Aruban florin varied between Afl. 2.17 and Afl. 2.42, while the buying rate fluctuated between Afl. 2.13 and Afl. 2.40. At the end of December 2012, the Euro appreciated slightly against the florin, pushing the selling rate up by 2.0 percent or Afl. 0.05 to Afl. 2.37 at the end of 2012, when compared to the corresponding period of 2011.

3.2.2 Foreign exchange transactions

In 2012, foreign exchange transactions settled through the CBA resulted in a net purchase of Afl. 121.0 million of foreign exchange compared to a net sale of Afl. 66.1 million in foreign exchange in 2011. This turnaround was attributed mainly to a Afl. 187.2 million net purchase of foreign exchange from the government, which was offset in part by an Afl. 89.8 million net sale in foreign exchange to commercial banks. The CBA's net purchases of foreign exchange from other clients shrank by Afl. 5.4 million to Afl. 23.5 million in 2012 when compared to 2011.

Overall, the foreign exchange transactions carried out by the CBA in 2012 on behalf of the government of Aruba, in contrast to two previous years, resulted in a net purchase of foreign exchange from the government, largely because of the receipt of funds from the issuance of US$ 253.0 million in bonds by the government on the international capital market.

The CBA's total gross foreign exchange purchases grew by Afl. 166.7 million or 19.6 percent to Afl. 1,019.0 million in 2012, stemming mainly from the mentioned increase in foreign exchange purchases from the government related to the receipt of funds from the bonds issue. This increase was partially offset by lower purchases from the commercial banks and a decline in the CBA's interest earnings of Afl. 279.2 million and Afl. 8.5 million, respectively.

Total gross foreign exchange sales of the CBA dropped by Afl. 20.4 million or 2.2 percent to Afl. 898.0 million in 2012, reflecting an Afl. 142.7 million fall in the net foreign exchange sales to the commercial banks and other clients. In contrast, the drop in the sale of foreign exchange reserves by the CBA was partially offset by an increase of Afl. 122.2 million in government foreign exchange spending. The latter increase was related to higher payments for foreign debt servicing and the governments' representatives abroad in 2012 of, respectively, Afl. 121.8 million and Afl. 2.8 million. On the other hand, as of April 1, 2011, tourism promotion transfers of the ATA are being settled through commercial banks, and thus are no longer reflected in the government's foreign exchange transactions. In the period January up to and including March 2011, these transfers amounted to Afl. 10.5 million.

Table 3.3 Foreign exchange transactions
(in Afl. million)

	2010	2011	2012
Net purchases/sales (-) from/to commercial banks	144.7	47.4	-89.8
Net purchases/sales (-) from/to government	-181.9	-142.4	187.2
of which government's foreign exchange spending	-183.3	-147.1	-269.3
Net purchases/sales (-) from/to others	29.8	28.9	23.5
Net purchase/sale (-) of foreign exchange	-7.4	-66.1	121.0

Source: CBA.

3.2.3 Foreign exchange regulations

The foreign exchange regulations did not incur any change from 2011 to 2012. Pursuant to the SOFET, capital transactions require a special foreign exchange license from the CBA, while no license restrictions are imposed on current account transactions. The annual upper limit for executing capital transactions without any administrative restrictions remained at Afl. 300,000 for resident natural persons and Afl. 750,000 for resident legal entities (excluding commercial banks). However, for dividend distributions to nonresident shareholders, a declaration is required from the CBA related to the dividend amount.

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 that exceed Afl. 1,000,000 per annum 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.

On April 1, 2013, the Notice concerning Foreign Exchange Transactions RV 2009/1 was revoked and replaced by a Decree on Foreign Exchange Transactions 2013/K.2. This Decree entails a general foreign exchange license for executing transfers to and from notified foreign bank accounts and foreign intercompany accounts. The CBA will issue a quarterly list of compliant holders of foreign bank accounts and foreign intercompany accounts, who have notified the CBA of these accounts and complied with the reporting requirements. These holders included in the mentioned quarterly list can execute transfers to and from such accounts without a special foreign exchange license.

In 2012, the number of special foreign exchange licenses granted by the CBA rose by 60 (24.5 percent) to 305 compared to 2011 (see Table 3.4). This rise was caused by increases in the number of special foreign exchange licenses granted for transfers to and from notified foreign accounts, lending/borrowing abroad, and selling/buying of real estate. However, in 2012 the total value of the transactions for which licenses were granted declined by Afl. 1,162.7 million (70.8 percent) to Afl. 478.6 million, caused mainly by decreases of Afl. 684.2 million (80.4 percent) in the amount of transactions related to lending/borrowing abroad (excluding refinancing) and Afl. 466.8 million (89.8 percent) in the category other capital transactions. On the other hand, the total value of transactions related to the refinancing category grew by Afl. 35.3 million to Afl. 41.5 million in 2012, stemming chiefly from the refinancing of an infrastructure project executed by the private sector.

In 2012, the number of declarations for dividend distributions to nonresident shareholders increased by 7 (19.4 percent) to 43. However, the total amount of dividend distributions declined by Afl. 292.3 million to Afl. 73.1 million when compared to 2011.

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

Description	2011 Number	Amount in Afl.	2012 Number	Amount in Afl.
1. Lending / Borrowing abroad				
a. Refinancing	3	6.2	3	41.5
b. Other	38	851.0	48	166.8
2. Portfolio investment abroad	6	8.9	9	28.1
3. Selling / Buying real estate	52	177.3	76	117.9
4. Transfers to and from notified foreign accounts	114	78.0	152	71.2
5. Other capital transactions				
a. Participation in local companies by nonresidents	8	7.4	4	6.1
b. Participation residents in companies abroad	2	0.9	1	4.2
c. Granting of guarantees to nonresidents	5	375.9	7	34.9
d. Other	17	135.7	5	7.9
Total	**245**	**1,641.3**	**305**	**478.6**

Source: CBA.

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, some of the 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 2012, the CBA transferred Afl. 45.4 million to the Treasury (2011: Afl. 50.6 million). The total amount of foreign exchange commission collected in 2012 fell by Afl. 3.2 million (6.5 percent) to Afl. 46.7 million, when compared to 2011. The amount transferred to the Treasury in 2012 included the amount accrued by the end of 2011.

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 amount of their investments domestically.

The CBA's policy regarding the management of the official foreign exchange reserves remained unchanged in 2012. The CBA continues to pursue a prudent investment policy to minimize potential losses and aiming at preserving its capital (minimum A rates). The foreign exchange reserves of the CBA are invested predominantly in U.S. dollars and in government and U.S. agency securities (including mortgage-backed securities), securities issued by qualifying supranational financial institutions, and money-market instruments comprising mostly certificates of deposits, time deposits, and treasury bills. In addition, the CBA has decided to broaden its investment options with corporate bonds denominated in U.S. dollars in 2012. However, this investment option is limited to the financial services industry, specifically banks and financial institutions.

3.4 Monetary policy

In 2012, the reserve requirement remained the CBA's main tool of monetary policy. The Monetary Policy Committee (MPC) of the CBA met six times during 2012 to review monetary developments and the economic outlook. The MPC considered several indicators, including the level of net foreign assets (and official reserves), (core) inflation, and banking sector credit. The reviewed economic indicators remained mostly adequate throughout the year. Consequently, the MPC decided to uphold the reserve requirement at 11 percent and the advance rate at 1 percent.

Aruba's economy contracted by 1.4 percent in real terms during 2012, due mainly to the suspended oil refining operations of the Valero Energy Corporation in that year. Nonetheless, domestic credit grew by 9.4 percent, mainly because of higher net claims of the banking sector on the government. Despite the receipt of funds stemming from the placement of government bonds on the international capital market in 2012, government deposits dropped by 66.4 percent (-Afl. 140.9 million). The private sector contributed slightly to the overall growth in domestic credit, as banking sector claims on this segment rose by 2.7 percent. This increase was driven chiefly by an expansion in business loans (4.5 percent). Businesses were still positive on short-term future economic conditions, based on the results of the business perception survey. Furthermore, housing mortgages rose by 4.3 percent in 2012. Note in this respect also that the weighted average interest rates on housing mortgages continued to drop in 2012. Alternatively, consumer credit fell by 3.2 percent, signaling that consumers were still cautious about borrowing as consumer confidence remained slightly negative throughout 2012. Admittedly, the decrease in consumer credit may be partially 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.

The MPC has met four times so far in 2013 and decided at those meetings to maintain the reserve requirement unchanged at 11 percent, while the advance rate was kept at 1 percent. These decisions were based on available domestic indicators and developments in the international economic environment and taking into account that the net foreign assets were at an adequate level when benchmarked against GDP and money supply, as well as the number of months of current account payments covered by the net foreign assets. Domestic price pressures also were significantly subdued, while domestic credit is expected to grow at a modest level in 2013.

3.5 Financial sector supervision

The CBA is the sole supervisory authority in Aruba with respect to the financial sector, aiming primarily at promoting the soundness and integrity of the financial system. Currently, it is entrusted with the supervision of the banking and insurance sectors, company pension funds, money transfer companies, and trust service providers. Furthermore, the CBA is tasked with overseeing compliance with the AML/CFT State Ordinance and with the Sanction State Ordinance 2006. Prudential supervision is focused on monitoring the financial soundness of the supervised institutions (*inter alia* solvency, liquidity, risk management, corporate governance, and technical provisions), while integrity supervision concentrates on integrity aspects (*inter alia* money laundering, terrorist financing, breaches of law or acting contrary to generally accepted standards, promotion of ethical behavior, and 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 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, 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 in October 2010.

As noted in the MER, the CBA's supervisory scope should be expanded further. To that end, as of January 1, 2013, the reach of the existing sectoral supervisory laws has been extended. The scope of the State Ordinance on the Supervision of the Credit System (SOSCS) has been broadened to include, among others, electronic money institutions, while that of the State Ordinance on the Supervision of Trust Service Providers has been widened to include trust companies providing trust services to local companies. The State Ordinance on the Supervision of the Insurance Business (SOSIB) now establishes the possibility of bringing insurance brokers and funeral insurers with in-kind benefits under the purview of the SOSIB by State Decree. Moreover, all sectoral supervisory laws have been amended to enhance the prospects for cooperation and information exchange with foreign supervisors and to harmonize and strengthen the requirements in the sectoral supervisory laws with regard to fit and proper testing. In addition, a uniform requirement in the area of sound and controlled business operations has been introduced in all sectoral supervisory laws.

In June 2013, the CBA submitted a draft state ordinance to regulate the investment business to the Minister of Finance for approval. Upon enactment, this state ordinance will cover investment companies, investment managers, securities brokers, and (electronic) stock exchanges.

3.6 Organizational affairs

At the end of December 2012, the CBA employed 88 persons full-time compared to 85 in 2011. During 2012, five new employees were hired, two employees' labour contracts were terminated by mutual agreement, the secondment period of one employee from De Nederlandsche Bank N.V. (DNB) ended, while a new secondment period of one employee from DNB was initiated. The management of the CBA would like to thank its staff members for their loyalty and ongoing commitment and dedication to the CBA during 2012.

For the second consecutive year, the CBA's external auditor completed an audited review of CBA's mid-year financial figures. The CBA also achieved its goal of having the external auditor complete the year-end audit by early 2013. On January 31, 2013, the Auditors of the CBA issued an unqualified opinion with respect to the 2012 financial statements of the CBA, which subsequently was adopted by the BoSD.

3.6.1 Training, courses, and seminars

During 2012, as part of upgrading skills and knowledge sharing, the CBA staff participated in a number of courses, seminars, and conferences held locally and abroad. At the same time, the CBA held information sessions on the new AML/CFT State Ordinance for pawn shops / compra y venta companies and trust service providers, respectively. Furthermore, similar information sessions were organized for legal practitioners (lawyers and notaries), financial service providers, casinos, non-regulated financial service providers, and company pension funds.

In October 2012, the CBA participated in a seminar organized by the college of supervisors of the Kingdom of the Netherlands and hosted by the Central Bank of Curaçao and Sint Maarten (CBCS). This seminar was designed to enhance knowledge-sharing between the supervisors within the Dutch Kingdom in the areas of corporate governance, market conduct supervision, and integrity supervision.

3.6.2 Internal organization

In 2012, the Internal Audit Department (IAD) enhanced its tasks, procedures, and activities. In addition, the processes and procedures of a number of departments, including the Cash and Vault Department (CVD), Statistics Department (SD), and Personnel and Organization Department (P&OD) were reviewed and updated in 2012.

The CBA continued to enhance its information technology capabilities by implementing several solutions to facilitate the overall workflow and related processes within the CBA. The overall objective is to deploy solutions that will enable several departments of the CBA to perform their daily tasks more efficiently. To that end, the Information Systems and Facilities Department (ISFD) has deployed several applications, including a risk management application for the Integrity and Prudential Supervision Departments, several forecasting and analysis applications for the Research Department, and other in-house developed applications for the Statistics and Operations Departments.

Furthermore, additional data processing power has been added to the CBA's IT infrastructure to accommodate future needs related to new application requests and growth of the organization.

In 2013, the ISFD is planning to execute and support several key projects in cooperation with other areas of the CBA. These projects include the implementation of a workflow solution, upgrades of the CBA's banking application and the storage infrastructure to accommodate new initiatives such as paperless clearing, and advanced use of the CBA's electronic data management solution.

In the field of business continuity, the CBA continued to focus on recovering the application, systems and technology infrastructure that supports its core business processes. In this regard, the Information and Physical Security Department (IPSD), in close cooperation with the ISFD, executed a successful business continuity exercise in 2012 to recover the critical technology infrastructure at an offsite location. In addition, the IPSD completed the business impact analysis and crisis management plan, which form a vital part of the CBA's business continuity program. In 2013, 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. The IPSD performed audits and reviews on selected software applications within CBA's IT environment. Furthermore, the IPSD has been involved in the implementation of the AirWatch Mobile Device Management software that allows for smartphones and tablets to be used securely for work purposes. In the field of physical security, the CBA hired a security supervisor responsible for daily security and safety operations. As part of the ongoing security and safety awareness campaign, various activities were organized in November 2012 for all CBA employees.

In its effort to continue executing the recommendations in the report "Structuring the information management at the CBA", the CBA acquired the workflow module of the archive management system Decos. The Decos workflow module will be pilot tested in 2013 on two work processes as determined by the work group, with the assistance of an external consultancy bureau. Meanwhile, in 2012 the work group visited various organizations that use the Decos workflow module to learn more about their experiences and the challenges they encountered in implementing this module. Furthermore, in 2013 the Secretariat & Archives Department also will focus on streamlining the selection and retention of CBA documents given the limited physical storage space available in the CBA's archive.

4 GOVERNANCE AND ACCOUNTABILITY

The financial year 2012 was characterized by various important developments. The focus in this section is on corporate governance and risk management with special attention to investments and financial risks.

4.1 Governance structure

The CBA is a public corporate body incorporated under Aruban law. Its independence is laid down in article 2, paragraph 2 of the CBO and it is a bearer of rights and duties. While its principal tasks are stipulated in the CBO and other rules and regulations, the CBA strives to have a sound corporate governance system in place that supports proper and effective decision making, through the incorporation of appropriate checks and balances to ensure accountability, fairness and transparency.

Management structure

The CBA is managed by a President and two Executive Directors, who together form the Executive Committee. The members of the Executive Committee are appointed and dismissed by the Governor of Aruba. This committee operates according to the general regulations set out in the State Decree giving directives to the President, the Executive Directors, and the BoSD.

As of June 1, 2013, the management team of the CBA consists of the President, the two Executive Directors, three General Managers, of which one position is still vacant, and 13 Department Managers. 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, a Foreign Exchange Committee that coordinates all works of the departments of the CBA which are involved in implementing the regulations concerning foreign exchange transactions and foreign exchange commission, a Monetary Policy Committee that convenes regularly to evaluate and determine the CBA's monetary policy, and a Risk Management Committee responsible for ensuring that sound policies, procedures and practices are in place for the enterprise-wide management of the CBA's material risks.

Board of Supervisory Directors (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 2012, the BoSD consisted of four members (including the chairman). The BoSD supervises the CBA's operations and oversees the management of its property as well as the funds entrusted to it. On request of the BoSD, the Executive Committee reports on policies implemented, 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 State Decree giving directives to the President, Executive Directors and the BoSD. 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 sent to the Minister of Finance and Parliament, while the financial statements are submitted to the Minister of Finance. The adoption of the financial statements by the BoSD will also serve to discharge the President and the Executive Directors from liability. The BoSD also is responsible for appointing the CBA's external auditor.

In 2012, the BoSD held 7 scheduled meetings and advised the Executive Committee 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 the steps needed to mitigate these risks. In 2012, the department managers carried out a risk self assessment for their respective departments, in which they identified all key risk areas and assessed the impact and likelihood of these risks. The CBA will develop an overall risk matrix in 2013 that includes identified risks, together with the steps already taken or planned.

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 the 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 noncompliance 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 Managers, and Department Managers. The CBA has an Internal Audit Department (IAD) that independently supports the Executive Committee in matters related to the evaluation of the effectiveness of internal controls, risk management, and governance processes.

In 2013, the IAD will continue auditing the operational departments, such as the Accounting Department (AD), Cash and Vault Department (CVD), Operations Department (OD), and Personnel and Organization Department (P&OD). Furthermore, the IAD will expand its audit scope to departments within the CBA other that the operational departments mentioned above. It will assess whether the work processes and instruments of internal control of the mentioned departments sufficiently guarantee adequate management of the risks associated with the tasks carried out.

To guarantee the continuity and safeguarding of its IT systems and processes, the IPSD is responsible for protecting business information and information systems of the CBA, and also is in charge of the physical security of 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.

4.3 Investment and financial risks

Management of the foreign exchange reserves 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 2012, the CBA started the process of merging its portfolios under one custodian service provider, which also entails acquiring an analytics tool to carry out performance and risk analysis on the CBA's total investment portfolio. The analytic tool will support the Investment Committee in analyzing and foreseeing potential risks within the portfolios.

In 2012, the Investment Committee further revised CBA's investment guidelines to include other asset classes (*inter alia* corporates and collateralized mortgage obligations (CMO)) and to adjust the existing price constraints. The CBA also reviewed its investment policy and strategy in light of the changing international investment environment. The CBA continuously monitors and analyzes international as well as local developments and their (possible) effect on its foreign currency reserves, and depending on the impact assesses its investment strategy and guidelines thereby maintaining at all times an acceptable level of risk exposure.

5 FINANCIAL STATEMENTS

Initialed on behalf of
PriceWaterHouseCoopers
Aruba
For identificacion purposes only
Oranjestad.

Balance sheet as of December 31[1], before allocation of profit distribution

(in Afl. thousand)

	2012	2011
Assets		
1. Gold	331,496	313,666
2. Foreign currency assets	1,077,976	960,650
2.1 Due from banks	75,506	54,993
2.2 Government and other paper	998,499	902,104
2.3 Bank notes	288	182
2.4 Interest receivables	3,683	3,371
3. Other assets	19,713	20,379
3.1 Receivables	8,275	7,677
3.2 Stocks of coins	478	417
3.3 Printing cost of bank notes	406	673
3.4 Other fixed assets	2,626	3,504
3.5 Premises	7,928	8,108
	1,429,185	1,294,695

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

[1] Abbreviated

(in Afl. thousand)

	2012	2011
Liabilities and equity		
1. Bank notes in circulation	224,997	203,989
2. Deposits of residents	883,093	784,405
2.1 Government	44,948	183,534
2.2 Commercial Banks	823,100	566,912
2.3 Other	15,045	33,959
3. Deposits of nonresidents	3,729	825
4. Money in custody	953	952
5. Payables and accrued expenses	5,397	3,600
6. Pension provision	-	2,757
7. Revaluation account	220,952	207,392
8. Capital and reserves	90,064	90,775
8.1 General reserve	76,313	76,313
8.2 Capital	10,000	10,000
8.3 Profit of the year	3,751	4,462
	1,429,185	1,294,695

Adopted by the Supervisory Board of Directors on January 31, 2013.

Board of Supervisory Directors:
C.G. Maduro, Chairman
M.R. Croes
J.M. Veel
H.O. Toppenberg

Profit and loss account for the year[2)]

(in Afl. thousand)

	2012	2011
1. Net interest revenues	16,119	19,086
2. Foreign exchange revenues	4,094	912
3. Coins revenues	942	1,465
4. Various revenues	1,483	1,591
Total income	22,638	23,054
5. Printing cost of bank notes	342	337
6. Personnel expenses	13,009	11,582
7. Operating expenses	4,147	4,657
8. Depreciation	1,389	2,016
Total expenses	18,887	18,592
Net Income	3,751	4,462
Profit distribution		
Allocated to the Treasury	-	4,462
General reserve	-	-

[2)] Abbreviated

Initialed on behalf of
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Aruba
For identificacion purposes only
Oranjestad

NOTES TO THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT FOR 2012

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 of 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 the 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 and expenses, 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 that occur 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 2012.

Change in the Accounting estimate of the useful life and residual value of premises, renovations, and expansion of existing building (including landscaping).

Until 2011, the value of CBA's premises, including landscaping as well as renovations and expansion of the building, was recorded at historical cost less accumulated depreciation and was amortized according to the straight-line method. CBA's premises were depreciated in 20 years; renovations and landscaping in 10 years. On December 5, 2011, the CBA obtained an appraisal report from an external expert. Based on this report, management of the CBA, after receiving approval from the BoSD, decided to increase the estimated useful life of CBA's premises and renovations. The economic useful life of the premises and renovations, is now estimated to have an economic useful life of 40 years and a residual value of 30 percent of the historical costs. This change is reflected in this year's profit and loss account of the CBA, showing lower depreciation charges. The yearly depreciation charges for the CBA's premises decreased from Afl. 854,090 in 2011 to Afl. 115,749.

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 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, renovations, and landscaping are depreciated in 40 years with a residual value of 30 percent. 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 10 years.

Recognition of income and expenses

Income and expenses are recognized in the period in which they are earned or incurred. Realized gains and losses from investments 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.

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Aruba
For identificacion purposes only
Oranjestad.

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. At December 31, 2012, the market price for gold was US$ 1,664.00 or Afl. 2,978.56 (2011: US$ 1,574.50 or Afl. 2,818.35) per fine troy ounce.

Gold holdings:	Fine troy ounces		Value in Afl. thousand	
	2012	2011	2012	2011
	111,294.165	111,294.165	331,496	313,666

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)

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 (CBCS). In order to minimize foreign exchange risks, total non-U.S. dollar holdings (excluding ANG) is limited to a maximum of US$ 0.5 million.

Government and other paper (2.2)

Consist 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;
3. Money market instruments, comprising mostly certificates of deposit, time deposits, and treasury bills; and
4. Corporate Bonds only for the financial services industry, specifically banks and other financial institutions.

The investment guidelines of the asset managers, based on conservative parameters, stipulate amongst other, the investment objectives, benchmarks, average duration, and eligible investment instruments, which must be 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. As of September 27, 2012, corporate bonds, issued only by banks and other financial institutions, with a minimum rating of single A have been included in the investment guidelines as an eligible instrument. For securities with split ratings, the highest rating shall apply. 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 2012, 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, receivables for passed-on supervision costs, foreign checks in transit, and other receivables. Mortgage loans to personnel increased in 2012; four (4) new mortgages were granted to CBA personnel. The item receivables for passed on supervision costs rose compared to 2011 because not all the invoices sent for collection were paid before year-end. Also, at the end of 2012, an accrual of Afl. 150,000 was made, consisting of the costs to be passed on to the money transfer companies covering the year 2012 that will be invoiced in 2013. Prepaid expenses declined by Afl. 203,408 in 2012 compared to 2011, largely following the payment of the IT infrastructure support and maintenance contract in 2011, which covered a period of three years, while at the end of 2012, a much smaller amount is presented as prepaid expenses.

(in Afl. thousand)

	2012	2011
Loans and advances to personnel	735	805
Mortgage loans to personnel	6,475	6,021
Prepaid expenses	318	521
Foreign checks in transit	51	45
Receivable for passed on supervision costs	613	214
Usage fee clearing system	24	20
Other	59	51
Total	8,275	7,677

Stock of coins (3.2)

Comprises commemorative coins available for sale and is valued at selling price.

Printing cost of bank notes (3.3)

In 2008, the CBA placed a multi-year order for bank notes for a total 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, beginning January 1, 2009. In 2012, the CBA bought the bank notes from the overproduction of 2008 for an amount of Afl. 74,224. Part of these bank notes (at a cost of Afl. 43,983) was brought into circulation in 2012. These costs also are amortized over a period of 5 years starting June 2012.

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, 2012	2,527	489	284	204	3,504
Changes:					
Additions	53	288	95	-	436
Disposals	(57)	-	-	-	(57)
Depreciation charge	(815)	(235)	(110)	(100)	(1,260)
Depreciation write back	3	-	-	-	3
Closing net book value	1,711	542	269	104	2,626
At December 31, 2012					
Cost or valuation	7,415	6,136	1,201	417	15,169
Accumulated depreciation	(5,704)	(5,594)	(932)	(313)	(12,543)
Book value as of December 31, 2012	1,711	542	269	104	2,626

Premises (3.5)

This item comprises the CBA's building at J.E. Irausquin Boulevard 8, renovations, parking space and landscaping.

(in Afl. thousands)

	Building, terrain and landscaping	Remodeling/ renovation	Parking space	Total
Book value as of January 1, 2012	**6,873**	**997**	**238**	**8,108**
Changes:				
Investments	-	14	(10)	4
Reclassification	(61)	-	-	(61)
Depreciation charge	(107)	(18)	(4)	(129)
Reclassification depreciation	22	(16)	-	6
Closing net book value	**6,727**	**977**	**224**	**7,928**
At December 31, 2012				
Cost or valuation	13,102	1,474	228	14,804
Accumulated depreciation	(6,375)	(497)	(4)	(6,876)
Book value as of December 31, 2012	**6,727**	**977**	**224**	**7,928**

Liabilities

Bank notes in circulation (1)

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

(in Afl. thousand)

Denomination	2012	2011
5.00	882	882
10.00	7,749	7,547
25.00	17,548	15,818
50.00	17,085	15,090
100.00	176,655	159,587
500.00	5,078	5,065
Total	224,997	**203,989**

Deposits of residents (2)

Government (2.1)

This item consists of deposits of the Government of Aruba held at the CBA. This item's outstanding balance dropped in 2012 compared to 2011, because of the payments made by the government, including those for matured bonds and interest payments.

Commercial Banks (2.2)

This item comprises:

(in Afl. thousand)

	2012	2011
Current accounts	209,846	132,028
Reserve requirement	353,254	329,884
Time deposits	260,000	105,000
Total	823,100	**566,912**

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 the joint development program, which is being managed by the FDA.

Deposits of nonresidents (3)

This item consists of Aruban florin deposits of nonresident banks.

Money in custody (4)

This item comprises 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)

	2012	2011
Local and foreign checks outstanding	85	76
Unclaimed principal/ coupons of Aruban government securities	64	138
Foreign exchange commission collected and due to the government of Aruba	2,536	1,313
Wage tax and pension contributions withheld	260	225
Accrual for consultant fees	122	205
Accrual for the upgrade of the Integrated Bank Application software	-	560
Accrual for asset management fee and custodian charges	169	171
Transfer in transit	900	-
Accrual for the construction of a parking space	-	238
Accrual for vacation allowance	350	-
Other payables	911	674
Total	5,397	**3,600**

The item "Other payables" largely consists of an Afl. 345,311 accrual for several IT projects, an Afl. 214,081 accrual for the purchase of coins, an Afl. 21,000 accrual for the publication of the annual report 2012, an Afl. 43,000 accrual for the publication of a book, an accrual of Afl. 79,815 for utility expenses, and several other bills payable. The item "Foreign exchange commission collected and due to the government" increased in 2012 compared to 2011. The CBA collected Afl. 46.7 million in foreign exchange commission and transferred Afl. 45.4 million in monthly installments to the account of the Government of Aruba at the CBA. After the last payment made mid-December 2012, an amount of Afl. 2.5 million was collected. Due to unforeseen circumstances, the upgrade of the financial software (IBS) did not take place in 2012 as planned. It is now scheduled to be implemented in the beginning of 2013. The accrual at the end of 2012 was therefore reversed.

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 on 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, was 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. Up to 2012 the item "pension provision" consisted 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 2012 are based on actuarial calculations. The underlying actuarial assumptions are equivalent to the pension scheme based on the Pension Ordinance Civil Servants (AB 1991, GT 25). At the end of December 2010, the Pension Ordinance Civil Servants was revoked, while at the same time a new pension scheme (NPR 2011) was introduced. The CBA reached an agreement with the employees concerned on how to proceed with their pension arrangement. Four employees agreed to keep their pension plan with APFA, while two employees decided to enter CBA's collective pension arrangement. With the assistance of an independent actuary, the CBA decided to transfer the ensuing liability of the three pensioners accrued up to December 31, 2012, to an insurance company, while the claims ensuing from the special pension arrangements, as mentioned above, made for the three other employees were paid out in cash. The pension provision was adjusted based on new calculations of the insurance company, which was reviewed with the assistance of the aforementioned independent actuary.

The changes in this provision are as follows:

(in Afl. thousand)

	2012	2011
Pension provision as of January 1	2,757	**2,822**
Pension payments	(186)	(186)
Transfer insurance premiums to insurance company	(2,676)	-
Redemption of non contributory premiums	(241)	-
Adjustment pension reserve	346	121
Pension provision as of December 31	-	2,757

Revaluation account (7)

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

(in Afl. thousand)

	2012	2011
Revaluation account as of January 1	207,392	164,608
Net changes in the market value of gold	17,830	32,721
Net changes in the value of foreign exchange	50	(11)
Net changes in the value of securities	(4,319)	10,074
Revaluation account as of December 31	220,952	207,392

The changes in the revaluation account are divided per the following assets category:

(in Afl. thousand)

		Balance per 1/1/2012	Change 2012	Balance per 31/12/2012
Gold holdings	(98.7%)	204,723	17,829	222,552
Foreign currencies	(0.0%)	(10)	49	39
Assets portfolios	(1.3%)	2,679	(4,318)	(1,639)
Total	(100%)	207,392	13,560	220,952

Capital and reserves (8)

General reserve (8.1)

This item comprises:

(in Afl. thousand)

	2012	2011
Beginning balance	76,313	72,884
Retained earnings	-	3,429
Balance at the end of the year	76,313	76,313

In accordance with article 33, paragraph 1 of the CBO, the BoSD and the Executive Committee decided to allocate the 2011 profit of Afl. 4.5 million to the Treasury. As of the date of the publication of this report, the profit of 2012 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 2012.

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 investment portfolios, as well as management fees and charges for custodian services.

(in Afl. thousand)

	2012	2011
Interest revenues (net of expenses)	16,351	19,345
Interest expenses	(232)	(259)
Net interest revenues	16,119	19,086

Net interest revenues reached Afl. 16.1 million in 2012, i.e., Afl. 3 million lower compared to 2011. This was due to a decrease in revenues received from the investment portfolios, as a result of reduced average balances held on the investment portfolios and a persistent low interest rate environment.

Based on an agreement between the CBCS and the CBA, since 1987 a special remuneration was paid on the current account of the CBCS and some earmarked accounts of the government. CBA and the CBCS decided to revoke this agreement and as of September 5, 2012, lowered the interest remuneration on current accounts that are held with each other to 0 percent.

Interest rates on current accounts, if applicable, and on time deposits are weekly determined using the U.S. money market rates as reference rate. In 2012 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 revenues (4)

(in Afl. thousand)

	2012	2011
Net usage fee clearing system	78	83
Passed on supervision costs	1,387	1,220
Other income	18	288
Total	1,483	1,591

For 2012, this item declined due to a decrease in the administrative fines imposed on the institutions supervised by the CBA and a drop in other income compared to 2011. Other income in 2011 consisted mainly of the difference in the book value and the trade-in value of two company cars. Passed-on supervision costs increased compared to 2011, because in 2011 a lower amount was accrued for passed on supervision costs to the money transfer companies. The credit institutions were also charged in 2011 for 11/12 of the fixed amount, as the State Decree came into effect on January 21, 2011, while in 2012 they were charged for the full amount.

Personnel expenses (6)

(in Afl. thousand)

	2012	2011
Salaries	9,700	8,338
Social security contributions	1,105	1,031
Pension premiums	1,739	1,445
Medical insurance and medical expenses	205	338
Other	260	430
Total	13,009	11,582

At balance sheet date, the CBA employed 88 persons full-time (2011: 85 persons). During 2012, the CBA entered into a labor contract with 5 new employees, terminated on mutual agreement the labor contract with 2 employees, and the secondment period of one employee from De Nederlandsche Bank (DNB) elapsed, while a new secondment period of another employee of DNB was initiated. In 2012, based on new actuarial calculations from an insurance company, Afl. 345,946 was added to the pension reserve before transferring the ensuing liabilities of the pensioners to an insurance company, while the claim ensuing from the special pension arrangements for the other three personnel of the CBA was paid out in cash. The pension provision was adjusted based on the new actuarial calculations that were made by the insurance company, which was reviewed with the assistance of an independent actuary.

Since 2005, the CBA has had an agreement with an insurance company for a supplementary medical insurance plan for its personnel and their families. In 2012, a decision was made to terminate this insurance plan as of June 30, 2012. The total cost of this plan amounted to approximately Afl. 115,000 in 2012. The CBA is contemplating to enter into an Administrative Service only Agreement with a private company.

Operating expenses (7)

(in Afl. thousand)

	2012	2011
Utilities	494	447
Cleaning and maintenance	247	351
Maintenance computers	668	627
Security	63	75
Fire insurance	31	31
Reuters	60	35
Telephone	163	161
Postage	8	17
Printing	22	134
Office supplies	102	81
Office inventory and furniture	9	19
Vehicles	59	58
Courses, seminars, and meetings	536	513
Representation	46	36
Donations	88	82
Remuneration Board of Supervisory Directors	168	163
Legal	138	109
Audit	89	61
Consultancy fees	505	804
Literature and subscription	48	74
Property tax	162	223
Membership contribution	73	79
Transportation and storage of bank notes	55	42
Seminars organized/hosted by the CBA	8	41
Anniversary celebration	-	281
Other expenses	305	113
Total	4,147	4,657

Depreciation charges (8)

(in Afl. thousand)

	2012	2011
Depreciation other fixed assets	1,260	1,149
Depreciation CBA premises	129	867
Total	1,389	2,016

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In 2012, based on an appraisal report from an external expert, management of the CBA, after receiving approval from the BoSD, increased the estimated useful life of CBA's premises to 40 years with a residual value of 30 percent of the historical costs. Therefore, the depreciation charges decreased in 2012 compared to 2011.

Commitments & Contingencies

In 2011, the decision was taken to upgrade the financial software (IBS). However, while preparatory work has been implemented, the upgrade did not take place in 2012, due to unforeseen circumstances. On November 2, 2012, the upgrade proposal was signed and upon signing of the contract the first payment as per the terms of the acceptance of the proposal for the upgrade should have been made. However, the vendor needs to sign a Non Disclosure Agreement (NDA) with the CBA before it can proceed with the upgrade and the CBA can execute the payment. After discussing the content of the NDA with the vendor it was agreed that the NDA was acceptable to both parties. The total costs of this upgrade, excluding the customization and modification fee, is Afl. 545,950.

Report on the Financial Statements
We have audited the accompanying financial statements 2012 as included in chapter 5, which comprise the balance sheet as at December 31, 2012, the profit and loss account for the year 2012, 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 Directors
The President and Executive Directors of the CBA 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 they determine is necessary to enable the preparation of 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 assessments, 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.

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, 2012, and its financial

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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, 2013
PricewaterhouseCoopers Aruba

Original signed by Edsel N. Lopez

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