A QUANTITATIVE OVERVIEW OF FINANCIAL SECTOR DEVELOPMENTS

An article by the Supervision Department.

1. Introduction

This article provides a quantitative overview of developments in the major variables of Aruba's financial sector. Section 2 covers the banking sector, section 3, the money transfer companies, and section 4, the insurance sector, comprising the insurance companies, company pension funds, the Civil Servants Pension Fund (APFA), the Social Security Bank (SVb), and the General Health Insurance (AZV). At present, APFA, SVb, and AZV do not fall under the Bank's supervision. However, in view of the importance of these institutions for the economy of Aruba, their financials also are discussed in this article. Finally, section 5 provides a list of the financial institutions supervised by the Bank at the end of December 2004.

2. Banking sector

2.1 Supervised institutions

As shown in Table 1, the number of banking institutions supervised by the Bank remained unchanged in 2004.

Table 1: Number of supervised institutions within the banking sector
(End-of-period figures)

	2002	2003	2004
1. Commercial banks	5	4	4
2. Offshore banks	2	2	2
3. Bank-like institutions	4	4	4
a. Mortgage banks	2	2	2
b. Finance companies	1	1	1
c. Other financial institutions	1	1	1
4. Credit unions	2	2	2
Total	**13**	**12**	**12**

Source: CBA.

2.2 Commercial banks

Of the four commercial banks currently operating in Aruba, one is a branch and two are subsidiaries of, respectively, Banco di Caribe N.V., Maduro & Curiel's Bank N.V., and Orco Bank International N.V. Subject banks are established in Curaçao, Netherlands Antilles. These banks also are supervised (on a consolidated basis) by the Bank van de Nederlandse Antillen.

Table 2: Balance sheet of the commercial banks
(End-of-period figures in Afl. million)

	2002	2003	2004 1)
1. Assets			
a. Cash & due from banks	675.8	810.6	720.3
b. Investments	100.1	138.1	149.9
c. Loans	1,724.1	1,978.7	2,076.1
- Commercial 2)	812.6	973.9	990.1
- Individuals 3)	911.3	1,004.7	1,085.9
- Government	0.2	0.1	0.1
d. Other assets	179.4	165.2	165.4
Total assets	**2,679.4**	**3,092.6**	**3,111.7**
2. Capital and liabilities			
a. Deposits	2,329.3	2,620.6	2,652.1
- Demand	804.0	955.4	998.7
- Time	1,054.6	1,105.2	1,037.9
- Savings	470.7	560.0	615.5
b. Other liabilities	154.0	203.3	149.7
c. Capital and reserves 4)	196.1	268.7	309.9
Total capital and liabilities	**2,679.4**	**3,092.6**	**3,111.7**

Source: CBA; commercial banks.

1) Preliminary figures.
2) Corrected for allocated reserves.
3) Corrected for unearned income.
4) Including general (unallocated) reserves.

Table 2 shows that the aggregated balance sheet total of the commercial banks increased by a mere Afl. 19 million or 1 percent to Afl. 3,112 million at the end of 2004, equivalent to 81 percent of the estimated Gross Domestic Product (GDP) for 2004. Cash and due from banks declined by Afl. 90 million or 11 percent, while the banks' loan portfolio grew by Afl. 97 million or 5 percent to Afl. 2,076 million, due mainly to an increase of Afl. 81 million in loans to individuals. Capital and reserves increased by Afl. 41 million or 15 percent.

As shown in Table 3, the rise in the net interest margin of Afl. 24 million was largely offset by the increase of Afl. 19 million in the total expenses. As a result, net income before taxes increased from Afl. 67 million to Afl. 70 million or 4 percent compared to 2003.

The various macroprudential indicators show that the commercial banking sector is sound and profitable (see Table 4). The banks' aggregated risk-weighted capital asset ratio increased from 11 percent to 12 percent, well above the required minimum of 10 percent.

Table 3: Income statement of the commercial banks
(In Afl. million)

	2002	2003	2004 1)
Net interest margin	106.3	117.5	141.0
Operating income	63.0	71.5	69.5
Total income	**169.3**	**189.0**	**210.5**
1. Salaries & employee benefits	56.2	61.7	65.5
2. Additions to the loan loss provisions	6.6	-3.7	8.6
3. Other expenses	64.0	63.0	65.9
Total expenses	**126.8**	**121.0**	**140.0**
Net income before extraordinary items, result subsidiaries and taxes	42.5	68.0	70.5
Net income before taxes	**42.8**	**67.2**	**70.2**
Taxes	14.7	13.8	16.6
Net income	**28.1**	**53.4**	**53.6**

Source: CBA; commercial banks.

1) Preliminary figures.

The nonperforming loans (net of provisions) declined from 4 percent to 2 percent of gross loans and from 38 percent to 20 percent of regulatory capital compared to 2003. This decline was mainly the result of the restructuring of some nonperforming loans and an improvement of the overall quality of the loan portfolio during 2004. Mainly due to the increase in shareholders' equity, return on equity dropped by 6 percentage points to 26 percent. The liquidity ratio declined by a mere 1 percentage point to 27 percent, still well above the minimum prudential requirement of 20 percent. The banks were required to hold an 8 percent non-interest-bearing monetary cash reserve, as well as sufficient funds for clearing purposes with the Bank. The monetary cash reserve is included in the calculation of the prudential liquidity ratio. The increase in loans exceeded by Afl. 65 million the increase in deposits. Consequently, the loans-to-deposits ratio rose by 3 percentage points to 76 percent at the end of 2004, still well below the prudential maximum of 80 percent.

As a result of its oligopolistic market structure, as well as the small scale of the domestic banking sector, interest rates in general are higher than those of industrialized countries. The weighted average interest rate margin increased by 1 percentage point to approximately 7 percent. Due to the excess liquidity in the banking sector, most of the commercial banks have lowered their interest rates on deposits and savings.

Table 4: Core set of macroprudential indicators of the commercial banks
(End-of-period figures in percentages)

	2002	2003	2004 1)
1. Capital adequacy			
a. Risk-weighted capital asset ratio = regulatory capital ratio	9.4	11.4	12.1
b. Tier 1 capital ratio	5.5	5.3	6.6
2. Asset quality			
a. Nonperforming loans (net of provisions) to gross loans	2.7	4.1	2.3
b. Nonperforming loans (net of provisions) to regulatory capital	30.3	38.4	19.5
c. Large loans to regulatory capital	195.1	104.1	98.8
3. Earnings and profitability			
a. Return on assets	1.1	2.0	1.8
b. Return on equity	22.0	31.9	26.2
c. Interest margin to gross income	62.8	62.2	67.1
d. Noninterest expenses to gross income	83.6	71.9	74.5
4. Liquidity			
a. Loan-to-deposits ratio	71.7	72.8	75.5
b. Prudential liquidity ratio	28.2	27.9	27.0
c. Liquid assets to short-term liabilities	77.6	77.6	74.1
5. Sensitivity to market risk			
a. Interest rate margin 2)	7.3	6.1	7.0

Source: CBA; commercial banks.

1) Preliminary figures.
2) Weighted averages related to transactions during the indicated period.

2.3 Offshore banks

The number of offshore banks registered in Aruba remained unchanged at two. These two banks are affiliated with Citibank and, thus, fall under the consolidated supervision of the U.S. authorities. Their aggregated balance sheet total amounted to Afl. 1,012 million, which represents a decrease of Afl. 323 million or 24 percent compared to 2003 (see table 5). On the assets side, cash and due from banks, as well as loans declined by Afl. 85 million (13 percent) and Afl. 232 million (35 percent), respectively. On the liabilities side, deposits and other liabilities decreased by Afl. 313 million (28 percent) and Afl 50 million (56 percent), respectively. Capital and reserves rose by Afl. 41 million or 32 percent. Consequently, the offshore banks' aggregated risk weighted capital ratio increased significantly from 16 percent to 37 percent, far above the minimum requirement of 8 percent applicable to branches or subsidiaries of internationally active banks that fall under effective consolidated supervision of the home country supervisor.

Table 5: Balance sheet of the offshore banks
(End-of-period figures in Afl. million)

	2002	2003	2004 1)
1. Assets			
a. Cash & due from banks	894.3	651.3	566.8
b. Investments	45.1	7.8	-
c. Loans 2)	924.0	659.2	427.7
d. Other assets	10.3	16.6	17.6
Total assets	**1,873.7**	**1,334.9**	**1,012.1**
2. Capital and liabilities			
a. Deposits	1,631.7	1,118.6	805.3
- Demand	29.7	161.9	323.9
- Time	1,602.0	956.7	481.4
b. Other liabilities	24.4	89.3	39.1
c. Capital and reserves 3)	217.6	127.0	167.7
Total capital and liabilities	**1,873.7**	**1,334.9**	**1,012.1**
Risk-weighted capital ratio (percentage) 4)	**20.6**	**15.8**	**37.1**

Source: CBA; offshore banks.

1) Preliminary figures.
2) Corrected for allocated reserves.
3) Including general (unallocated) reserves.
4) The calculation of the risk-weighted capital ratio cannot be derived from table 5.

As shown in Table 6, the offshore banks operated with a profit (before taxes) of Afl. 46 million, compared to a loss of Afl. 44 million in 2003. This significant improvement was mainly the result of an increase in the net revenue from foreign exchange transactions and compared to 2003, a release instead of an addition to the loan loss provisions.

Table 6: Income statement of the offshore banks
(In Afl. million)

	2002	2003	2004 1)
Net interest margin	28.8	24.3	31.8
Operating income	61.5	-22.5	13.0
Total income	**90.3**	**1.8**	**44.8**
1. General expenses	6.1	6.3	3.5
2. Additions to the loan loss provisions	23.2	36.1	-4.4
Total expenses	**29.3**	**42.4**	**-0.9**
Net income before extraordinary items and taxes	61.0	-40.6	45.7
Net income before taxes	**56.1**	**-44.3**	**46.1**
Taxes	2.3	0.4	1.3

Net income	**53.8**	**-44.7**	**44.8**

Source: CBA; offshore banks.

1) Preliminary figures.

2.4 Bank-like institutions

Institutions in this subsector are OHRA Hypotheekbank N.V., Fundacion Cas pa Comunidad Arubano, AIB Bank N.V., and Island Finance Aruba N.V. These institutions are engaged mainly in mortgage lending to individuals, financing of social housing projects, long-term project financing, and/or granting of personal loans for consumptive and home improvement purposes. Their activities are financed largely through funds obtained from their parent company, other (local) financial institutions, and/or institutional investors.

Table 7: Balance sheet of the bank-like institutions
(End-of-period figures in Afl. million)

	2002	**2003**	**2004 1)**
1. Assets			
a. Cash & due from banks	68.2	78.8	75.9
b. Investments	4.6	9.1	12.6
c. Loans	425.9	435.4	445.4
- Commercial 2)	78.5	101.2	94.4
- Individuals 3)	347.4	334.2	351.0
d. Other assets	63.2	94.8	96.3
Total assets	**561.9**	**618.1**	**630.2**
2. Capital and liabilities			
a. Deposits	17.9	21.9	24.5
b. Borrowings	250.7	322.5	332.4
- Commercial	214.1	285.9	295.8
- Government	36.6	36.6	36.6
c. Other liabilities	93.5	66.2	55.1
d. Capital and reserves 4)	199.8	207.5	218.2
Total capital and liabilities	**561.9**	**618.1**	**630.2**
Risk-weighted capital ratio percentage) 5)	**44.5**	**50.1**	**51.0**

Source: CBA; bank-like institutions.

1) Preliminary figures.
2) Corrected for allocated reserves.
3) Corrected for unearned income.
4) Including general (unallocated) reserves.
5) The calculation of the risk-weighted capital ratio cannot be derived from Table 7.

The bank-like institutions had a combined loan portfolio of Afl. 445 million at year-end 2004, equivalent to 12 percent of the estimated GDP for 2004 (see table 7). This figure represents a slight increase of Afl. 12 million or 2 percent compared to 2003. The loans to individuals rose by Afl. 17 million or 5 percent, while the commercial loans declined by Afl. 7 million or 7 percent. On the liabilities side, other liabilities decreased by Afl. 11 million or 17 percent. Capital and reserves increased by Afl. 11 million and amounted to Afl. 218 million. The aggregated risk-weighted capital ratio of the bank-like institutions increased from 50 percent to 51 percent, well above the minimum requirement of 10 percent.

Table 8: Income statement of the bank-like institutions
(In Afl. million)

	2002	2003	2004 1)
Net interest margin	38.4	35.9	31.2
Operating income	8.8	8.7	14.1
Total income	**47.2**	**44.6**	**45.3**
1. Salaries & employee benefits	11.6	11.5	12.7
2. Additions to the loan loss provisions	3.7	2.4	1.4
3. Other expenses	10.1	11.4	15.1
Total expenses	**25.4**	**25.3**	**29.2**
Net income before extraordinary items, result subsidiaries, and taxes	21.8	19.3	16.1
Net income before taxes	**3.4**	**14.7**	**16.1**
Taxes	4.8	5.6	5.3
Net income	**-1.4**	**9.1**	**10.8**

Source: CBA; bank-like institutions.

1) Preliminary figures.

The decline of Afl. 5 million in the net interest margin was compensated fully by an increase by the same amount in the operating income (see table 8). Net income (before taxes) increased by Afl. 1 million or 10 percent to Afl. 16 million.

3. Money transfer companies sector

The State Ordinance on the Supervision of the Money Transfer Companies (SOSMTC) (AB 2003, no. 60) came into force on August 12, 2003. Pursuant to section 3 of this ordinance, a money transfer company must be registered at the Bank before it can initiate its activities. The already active money transfer companies were granted a 180 day grace period to qualify for registration. The main registration requirements are that the shareholders and management must be fit and proper and that the administrative organization and internal controls are satisfactory. As of December 31, 2004, six companies were registered. Western Union and MoneyGram were granted an exemption as defined in section 10 of the SOSMTC on February 9, 2004, and February 26, 2004, respectively.

Approximately 255,000 outgoing transfers were executed by the money transfer companies in 2004, for a total amount of Afl. 100 million. Of these transfers, Afl. 59 million was sent to Colombia. This large portion is explained primarily by the large number of immigrants from Colombia sending monies to support their families overseas. In 2004 approximately 15,000 incoming transfers were made for a total amount of Afl. 12 million. These incoming transfers originated mainly in the Netherlands and the United States of America.

4. Insurance sector

4.1 Supervised institutions

In 2004 the Bank granted two general insurance licenses. As a consequence, 14 nonlife insurance companies were licensed as per December 31, 2004 (see Table 9).

Table 9: Number of supervised institutions within the insurance sector
(End-of-period figures)

	2002	2003	2004
1. Nonlife insurance companies	12	12	14
2. Life insurance companies	8	8	8
3. Captive insurance companies	2	2	2
4. Company pension funds	11	11	11
Total	**33**	**33**	**35**

Source: CBA.

4.2 The nonlife insurance sector

At the end of December 2003, the aggregated balance sheet total of the nonlife insurance companies amounted to Afl. 173 million (equivalent to 5 percent of the GDP for 2003), i.e., a 24 percent increase over 2002 (see table 10). This increase was related mainly to an increase in the current assets of Afl. 25 million or 62 percent. On the liabilities side, the amount due to affiliated companies nearly doubled. Capital and reserves rose by Afl. 11 million or 20 percent to Afl. 67 million.

Table 10: Balance sheet of the nonlife insurance companies
(End-of-period figures in Afl. million)

	2001	2002	2003
1. Assets			
a. Investments	77.3	76.5	81.7
b. Fixed assets	0.6	0.5	0.4
c. Due from affiliated companies	19.6	22.8	26.8
d. Current assets	28.2	39.7	64.2
Total assets	**125.7**	**139.5**	**173.1**
2. Capital and liabilities			

a. Technical provisions	47.2	50.1	54.2
b. Long-term liabilities	-	-	-
c. Due to affiliated companies	17.6	20.4	39.3
d. Current liabilities	9.9	12.7	12.2
e. Capital and reserves	51.0	56.3	67.4
Total capital and liabilities	**125.7**	**139.5**	**173.1**

Source: CBA; nonlife insurance companies.

As shown in Table 11, an Afl. 5 million growth in investments resulted mainly from additional bonds holdings. A mere Afl. 3 million or 4 percent of the total investment portfolio consisted of foreign assets compared to Afl. 1 million or 1 percent in 2002.

Table 11: Investments of the nonlife insurance companies
(End-of-period figures in Afl. million)

	2001	2002	2003
1. Shares	0.1	0.4	0.4
2. Bonds	30.4	38.4	41.9
3. Time deposits	45.6	35.2	37.0
4. Loans	1.1	2.3	2.2
5. Other investments	0.1	0.2	0.2
Total	**77.3**	**76.5**	**81.7**

Source: CBA; nonlife insurance companies.

The main income sources of the nonlife insurance companies were net premiums received from motor vehicle (57 percent) and property insurance (26 percent). Net premiums rose by Afl. 4 million, while management expenses decreased by Afl. 4 million or 23 percent. On balance, net income (before taxes) rose from Afl. 10 million to Afl. 14 million or 38 percent (see Table 12).

Table 12: Income statement of the nonlife insurance companies
(In Afl. million)

	2001	2002	2003
1. Net premiums	56.8	56.5	60.2
2. Investment income	5.3	6.0	5.6
3. Other income	-1.2	-1.2	-1.8
Total income	**60.9**	**61.3**	**64.0**
4. Net claims	21.8	21.2	22.9
5. Change in technical provisions	-	-0.4	1.2
6. Commissions	12.9	13.1	13.5
7. Management expenses	14.6	15.5	11.9
8. Extraordinary items	-	-	-0.5
9. Policyholders' dividends	0.1	-0.2	-0.1
10. Other expenses	-	2.0	1.2

Total expenses	**49.4**	**51.2**	**50.1**
Net income before taxes	**11.5**	**10.1**	**13.9**
11. Taxes	2.3	2.3	2.0
Net income	**9.2**	**7.8**	**11.9**

Source: CBA; nonlife insurance companies.

The liquidity ratio increased by 13 percentage points, while the return on investments ratio declined slightly by 1 percentage point. The coverage ratio increased by 41 percentage points to 303 percent, significantly above the minimum requirement of 100 percent (see Table 13).

Table 13: Financial ratios of the nonlife insurance companies
(End-of-period figures)

	2001	2002	2003
1. Liquidity ratio (current ratio) *Current assets to technical provisions & current Liabilities*	0.38	0.48	0.61
2. Return on investments ratio *Investment income to average invested assets*	0.10	0.08	0.07
3. Coverage ratio 1) *Weighted assets less borrowings to technical provisions*	2.46	2.62	3.03

Source: CBA; nonlife insurance companies.

1) The calculation of the coverage ratio cannot be derived from Table 10.

4.3 The life insurance sector

At the end of 2003, the aggregated balance sheet total of the life insurance companies amounted to Afl. 402 million (equivalent to 11 percent of the GDP for 2003), which represents a 10 percent increase compared to 2002 (see Table 14). Investments rose by Afl. 53 million or 22 percent, while the amount due from affiliated companies and the current assets declined by, respectively, Afl. 10 million (13 percent) and Afl. 7 million (15 percent). On the liabilities side, technical provisions and the amount due to affiliated companies increased by, respectively, Afl. 27 million or 10 percent and Afl. 7 million or 34 percent. Capital and reserves increased slightly by Afl. 3 million or 4 percent.

Table 14: Balance sheet of the life insurance companies
(End-of-period figures in Afl. million)

	2001	2002	2003
1. Assets			
a. Investments	247.1	243.4	296.7
b. Fixed assets	0.2	0.3	0.5
c. Due from affiliated companies	222.4	77.4	67.6

d. Current assets	42.7	43.7	37.2
Total assets	**512.4**	**364.8**	**402.0**
2. Capital and liabilities			
a. Technical provisions	255.0	267.4	294.5
b. Long-term liabilities	0.5	0.4	0.4
c. Due to affiliated companies	182.2	19.7	26.3
d. Current liabilities	17.7	19.1	20.0
e. Capital and reserves	57.0	58.2	60.8
Total capital and liabilities	**512.4**	**364.8**	**402.0**

Source: CBA; life insurance companies.

Table 15: Investments of the life insurance companies
(End-of-period figures in Afl. million)

	2001	2002	2003
1. Shares	1.9	3.7	4.8
2. Bonds	116.9	100.6	112.4
3. Real estate	7.8	20.8	14.3
4. Time deposits	33.6	37.7	85.9
5. Mortgage loans	72.5	67.5	60.9
6. Other loans	14.4	13.1	18.4
Total	**247.1**	**243.4**	**296.7**

Source: CBA; life insurance companies.

The increase in investments by Afl. 53 million was attributable mostly to the increase in time deposit and bond holdings by Afl. 48 million and Afl. 12 million, respectively (see Table 15). About 13 percent (Afl. 38 million) of the investment portfolio consisted of foreign investments, compared to Afl. 36 million or 15 percent in 2002.

The two main income sources of the life insurance companies-- net premiums and investment income-- both increased by 7 percent and 10 percent, respectively (see Table 16). Compared to 2002, the policy amounts that matured decreased significantly, which largely explains the decrease in the net claims of Afl. 11 million. Net income (before taxes) declined from Afl. 9 million to Afl. 7 million.

Table 16: Income statement of the life insurance companies
(In Afl. million)

	2001	2002	2003
1. Net premiums	45.9	47.2	50.3
2. Investment income	21.9	21.3	23.4
3. Other income	2.0	0.4	0.7
Total income	**69.8**	**68.9**	**74.4**
4. Net claims	15.4	31.1	19.9
5. Changes in technical provisions	25.1	9.6	28.0

6. Commissions	3.7	3.7	4.5
7. Management expenses	7.7	7.7	9.4
8. Extraordinary items	-	-	-0.2
9. Policyholders' dividends	3.4	3.1	3.3
10. Other expenses	6.0	4.6	3.0
Total expenses	**61.3**	**59.8**	**67.9**
Net income before taxes	**8.5**	**9.1**	**6.5**
11. Taxes	2.6	2.4	2.1
Net income	**5.9**	**6.7**	**4.4**

Source: CBA; life insurance companies.

Table 17: Financial ratios of the life insurance companies
(End-of-period figures)

	2001	2002	2003
1. Liquidity ratio *Current assets to technical provisions*	0.17	0.16	0.13
2. Return on investments ratio *Investment income to average invested assets*	0.08	0.09	0.09
3. Coverage ratio 1) *Weighted assets less borrowings to technical provisions*	1.76	1.31	1.30

Source: CBA; life insurance companies.

1) The calculation of the coverage ratio cannot be derived from Table 14.

As shown in Table 17, the liquidity ratio fell by 3 percentage points, while the return on investments ratio remained at the same level. The coverage ratio fell slightly by 1 percentage point. All life insurance companies complied with the minimum solvency requirement of 100 percent at the end of 2003.

4.4 The company pension funds

The aggregated balance sheet total of the company pension funds amounted to Afl. 194 million at the end of 2003 (equivalent to 5 percent of the GDP for 2003), i.e., a 6 percent increase compared to 2002. On the liabilities side, technical provisions increased by 6 percent to Afl. 239 million. The aggregated capital and reserves remained negative and amounted to Afl. 48 million at the end of 2003 (see Table 19), which is quite worrisome.

Table 18: Balance sheet of the company pension funds
(End-of-period figures in Afl. million)

	2001	2002	2003
1. Assets			
a. Investments	182.3	170.5	178.2

b. Fixed assets	0.0	0.0	0.0
c. Current assets	11.2	13.3	16.1
Total assets	**193.5**	**183.8**	**194.3**
2. Capital and liabilities			
a. Technical provisions	223.7	224.9	238.8
b. Long-term liabilities	0.8	0.7	0.8
c. Current liabilities	2.8	2.8	3.1
d. Capital and reserves	-33.8	-44.6	-48.4
Total capital and liabilities	**193.5**	**183.8**	**194.3**

Source: CBA; company pension funds.

Table 19: Investments of the company pension funds
(End-of-period figures in Afl. million)

	2001	2002	2003
1. Shares	68.1	42.6	43.1
2. Bonds	56.0	61.3	57.5
3. Real estate	6.0	6.5	6.5
4. Time deposits	26.0	30.9	40.2
5. Mortgage loans	17.6	20.5	22.0
6. Other investments	8.6	8.7	8.9
Total	**182.3**	**170.5**	**178.2**

Source: CBA; company pension funds.

Investments rose by 5 percent to Afl. 178 million. This increase was due mainly to the increase of Afl. 9 million or 30 percent in the holding of time deposits (see Table 19). The foreign investments amounted to Afl. 94 million or 53 percent of the total investment portfolio (2002: Afl. 96 million or 56 percent of the total investment portfolio).

Table 20: Income statement of the company pension funds
(In Afl. million)

	2001	2002	2003
1. Premium income	9.3	9.8	10.0
2. Investment income	-4.7	-1.2	16.9
Total income	**4.6**	**8.6**	**26.9**
3. Change in technical provisions	20.7	9.1	11.5
4. Pension benefits paid	17.6	15.4	15.5
5. Reinsurance net	1.6	1.4	1.6
6. Management expenses	1.0	1.4	2.1

Total expenses	**40.9**	**27.3**	**30.7**
Net result	**-36.3**	**-18.7**	**-3.8**

Source: CBA; company pension funds.

According to Table 20, the two principal income sources of the company pension funds are premium income and investment income. In 2003 the net result of the company pension funds improved significantly. The loss incurred decreased from Afl. 19 million to Afl. 4 million, mainly the result of the positive investment income of Afl. 17 million during 2003.

Table 21: Financial ratios of the company pension funds
(End-of-period figures)

	2001	**2002**	**2003**
1. Liquidity ratio *Current assets to technical provisions*	0.05	0.06	0.07
2. Return on investments ratio *Investment income to average invested assets*	-0.02	-0.01	0.10
3. Coverage ratio 1) 2) *Investments & cash minus volatility cushion to technical provisions*	1.04	1.03	1.05

Source: CBA; company pension funds.

1) The calculation of the coverage ratio cannot be derived from Table 18.
2) Excluding Lago Annuity Foundation.

As shown in Table 21, the return on investments ratio became positive again in 2003, while the coverage ratio rose slightly by two percentage points, just above the minimum requirement of 100 percent. The return on investments ratio and coverage ratio have been under increasing pressure during recent years, predominantly as a result of the bearish international financial markets. Although the slowly recovering financial markets in the United States have caused an improvement of these ratios in 2003, three company pension funds still do not comply with the minimum coverage ratio requirement of 100 percent. The Bank has required these pension funds to submit a financial recovery plan, and implementation of these plans is being monitored closely by the Bank.

4.5 The Civil Servants Pension Fund (APFA)

In December 2004, the State Ordinance on the Privatization of the Civil Servants Pension Fund (APFA) was enacted. One of the main objectives of this privatization is to introduce a new, more sustainable pension scheme for current and future members based on the so-called average income scheme ("middelloon regeling"). Also, according to this ordinance, APFA eventually will fall under the Bank's supervision. For the time being, APFA will remain under the supervision of the Minister of Finance and Economic Affairs.

Telling is that APFA's coverage ratio as of December 31, 2003, was estimated at 77 percent, far below the minimum coverage ratio of 100 percent applicable to company pension funds.

Table 22 shows that the balance sheet total of APFA amounted to Afl. 1,122 million at the end of 2003 (equivalent to 31 percent of the GDP for 2003), i.e., a 12 percent increase compared to 2002. Investments rose by 10 percent to Afl. 783 million. This rise was due mainly to a rise in the shares and convertible bonds with Afl. 93 million

Table 22: Balance sheet of the APFA
(End-of-period figures in Afl. million)

	2001	**2002**	**2003 1)**
1. Assets			
a. Investments	750.8	709.1	783.2
b. Fixed assets	0.8	0.9	1.6
c. Current assets	234.3	288.4	336.7
Total assets	**985.9**	**998.4**	**1,121.5**
2. Capital and liabilities			
a. Technical provisions	1,069.8	1,215.2	1,303.5
b. Long term liabilities	-	-	1.6
c. Current liabilities	3.9	3.6	3.8
d. Capital and reserves	-87.8	-220.4	-187.4
Total capital and liabilities	**985.9**	**998.4**	**1,121.5**

Source: CBA; APFA.

1) Preliminary figures.

(see Table 23). At the end of December 2003, foreign investments amounted to Afl. 369 million or 47 percent of APFA's total investment portfolio (2002: Afl. 302 million or 43 percent). Current assets increased by Afl. 48 million or 17 percent due mainly to an increase in the pension contributions and dearness allowances. On the liabilities side, the technical provisions constitute the largest item. The fund's negative equity decreased from Afl. 220 million to Afl. 187 million as a result of the realized profit during 2003.

Table 23: Investments of the APFA
(End-of-period figures in Afl. million)

	2001	**2002**	**2003 1)**
1. Shares and convertible bonds	236.0	218.0	310.5

2. Bonds and treasury bills	117.2	98.4	105.9
3. Real estate	10.8	10.8	10.6
4. Time deposits	159.5	157.1	127.1
5. Mortgage loans	62.5	71.1	79.0
6. Other investments	164.8	153.7	150.1
Total	**750.8**	**709.1**	**783.2**

Source: CBA; APFA.

1) Preliminary figures.

Table 24: Income statement of the APFA
(In Afl. million)

	2001	2002	2003 1)
1. Premium income	58.9	69.7	70.6
2. Investment income	-5.6	-21.0	90.8
Total income	**53.3**	**48.7**	**161.4**
3. Change in technical provisions	99.6	145.5	88.2
4. Pension benefits paid	29.0	32.7	36.4
5. Management expenses	4.0	3.3	3.6
Total expenses	**132.6**	**181.5**	**128.2**
Net result	**-79.3**	**-132.8**	**33.2**

Source: CBA; APFA.

1) Preliminary figures.

In 2003 APFA had a positive investment income of Afl. 91 million compared to a loss of Afl. 21 million in 2002 (see Table 24). This turnaround was attributable mostly to the recovery of the financial markets that APFA invests in as well as the sharp decrease in total expenses by Afl. 53 million or 29 percent in 2003. The decreased expenses were mainly the result of lower additions to the technical provisions. As a result of the aforementioned developments, the fund realized a profit of Afl. 33 million in 2003 compared to a loss of Afl. 133 million in 2002.

Table 25: Financial ratios of the APFA
(End-of-period figures)

	2001	2002	2003 1)

1. Liquidity ratio *Current assets to technical provisions*	0.22	0.24	0.26
2. Return on investments ratio *Investment income to average invested assets*	-0.01	-0.03	0.12
3. Coverage ratio 2) *Investments & cash minus volatility cushion to technical provisions*	0.85	0.76	0.77

Source: CBA; APFA.

1) Preliminary figures.
2) The calculation of the coverage ratio cannot be derived from Table 22.

As shown in Table 25, the liquidity ratio of the APFA increased slightly by 2 percentage points to 26 percent. The return on investments ratio increased to 12 percent, while the coverage ratio increased by 1 percentage point to 77 percent in 2003.

4.6 The Social Security Bank (SVb)

The Social Security Bank (SVb) is responsible for the execution of the following state ordinances:

- Landsverordening Ziekteverzekering (ZV);
- Landsverordening Ongevallenverzekering (OV);
- Landsverordening Cessantia (Cessantia);
- Landsverordening Algemene Ouderdomsverzekering (AOV); and
- Landsverordening Algemene Weduwen- en Wezenverzekering (AWW).

The ZV, OV, and Cessantia are employee insurances, while the AOV and AWW are general pension schemes. Furthermore, the SVb is entrusted with the management of the so-called Schommelfonds ZV/OV and Schommelfonds AOV/AWW.

At the end of 2003, the aggregated balance sheet total of the SVb, after eliminating the intercompany claims and liabilities, amounted to Afl. 274 million (equivalent to 8 percent of the GDP for 2003). On the assets side, investments surged by Afl. 49 million or 45 percent. As a consequence, capital and reserves increased significantly, i.e., by Afl. 42 million or 19 percent to Afl. 261 million (see Table 26).

Table 26: Aggregated balance sheet of the SVb
(End-of-period figures in Afl. million)

	2001	2002	2003 1)
1. Assets			
a. Investments	87.6	107.1	155.6
b. Fixed assets	38.1	39.6	41.2
c. Current assets	80.9	85.2	77.0

Total assets	**206.6**	**231.9**	**273.8**
2. Capital and liabilities			
a. Current liabilities	38.2	13.5	13.2
b. Capital and reserves	168.4	218.4	260.6
Total capital and liabilities	**206.6**	**231.9**	**273.8**

Source: CBA; SVb.

1) Preliminary figures.

The surge in investments was due to an increase in the holding of bonds by Afl. 17 million (52 percent) and (participation in) loans to government-related entities by Afl. 29 million (see Table 27). A mere Afl. 3 million (2 percent) of the total investment portfolio consisted of foreign assets.

Table 27: Investments of the SVb
(End-of-period figures in Afl. million)

	2001	2002	2003 1)
1. Bonds	22.3	32.7	49.6
2. Time deposits	65.3	74.4	77.1
3. Loans	-	-	28.9
Total	**87.6**	**107.1**	**155.6**

Source: CBA; SVb.

1) Preliminary figures.

As shown in Table 28, premium income, which is the principal income of the SVb, increased by 9 percent or Afl. 16 million in 2003, while the total expenses increased by Afl. 6 million or 4 percent. On balance, a positive result of Afl. 42 million was realized, which was 39 percent higher than in 2002.

The vulnerability of the economy to external shocks and the expected rapid population aging seem to justify a reform of the present universal pension system. The most important measure is to increase the effective retirement age.

Table 28: Aggregated income statement of the SVb
(In Afl. million)

	2001	2002	2003 1)
1. Premium income	171.2	180.8	196.6
2. Interest income	12.8	11.0	12.7
Total income	**184.0**	**191.8**	**209.3**
3. Claims paid	152.1	151.9	157.3

4. Interest expenses	4.1	0.6	0.8
5. Administrative expenses	9.0	9.2	9.5
Total expenses	**165.2**	**161.7**	**167.6**
Net result	**18.8**	**30.1**	**41.7**

Source: CBA; SVb.

1) Preliminary figures.

4.7 The General Health Insurance (AZV)

The General Health Insurance (AZV) was introduced on January 1, 2001. Since its inception, the AZV has been operating with large and unsustainable deficits that by law must be covered by the Government.

Table 29: Aggregated balance sheet of the AZV
(End-of-period figures in Afl. million)

	2001	2002	2003
1. Assets			
a. Fixed assets	1.6	1.0	1.4
b. Current assets	45.2	49.2	61.5
Total assets	**46.8**	**50.2**	**62.9**
2. Capital and liabilities			
a. Long-term liabilities	5.4	-	-
b. Current liabilities	41.4	50.2	62.9
c. Capital and reserves	-	-	-
Total capital and liabilities	**46.8**	**50.2**	**62.9**

Source: CBA; AZV.

As shown in Table 29, at the end of 2003 the aggregated balance sheet total of the AZV amounted to Afl. 63 million (equivalent to 2 percent of the GDP for 2003). The surge in current assets by Afl. 12 million was attributable mainly to an increase of Afl. 11 million or 31 percent in short-term claims on the Government. The increase in the current liabilities by Afl. 13 million relates to the attracting of a short-term loan. The AZV has no capital and reserves.

Table 30: Aggregated income statement of the AZV
(In Afl. million)

	2001	2002	2003
1. Premium income	100.5	105.1	103.1

2. Other income	90.0	95.0	100.9
Total income	**190.5**	**200.1**	**204.0**
3. Health expenses	227.0	245.4	249.1
4. Interest expenses	0.1	0.0	0.7
5. Administrative expenses	7.0	8.0	8.3
Total expenses	**234.1**	**253.4**	**258.1**
Net result	**-43.6**	**-53.3**	**-54.1**

Source: CBA; AZV.

In 2003 premium income (see Table 30) decreased slightly by 2 percent, while contributions of the Government (other income) rose by 6 percent. On the liabilities side, health expenses increased by Afl. 4 million or 2 percent. On balance, a negative result of Afl. 54 million or 2 percent of estimated GDP was realized.

In the past few years, various measures have been taken to contain health costs. These measures include the introduction of benchmarking tools to monitor the medical declarations and the establishment of a limited list of medicines that can be claimed at the AZV. However, in view of the weak government finances and the increasing public debt, further reforms are required to safeguard the long-term viability of the AZV.

5. Financial institutions under supervision of the Bank as of December 31, 2004

5.1 Banking sector 1)

Commercial banks

Aruba Bank N.V.
Banco di Caribe N.V., Aruba Branch
Caribbean Mercantile Bank N.V.
RBTT Bank Aruba N.V.

Offshore banks

Citibank N.A., Aruba Branch
Inarco International Bank N.V. **2)**

Mortgage banks

OHRA Hypotheekbank N.V.
Fundacion Cas pa Comunidad Arubano

Credit unions

Coöperatieve Spaar- en Kredietvereniging Douane Aruba
Cooperativa di Ahorro y Prestamo Aruba

Finance companies

Island Finance Aruba N.V.

Other financial institutions

AIB Bank N.V. **3)**

5.2 Money transfer sector 4)

Money transfer companies

American Corporation N.V.
De Palm Financial Services N.V.
G.F.P. International N.V.
Global Access Corporation N.V.
Union Caribe N.V.
Unigiros **5)**

1) Supervision by virtue of the State Ordinance on the supervision of the credit system (AB 1998 No. 16).
2) On January 6, 2005, Inarco International Bank N.V. changed its name to Citibank Aruba N.V.
3) On April 19, 2004, the Bank approved the name change of Aruba Investment Bank N.V. to AIB Bank N.V.
4) Supervision by virtue of the State Ordinance on the supervision of the money transfer companies (AB 2003 No. 60).
5) As of January 12, 2005, Unigiros has been deleted from the Bank's register.

5.3 Institutional investors' sector

<u>Company pension funds</u> 6)

Lago Annuity Foundation
Stichting Bedrijfspensioenfonds Aruba
Stichting Pensioenfonds Havenwerkers Aruba
Stichting Pensioenfonds Martijn Trading Company N.V.
Stichting Pensioenfonds META Bedrijven Aruba
Stichting Pensioenfonds Tourist Sector Aruba
Stichting Pensioenfonds RBTT Bank Aruba I
Stichting Pensioenfonds N.V. Aruba Bank
Stichting Pensioenfonds Caribbean Mercantile Bank
Stichting Fondo di Pensioen di Trahadornan di Empresanan y Fundacionnan Publico
Stichting Pensioenfonds RBTT Bank Aruba II

Insurance Companies 7)

<u>Life insurance companies operating in Aruba</u>

American Bankers Life Assurance Company of Florida Limited, Agency
American Life Insurance Company, Aruba Branch
British-American Insurance Company Limited, Aruba Branch
Sagicor Capital Life Insurance Company Limited, Aruba Branch **8)**
Ennia Caribe Leven N.V., Aruba Branch
Guardian Life of the Caribbean Limited, Aruba Branch
Fatum Life N.V., Aruba Branch
The National Life Assurance Company of Canada, Agency

<u>Captive insurance companies</u>

1. Bancarib Real Insurance Aruba N.V.
2. MCB Risk Insurance Aruba N.V.

6) Supervision by virtue of the State Ordinance on company pension funds (AB 1998 GT 17).
7) Supervision by virtue of the State Ordinance on supervision of the insurance business (AB 2000 no. 82).

8) On November 9, 2004, this company changed its name to Sagicor Capital Life Insurance Company Limited, Aruba Branch.

Nonlife (general) insurance companies operating in Aruba

	Accident & health	Motor vehicle	Maritime, transport & aviation	Fire & other property	Other indemnity
1. The New India Assurance Co. Ltd.; Aruba Branch	X	X	X	X	X
2. International Health Insurance danmark a/s; Agency	X				
3. Elvia Reisverzekering Maatschappij; Agency					X
4. United Insurance Company Ltd.; Agency	X	X	X	X	X
5. Amedex Worldwide Insurance Services; Agency	X				
6. Island Heritage Insurance Company N.V.; Aruba Branch				X	
7. ENNIA Caribe Schade N.V.; Aruba Branch	X	X	X	X	X
8. Fatum General Insurance N.V.; Aruba Branch	X	X	X	X	X
9. Netherlands Antilles & Aruba Assurance Company N.V. (NA&A); Aruba Branch	X	X	X	X	X
10. Royal & Sun Alliance (Antilles) N.V.; Aruba Branch	X	X	X	X	X
11. Hannover International Insurance (nederland) N.V.; Agency	X	X	X	X	X
12. American Home Assurance Company Ltd.; Agency	X	X	X	X	X
13. National General Insurance Corporation N.V. (NAGICO); Agency	X	X	X	X	X
14. Atradius Credit Insurance N.V; Aruba Branch					X

Source: CBA.