A QUANTITATIVE OVERVIEW OF FINANCIAL SECTOR DEVELOPMENTS

An article by the Supervision Department.

1. Introduction

In this article, based upon available figures, an overview is given on some important developments in the major quantitative variables of Aruba's financial sector. First, the banking sector will be discussed and, subsequently, the institutional investors' sector, comprising the insurance companies, company pension funds, the civil servants pension fund (APFA) and the Social Security Bank (SVb). It should be noted that it is the government's intention to privatize APFA soon and to bring it under the Bank's supervision. At present, there are no plans to do so with the SVb. In paragraph 4, a list of financial institutions is presented, which fall under the supervision of the Bank at end-December 2002.

2. Banking sector

2.1 Supervised institutions

As shown in table 1, the number and the composition of banking institutions supervised by the Bank remained unchanged in the year 2002.

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

	2000	2001	2002
1. Commercial banks	6	5	5
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	**14**	**13**	**13**

2.2 Commercial banks

Of the five commercial banks that are currently operating in Aruba, one is a branch and one is a subsidiary of, respectively, Banco di Caribe N.V. and Maduro & Curiel's Bank N.V. Both banks are established in Curaçao, Netherlands Antilles and are, therefore, also supervised (on a consolidated basis) by the Bank van de Nederlandse Antillen.

Table 2 shows that the aggregated balance sheet total of the five commercial banks increased by AFL 265 million or 11 percent to AFL 2,690 million at the end of 2002, equivalent to 80 percent of estimated Gross Domestic Product (GDP). Loans granted in 2002 grew by AFL 124 million or 8 percent to AFL 1,726 million, mainly due to a growth in the commercial credit and loans to individuals by AFL 37 million (5 percent) and AFL 87 million (11 percent), respectively. On the liabilities side, deposits grew by AFL 229 million or 11 percent. Capital and reserves declined by AFL 17 million or 8 percent, largely associated with a surge in declared dividends in connection with the introduction of the New Fiscal Framework as of January 1, 2003.

Table 2: Balance sheet of the commercial banks
End-of-period figures in AFL million

	2000	**2001**	**2002[1)]**
1. Assets			
a. Cash & due from banks	523.7	608.4	684.1
b. Investments	88.4	74.9	99.4
c. Loans	1,557.4	1,602.4	1,726.0
- Commercial [2)]	788.4	777.4	814.5
- Individuals [3)]	768.7	824.7	911.3
- Government	0.3	0.3	0.2
d. Other assets	116.7	139.7	180.7
Total assets	**2,286.2**	**2,425.4**	**2,690.2**
2. Capital and liabilities			
a. Deposits	2,002.0	2,100.6	2,329.2
- Demand	594.5	655.5	803.9
- Time	961.3	992.4	1,054.6
- Savings	446.2	452.7	470.7
b. Other liabilities	129.2	109.9	163.2
c. Capital and reserves [4)]	155.0	214.9	197.8
Total capital and liabilities	**2,286.2**	**2,425.4**	**2,690.2**

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

As shown in table 3, the net income before taxes decreased slightly during 2002. The net interest margin shrank by AFL 7 million (6 percent), while the other operating income increased with AFL 4 million (7 percent). The total expenses remained almost the same compared to 2001.

Table 3: Income statement of the commercial banks
In AFL million

	2000	2001	2002 [1]
Net interest margin	114.0	114.1	106.8
Other operating income	58.3	59.4	63.4
Total operating income	**172.3**	**173.5**	**170.2**
1. Salaries & employees benefits	53.4	57.0	56.5
2. Additions to provision for loan losses	12.3	4.3	5.1
3. Other expenses	63.2	63.2	63.6
Total expenses	**128.9**	**124.5**	**125.2**
Net income before extraordinary items, result subsidiaries & taxes	43.4	49.0	45.0
Net income before taxes	**42.8**	**46.8**	**45.2**
Taxes	17.0	10.6	15.5
Net income	**25.8**	**36.2**	**29.7**

1) Preliminary figures.

The various macroprudential indicators show that the commercial banking sector is generally sound and profitable (see table 4). Although, due to an incidental factor mentioned earlier, the banks' aggregated risk-weighted capital asset ratio declined from 10.5 to 9.3, it is still well above the minimum capital requirement of 8 adopted by the Basel Committee on Banking Supervision. Despite the weaker macroeconomic environment, asset quality continued to be satisfactory, and even improved somewhat.

Mainly due to the decrease in the net income (after taxes), the banks' return on equity fell by 10 percentage points to 23 percent in 2002. Their liquidity ratio rose by a mere 1 percentage point to 28 percent, well above the minimum prudential liquidity requirement of 20 percent. The banks are required to hold a 7 percent interest bearing monetary cash reserve, as well as sufficient funds for clearing purposes with the Bank. These are included in the calculation of the prudential liquidity ratio. The increase in deposits exceeded that in loans and, consequently, resulted in a decrease of the loans-to-deposits ratio by 1 percentage point to 72 percent at the end of 2002, which is 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 are generally high and inflexible compared to that of industrialized countries. The weighted average interest rate margin increased by 1 percentage point to 7 percent. Measures should be taken to create economies of scale and enhance efficiency to be able to cope with the expected further increase of international competition.

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

	2000	2001	2002 [1]
1. Capital adequacy			
a. Risk-weighted capital asset ratio = regulatory capital ratio	8.2	10.5	9.3
b. Tier 1 capital ratio	3.8	4.0	5.4
2. Asset quality			
a. Non-performing loans (net of provisions) to gross loans	2.6	3.4	3.0
b. Non-performing loans (net of provisions) to regulatory capital	33.7	34.0	34.2
c. Large loans to regulatory capital	2.8	1.4	2.0
3. Earnings and profitability			
a. Return on assets	1.2	1.6	1.1
b. Return on equity	30.1	32.9	23.2
c. Interest margin to gross income	65.9	65.7	62.7
d. Non-interest expenses to gross income	85.1	78.7	82.6
4. Liquidity			
a. Loan-to-deposit ratio	75.6	73.1	72.0
b. Prudential liquidity ratio	24.5	27.5	28.1
c. Liquid assets to short-term liabilities	78.5	85.4	74.4
5. Sensitivity to market risk			
a. Interest rate margin [2]	5.8	6.2	7.3
b. Net foreign assets to regulatory capital	111.0	71.3	53.7

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

2.3 Offshore Banks

The Bank adheres to a strict admission policy for offshore banks. The most important requirements are that the parent bank is subject to comprehensive and consolidated supervision in the home country, and that it possesses an excellent financial position and reputation.

Consequently, at the end of 2002, only two U.S.-based offshore banks were registered in Aruba. These banks, which also fall under consolidated supervision of the U.S. authorities, had a balance sheet total of AFL 1,866 million or 56 percent of GDP (see table 5). This variable increased slightly during 2002, i.e., by AFL 4 million. On the assets side, investments declined by the same amount, while on the liabilities side the deposits shrank by AFL 20 million. The capital and reserves rose significantly, i.e., by AFL 51 million or 31 percent, due to a higher profit. Consequently, the offshore banks' aggregated risk weighted capital ratio strengthened from 14 percent to 21 percent in 2002.

Table 5: Balance sheet of the offshore banks
End-of-period figures in AFL million

	2000	2001	2002[1]
1. Assets			
a. Cash & due from banks	745.0	707.0	892.7
b. Investments	277.2	49.3	45.6
c. Loans [2]	1,083.5	1,090.6	916.3
d. Other assets	28.3	14.8	11.3
Total assets	**2,134.0**	**1,861.7**	**1,865.9**
2. Capital and liabilities			
a. Deposits	1,849.4	1,658.5	1,638.1
- Demand	218.3	114.5	87.2
- Time	1,631.1	1,544.0	1,550.9
b. Other liabilities	133.5	37.3	10.7
c. Capital and reserves [3]	151.1	165.9	217.1
Total capital and liabilities	**2,134.0**	**1,861.7**	**1,865.9**

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

As shown in table 6, the offshore banks earned a net income (after taxes) of AFL 57 million, compared to only AFL 10 million in 2001. This was mainly due to an increase in the other operating income, which largely consists of revenue from foreign exchange transactions.

Table 6: Income statement of the offshore banks
In AFL million

	2000	2001	2002 [1]
Net interest margin	21.1	31.3	26.4
Other operating income	39.3	9.4	67.1
Total operating income	**60.4**	**40.7**	**93.5**
Total operating expenses	**16.2**	**29.6**	**29.4**
Net income before extraordinary items and taxes	44.2	11.1	64.1
Net income before taxes	**-21.2**	**11.2**	**60.8**
Taxes	2.7	1.1	4.2
Net income	**-23.9**	**10.1**	**56.6**

1) Preliminary figures.

2.4 Bank-like institutions

Important institutions in this subsector are: OHRA Hypotheekbank N.V., Fundacion Cas pa Comunidad Arubano, Aruban Investment 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. The financing of their activities is done largely by attracting funds from their parent company, other (local) financial institutions, and/or institutional investors.

The bank-like institutions had a combined loan portfolio of about AFL 424 million at year-end 2002, equivalent to 13 percent of the estimated GDP (see table 7). This figure represents a slight decrease of AFL 6 million or 1 percent compared to 2001. On the liabilities side, the commercial borrowings increased slightly by AFL 2 million. Capital and reserves amounted to AFL 206 million.

Table 7: Balance sheet of the bank-like institutions
End-of-period figures in AFL million

	2000	**2001**	**2002[1)]**
1. Assets			
a. Cash & due from banks	63.5	41.8	68.2
b. Investments	4.0	5.2	4.7
c. Loans	430.9	429.9	423.8
- Commercial	95.9	83.0	78.4
- Individuals	335.0	344.1	345.4
- Government	0.0	2.8	0.0
d. Other assets	52.1	57.3	63.1
Total assets	**550.5**	**534.2**	**559.8**
2. Capital and liabilities			
a. Deposits	13.6	15.3	17.9
b. Borrowings	270.3	249.1	250.8
- Commercial	232.0	212.5	214.2
- Individuals	1.7	0.0	0.0
- Government	36.6	36.6	36.6
c. Other liabilities	45.4	65.0	84.9
d. Capital and reserves	221.2	204.8	206.2
Total capital and liabilities	**550.5**	**534.2**	**559.8**

1) Preliminary figures.

As can be derived from table 8, the net income (after taxes) amounted to AFL 10 million for 2002, which represents a growth of 162 percent or AFL 6 million. This can mainly be attributed to an AFL 5 million or 14 percent increase in the net interest margin and lower additions to the allocated loan loss provision. The aggregated risk-weighted capital asset ratio of the bank-like institutions remained notably high at around 57 percent.

Table 8: Income statement of the bank-like institutions
In AFL million

	2000	2001	2002 [1)]
Net interest margin	29.8	33.6	38.4
Other operating income	10.6	10.2	8.6
Total operating income	**40.4**	**43.8**	**47.0**
1. Salaries & employees benefits	10.3	10.9	11.7
2. Additions to the loan loss provision	3.2	8.2	2.3
3. Other expenses	11.2	10.4	13.4
Total expenses	**24.7**	**29.5**	**27.4**
Net income before extraordinary items, result subsidiaries & taxes	15.7	14.3	19.6
Net income before taxes	**15.6**	**5.8**	**12.1**
Taxes	2.5	2.1	2.4
Net income	**13.1**	**3.7**	**9.7**

1) Preliminary figures.

3. Institutional investors' sector

3.1 Supervised institutions

With the enactment of the State Ordinance on the Supervision of the Insurance Business as of July 1, 2001, all life and non-life (general) insurance companies operating in or from Aruba have been brought under the Bank's supervision. In accordance with section V of the implementation ordinance these companies were required to submit an application for a license within six (6) months after its implementation. With the exception of three, all insurance companies applied for a license. Two companies did not qualify for a license and, consequently, received a negative decision on their application, while two withdrew their application. There are currently twenty two licensed insurance companies operating in Aruba (see table 9).

In 2002, the Stichting Pensioenfonds First National Bank of Aruba N.V. was added to the list of company pension funds supervised by the Bank. Currently, eleven pension funds are supervised by the Bank.

In paragraph 4.2, an overview is given of the non-life insurance companies and the indemnity lines, for which a license has been granted.

Table 9: Number of supervised institutions within the institutional investors' sector
End-of-period figures

	2000	2001	2002
1. Life insurance companies	9	9	8
2. Non-life insurance companies	-	15	12
3. Offshore non-life insurance companies	-	2	0
4. Captive insurance companies	-	3	2
5. Company pension funds	9	10	11
Total	**18**	**39**	**33**

3.2 The non-life insurance sector

As of the reporting year 2001, the general insurance companies (both on-shore and offshore) have to submit in a prescribed format detailed figures on their operations to the Bank.

At the end of December 2001, the aggregated balance sheet total of the non-life insurance companies amounted to AFL 126 million (equivalent to 4 percent of GDP), i.e., an 11 percent increase compared to 2000 (see table 10). On the liabilities side, technical provisions dropped by 10 percent to AFL 47 million. The capital and reserves went up by AFL 9 million or 21 percent to AFL 51 million.

Table 10: Balance sheet of the non-life insurance companies
End-of-period figures in AFL million

	2000 1)	2001
1. Assets		
a. Investments	24.0	77.2
b. Fixed assets	0.5	0.5
c. Affiliated companies	68.8	19.6
d. Current assets	19.6	28.2
Total assets	**112.9**	**125.5**
2. Capital and liabilities		
a. Technical provisions	52.3	47.0
b. Long-term liabilities	-	-
c. Current liabilities	18.5	27.5
d. Capital and reserves	42.1	51.0
Total capital and liabilities	**112.9**	**125.5**

1) Unaudited figures.

As shown in table 11, an AFL 53 million growth in investments resulted mainly from an increase in the holding of bonds and time deposits. Some 6 percent (AFL 5 million) of the total investment portfolio consisted of foreign assets.

Table 11: Investments of the non-life insurance companies
End-of-period figures in AFL million

	2000 [1)]	2001
1. Shares	0.1	0.1
2. Bonds	7.3	30.4
3. Time deposits	15.5	45.5
4. Loans	-	1.1
5. Other investments	1.1	0.1
Total	**24.0**	**77.2**

1) Unaudited figures.

The net premiums, which are the main income source of the non-life insurance companies, declined by a notable 24 percent, mainly as a result of a loss in market share in the health insurance sector following the introduction of the General Health Insurance (AZV). The majority of the net premiums received relates to motor vehicle (63 percent) and property insurance (23 percent). On the other hand investment income increased by a slight 6 percent. Total expenses decreased to 31 percent or AFL 23 million, due largely to lower net claims. On balance, the net income (after taxes) increased significantly, i.e., by 300 percent to AFL 9 million (see table 12).

Table 12: Income statement of the non-life insurance companies
In AFL million

	2000 [1)]	2001
1. Net premiums	74.4	56.8
2. Investment income	5.0	5.3
3. Other income	-1.2	-1.2
Total income	**78.2**	**60.9**
4. Net claims	40.2	21.8
5. Commissions	15.0	12.9
6. Management expenses	16.5	14.6
7. Extraordinary items	-	-
8. Policyholders' dividends	0.2	0.1
Total expenses	**71.9**	**49.4**
Net income before taxes	**6.3**	**11.5**
9. Taxes	4.0	2.3
Net income	**2.3**	**9.2**

1) Unaudited figures.

The liquidity ratio increased by 10 percentage points compared to 2000 (see table 13). The profitability ratio amounted to 11 percent and the coverage ratio to 246 percent, which is well above the minimum requirement of 100 percent.

Table 13: Financial ratios of the non-life insurance companies
End-of-period figures

	2000 [1)]	2001
1. Liquidity ratio (current ratio) *Current assets to technical provisions & current liabilities*	0.28	0.38
2. Profitability ratio *Investment income to average invested assets*	n.a.	0.11
3. Coverage ratio [2)] *Weighted assets less borrowings to technical provisions*	n.a.	2.46

1) Unaudited figures.
2) The calculation of the weighted assets cannot be derived from table 13.

3.3 The life insurance sector

The life insurance companies have expanded their activities in recent years. At the end of 2001, their aggregated balance sheet total amounted to AFL 514 million (equivalent to 15 percent of GDP), which is a 17 percent growth compared to 2000 (see table 14). This was mainly attributed to the increase in the current accounts with affiliated companies by AFL 104 million. On the liabilities side, technical provisions surged by 10 percent or AFL 24 million and current liabilities by AFL 50 million, predominantly related to an increase of the accounts payable to affiliated companies. Capital and reserves remained almost the same.

Table 14: Balance sheet of the life insurance companies
End-of-period figures in AFL million

	1999	2000	2001
1. Assets			
a. Investments	245.8	287.0	247.1
b. Fixed assets	0.2	0.1	0.2
c. Affiliated companies	41.2	118.4	222.4
d. Current assets	36.1	35.1	43.9
Total assets	**323.3**	**440.6**	**513.6**
2. Capital and liabilities			
a. Technical provisions	205.9	232.6	256.3
b. Capital loans	0.6	0.5	0.4
c. Current liabilities	67.4	150.2	199.9
d. Capital and reserves	49.4	57.3	57.0
Total capital and liabilities	**323.3**	**440.6**	**513.6**

On the assets side of the life insurance companies' balance sheet, investments constitute the largest item. As shown in table 15, the 14 percent decline in investments was caused mainly by a decrease in the holding of bonds. About 19 percent (AFL 46 million) of the total investment portfolio consisted of foreign investments.

Table 15: Investments of the life insurance companies
End-of-period figures in AFL million

	1999	2000	2001
1. Shares	2.6	1.2	1.9
2. Bonds	134.4	149.7	116.9
3. Real estate	6.1	7.2	7.9
4. Time deposits	22.3	37.5	33.5
5. Mortgage loans	62.5	74.9	72.4
6. Other loans	17.9	16.5	14.5
Total	**245.8**	**287.0**	**247.1**

The two main income sources are net premiums and investment income (see table 16). The former increased slightly by 3 percent and the latter by only 1 percent. The total expenses remained almost the same. Thus, net income (after) taxes rose substantially, i.e., by 35 percent to AFL 7 million.

Table 16: Income statement of the life insurance companies
In AFL million

	1999	2000	2001
1. Net premiums	36.0	44.5	45.9
2. Investment income	18.8	23.3	23.6
3. Other income	0.2	-0.1	0.3
Total income	**55.0**	**67.7**	**69.8**
4. Changes in technical provisions	21.0	23.7	24.3
5. Net claims	13.0	15.3	15.4
6. Commissions	2.9	3.3	2.6
7. Management expenses	5.5	7.9	7.7
8. Extraordinary items	-0.1	0.0	0.0
9. Policyholders' dividends	2.8	3.1	3.2
10. Other expenses	2.3	7.1	6.8
Total expenses	**47.4**	**60.4**	**60.0**
Net income before taxes	**7.6**	**7.3**	**9.8**
11. Taxes	-2.4	1.8	2.4
Net income	**10.0**	**5.5**	**7.4**

The liquidity and profitability ratio remained at the same level, while the coverage ratio increased by 7 percentage points. All life insurance companies complied with the minimum solvency requirements.

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

	1999	2000	2001
1. Liquidity ratio *Current assets to technical provisions*	0.18	0.17	0.17
2. Profitability ratio *Investment income to average invested assets*	0.08	0.09	0.09
3. Coverage ratio [1)] *Weighted assets less borrowings to technical provisions*	1.51	1.79	1.86

1) The calculation of the weighted assets cannot be derived from table 17.

3.4 The company pension funds

A survey indicates that, as of December 31, 2002, only 12 percent of the active labor force (excluding the participants of the civil servants pension fund) took part in a pension plan, either through their employers or on an individual basis. This figure implies that the vast majority of the population will rely solely on the general pension fund, the so-called Algemene Ouderdomsvoorziening, when they reach the age of 60. Consequently, the company pension funds are relatively small. Their aggregated balance sheet total amounted to AFL 192 million at the end of 2001 (equivalent to 6 percent of GDP). On the liabilities side, technical provisions increased by 10 percent to AFL 223 million. Due to relatively large losses on investments by some pension funds, capital and reserves declined further and amounted to a negative AFL 35 million (see table 18). This is a rather disquieting situation.

Table 18: Balance sheet of the company pension funds
End-of-period figures in AFL million

	1999	2000	2001
1. Assets			
a. Investments	194.7	195.2	180.5
b. Fixed assets	0.1	0.1	0.0
c. Current assets	15.1	10.2	11.9
Total assets	**209.9**	**205.5**	**192.4**
2. Capital and liabilities			
a. Technical provisions	192.6	202.9	223.2
b. Long-term liabilities	0.5	0.5	0.8
c. Current liabilities	2.4	1.8	3.1
d. Capital and reserves	14.4	0.3	-34.7
Total capital and liabilities	**209.9**	**205.5**	**192.4**

Investments decreased by 8 percent to AFL 181 million, constituting the largest item on the assets side. This decrease was mainly due to the drop in the value of shares and bonds caused by the bearish international financial markets (see table 19). The share of foreign investments in the total investment portfolio amounted to 66 percent (AFL 120 million).

Table 19: Investments of the company pension funds
End-of-period figures in AFL million

	1999	2000	2001
1. Shares	81.9	74.6	68.2
2. Bonds	55.5	64.2	54.3
3. Real estate	6.0	6.0	6.0
4. Time deposits	20.1	20.9	22.0
5. Mortgage loans	15.2	15.5	17.6
6. Other	16.0	14.0	12.4
Total	**194.7**	**195.2**	**180.5**

According to table 20, the two principal income sources are premium income and investment income. In 2001, investment income turned into a negative AFL 5 million, mainly due to losses on securities as a result of the sharp fall in the foreign securities prices. Premium income increased by 22 percent or AFL 4 million. The 43 percent increase in total expenses was largely associated with additions to the technical provisions and higher pension payments. As a consequence, for the second consecutive year the company pension funds incurred a net loss, i.e., AFL 38 million (2000: AFL 14 million).

Table 20: Income statement of the company pension funds
In AFL million

	1999	2000	2001
1. Direct investment income	18.4	7.2	5.5
2. Indirect investment income	1.8	-1.6	-10.5
Net investment income	**20.2**	**5.6**	**-5.0**
3. Premium income	21.1	20.3	24.7
Total income	**41.3**	**25.9**	**19.7**
4. Change in technical provisions	-3.4	10.8	20.7
5. Pension benefits paid	27.7	27.3	33.3
6. Reinsurance net	0.4	0.8	1.1
7. Management expenses	1.2	1.2	2.2
Total expenses	**25.9**	**40.1**	**57.4**
Net result	**15.4**	**-14.2**	**-37.7**

As shown in table 21, the profitability ratio of the company pension funds turned negative in 2001. The coverage ratio, which decreased by nine percentage points, remained just above the minimum requirement of 100 percent. As noted earlier, the profitability and coverage ratios came under increasing pressure, predominantly as a result of the bearish international financial markets. For some company pension funds the coverage ratio has even fallen under the minimum requirement, which is a cause for concern. Therefore, the Bank has required the latter pension funds to submit a financial recovery plan.

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

	1999	2000	2001
1. Liquidity ratio *Current assets to technical provisions*	0.08	0.05	0.05
2. Profitability ratio *Investment income to average invested assets*	0.11	0.03	-0.06
3. Coverage ratio [1)] *Investments & cash minus volatility cushion to technical provisions*	1.19	1.11	1.02

1) The calculation of the volatility cushion cannot be derived from table 21.

3.5 The civil servants pension fund

At present, the Bank only has an advisory role with regard to the civil servants pension fund (APFA). However, it is the Government's intention to privatize this institution and to bring it under the Bank's supervision. It should be noted, that far-reaching reforms are required with respect to the current unsustainable pension plan in order to safeguard the fund's long-term viability. As a minimum to reach this goal, the pension age should be increased and an AOV-franchise should be built into the pension plan. However, until now, despite the repeated advises from the IMF and the Bank, no decisive action has been taken to implement these recommendations.

It should also be mentioned that as of January 1, 1998, a new actuarial method has been applied to determine the technical provisions. This has led to an approximate AFL 300 million decrease of these provisions as per the latter date, partly compensated by the ensuing loss in claims on the Government. Nonetheless, the financial position of APFA continues to be vulnerable. Telling is that its coverage ratio as of December 31, 2001, is estimated at 86 percent.

Table 22 provides a summary of the figures from the unaudited draft annual reports over the years 1998 to 2000 and the draft data for 2001. The balance sheet total amounted to AFL 986 million at the end of 2001 (equivalent to 29 percent of GDP).

Table 22: Balance sheet of the civil servants pension fund [1)]
End-of-period figures in AFL million

	1998	1999	2000	2001
1. Assets				
a. Investments	644.0	752.9	799.7	757.1
b. Fixed assets	96.0	56.7	8.8	-0.5
c. Current assets	90.3	111.1	156.8	229.5
Total assets	**830.3**	**920.7**	**965.3**	**986.1**
2. Capital and liabilities				
a. Technical provisions	776.1	890.4	970.2	1,047.6
b. Current liabilities	3.3	3.1	3.6	9.3
c. Capital and reserves	50.9	27.2	-8.5	-70.8
Total capital and liabilities	**830.3**	**920.7**	**965.3**	**986.1**

1) Preliminary figures.

In 2001, investments fell by 5 percent to AFL 757 million, constituting the largest item on the assets side. This was mainly due to a decline in the holding of shares and convertible bonds (see table 23). At the end of December 2001, the share of foreign investments in the total investment portfolio amounted to 45 percent (AFL 339 million).

Table 23: Investments of the civil servants pension fund [1)]
End-of-period figures in AFL million

	1998	1999	2000	2001
1. Shares and convertible bonds	129.3	230.0	291.0	236.0
2. Bonds and treasury bills	131.8	131.8	111.9	117.2
3. Real estate	6.4	7.3	8.1	7.8
4. Time deposits	165.2	166.3	162.1	168.8
5. Mortgage loans	38.5	45.4	51.8	62.5
6. Other	172.8	172.1	174.8	164.8
Total	**644.0**	**752.9**	**799.7**	**757.1**

1) Preliminary figures.

As shown in table 24, APFA incurred an investment loss of AFL 11 million in 2001, mainly due to the losses incurred on its securities resulting from a fall in the foreign securities prices. Premium income increased by 19 percent or AFL 9 million. The net loss over 2001 is estimated at AFL 62 million, which is much bigger than the losses incurred in 1999 and 2000. The positive net result realized in 1998 was incidental and was largely the result of the change in the actuarial method discussed previously.

Table 24: Income statement of the civil servants pension fund [1)]

In AFL million

	1998	1999	2000	2001
1. Investment income	101.0	71.2	25.1	-11.0
2. Premium income	26.9	46.1	49.6	58.9
Total income	**127.9**	**117.3**	**74.7**	**47.9**
3. Change in technical provisions [2)]	-193.3	114.3	79.8	77.4
4. Pension benefits paid	20.5	22.8	25.4	29.1
5. Management expenses	2.8	3.9	5.2	3.7
6. Extraordinary items [2)]	247.0	-	-	-
Total expenses	**77.0**	**141.0**	**110.4**	**110.2**
Net result [3)]	**50.9**	**-23.7**	**-35.7**	**-62.3**

1) Preliminary figures.

2) The change in the actuarial method applied as of January 1, 1998 has led in that year to a release of the technical provisions of approximately AFL 300 million and an ensuing extraordinary loss of AFL 247 million, due to lower claims on the Government on account of the equity shortages.

3) In 1998, an AFL 51 million investment reserve was formed. The losses incurred in 1999 and 2000 of AFL 24 million and AFL 36 million, respectively, were brought against this reserve. Consequently, it was fully used up at the end of 2000. Therefore, the loss incurred in 2001 had to be changed against the general reserves.

3.6 Social Security Bank

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)
- 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. As of January 1, 2001 the payment of health insurance claims was transferred from the ZV to the AZV.

At the end of 2001 the aggregated balance sheet total of the SVb, after eliminating the intercompany claims and liabilities, amounted to AFL 207 million (equivalent to 6 percent of GDP). Capital and reserves increased by AFL 17 million or 11 percent to AFL 168 million (see table 25).

Table 25: Aggregated balance sheet of the SVb
End-of-period figures in AFL million

	1999	2000	2001
1. Assets			
a. Investments	54.0	76.3	87.6
b. Fixed assets	35.4	36.7	38.1
c. Current assets	105.4	83.7	80.9
Total assets	**194.8**	**196.7**	**206.6**
2. Capital and liabilities			
a. Current liabilities	43.9	45.3	38.2
b. Capital and reserves	150.9	151.4	168.4
Total capital and liabilities	**194.8**	**196.7**	**206.6**

In 2001 investments increased by 15 percent to AFL 88 million, comprising the largest item on the assets side. This stemmed from an AFL 25 million increase in the holding of time deposits, which was partly off-set by an AFL 154 million decline in the holding of bonds (see table 26). No foreign investments were made in the years under review.

Table 26: Investments of the SVb
End-of-period figures in AFL million

	1999	2000	2001
1. Bonds	38.0	36.3	22.3
2. Time deposits	16.0	40.0	65.3
Total	**54.0**	**76.3**	**87.6**

1) Preliminary figures.

As shown in table 27, the principal income of the SVb is premium revenue, which decreased by 10 percent or AFL 19 million in 2001. This is due to the fact that the premium rates of the ZV were reduced following the introduction of the AZV. Total expenses fell by AFL 36 million or 18 percent, because of a decrease in health claims paid. On balance, a positive result of AFL 19 million was realized, which is notably higher than the AFL 1 million incurred in 2000. Although these figures paint a rather positive picture, it should be noted that due to aggregation, weaknesses in some of the SVb funds have been concealed. Furthermore, their financial position is expected to come under pressure due to the aging of the population. Therefore, increasing the AOV pension age is essential to make the SVb sustainable.

Table 27: Aggregated income statement of the SVb
In AFL million

	1999	2000	2001
1. Premium income	198.2	190.1	171.2
2. Interest income	13.3	11.3	12.8
Total income	**211.5**	**201.4**	**184.0**
3. Claims paid	178.0	188.1	152.1
4. Interest expenses	8.0	4.0	4.1
5. Administrative expenses	9.4	8.8	9.0
Total expenses	**195.4**	**200.9**	**165.2**
Net result	**16.1**	**0.5**	**18.8**

4. Financial institutions under supervision of the Bank as of December 31, 2002

4.1 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.
Interbank Aruba N.V.

Offshore banks
Citibank N.A, Aruba Branch
Inarco International Bank N.V.

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
Aruban Investment Bank N.V.

[1)] Supervision by virtue of the State Ordinance on the supervision of the credit system (AB 1998 No. 16).

4.2 Institutional investors' sector

Company pension funds [2)]

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
Stichting Pensioenfonds N.V. Aruba Bank
Stichting Pensioenfonds Caribbean Mercantile Bank
Stichting Fondo di Pensioen di Trahadornan di Empresanan y Fundacionnan Publico
Stichting Pensioenfonds First National Bank of Aruba

Insurance Companies [1)]

Life insurance companies operating in Aruba

American Bankers Life Assurance Company of Florida Limited Agency
American Life Insurance Company, Aruba Branch
British-American Insurance Company Limited, Aruba Branch
Capital Life Insurance Company Limited, Aruba Branch
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

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

Non-life (general) insurance companies operating in Aruba

	Accident & health	Motor vehicle	Maritime, transport & aviation	Fire & other property	Other indemnity
Ennia Caribe Schade N.V., Aruba Branch	X	X	X	X	X
Fatum General Insurance N.V., Aruba Branch	X	X	X	X	X
Netherlands Antilles & Assurance Co. N.V. (NA&A), Agency	X	X	X	X	X
Royal & Sun Alliance (Antilles) N.V., Aruba Branch	X	X	X	X	X
Hannover International Insurance (Nederland) N.V., Agency	X	X	X	X	X
American Home Assurance Co. Ltd., Agency	X	X	X	X	X
The New India Assurance Co. Ltd., Agency	X	X	X	X	X
International Health Insurance Denmark, Agency	X				
Elvia Reisverzekeringen Maatschappij, Agency					X
United Insurance Company Ltd., Agency	X	X	X	X	X
Island Heritage Insurance Co. N.V., Agency				X	
Amedex Worldwide Insurance Services, Agency	X				

Captive insurance companies

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