Operational Report 2014

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(As of November 1, 2015)

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  Y.H.M. Escalona
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    - **Executive Director**
      P. Mungra
      - **General Manager Supervisory and Legal Issues**
        A.L.A.C. Flanegin
        - **Prudential Supervision Department *(PSD)***
          L.M.A. Garcia
        - **Integrity Supervision Department *(ISD)***
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        - **Legal Affairs Department *(Legal)***
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    - **General Manager Economic Policy**
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        - **Accounting Department (AD)**
          J.F. Thijzen
        - **Information Systems Department *(InfSysD)***
          S.D. Tromp
        - **Facilities Department *(FD)***
          A.M. Semeleer
        - **Cash and Vault Department *(CVD)***
          M.A. Britten-Solognier
        - **Secretariat and Archives Department *(S&AD)***
          M.P. Bremo

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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)
BAZV	Bestemmingsheffing AZV (levy AZV)
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
ELMAR	N.V. ELMAR (the government-owned electricity provider)
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
SOSMTC	State Ordinance Supervision Money Transfer Companies
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 financial 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 the public.
d. Issue coins on behalf of the government.	Bring safe and secure coins into circulation to meet the needs of 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, compile 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 2014

- In conducting monetary policy, the CBA applies the reserve requirement as its main instrument. During 2014, 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 the 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, was also kept unchanged 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.

- For 2014, the inflation rate, measured by the change in the 12-month average of the consumer price index reached 0.4 percent, up from -2.4 percent in 2013. This development was induced by the rise of electricity tariffs in October 2014, and the introduction of a health tax levy (BAZV) in December 2014.

- During 2014, further strengthening of the regulatory framework of the CBA continued. On January 30, 2014, the State Decree regulating Insurance Brokers was enacted, whereby all insurance brokers, including those already established, are required to obtain a license from the CBA to operate in Aruba. Up to now eighteen (18) license applications have been received from the already existing insurance brokers, of which seven (7) have already received a license, while two (2) applications have been revoked. A decision regarding the remaining insurance applications is expected to be taken before year-end 2015.

- Overall, the financial sector remained adequately capitalized and profitable. The non-performing loans ratio of the commercial banking sector continued its declining path.

Financial highlights for 2014

- At year-end 2014, CBA's total assets amounted to Afl. 1,268.5 million, i.e., Afl. 55.0 million or 4.5 percent higher when compared to year-end 2013. This increase was mainly attributed to the rise in the foreign currency assets of the CBA in the amount of Afl. 48.4 million (5.1 percent), largely the result of an Afl. 151.6 million (18.9 percent) growth in the CBA's government and other papers. The latter was partly offset by a drop of Afl. 103.9 million (70.3 percent) in the category 'due from banks'. The aforementioned rise in the category 'government and other papers' (+ Afl. 151.6 million) as of December 31, 2014 compared to December 31, 2013, was mainly attributed to an increase in the CBA's medium-term investment portfolio managed by an external asset manager (+ Afl. 137.9 million), largely the result of net cash transfers to this portfolio effectuated in 2014 to replenish this account. Furthermore, the downward fluctuations in both the yield on the 10-year US Treasury Notes and the yield on the 3-year US Treasury Notes during 2014 resulted in net unrealized capital gains that positively impacted the value of the CBA's investments at end-2014. On the other hand, the aforementioned drop in the category 'due from banks' (-/- Afl. 103.9 million) as of December 31, 2014 compared to December 31, 2013, was mainly attributed to the previously mentioned net cash transfers during the year 2014 from the CBA's accounts held at foreign banks to its medium-term investment portfolio managed by an external asset manager. In addition, the CBA's total assets were also positively affected by the increase in the category 'receivables' in the amount of Afl. 7.4 million (87.9 percent), compared to the same period the year before.

- On the liability side, the categories 'bank notes in circulation' and 'revaluation account' both widened by Afl. 24.1 million (10.1 percent) and Afl. 30.5 million (35.7 percent), respectively, as at December 31, 2014 compared to December 31, 2013. The aforementioned rise in the category 'bank notes in circulation' resulted mainly from higher withdrawals made by the commercial banks during the year 2014 compared to 2013. The increase in the category 'revaluation account' was largely due to the above-mentioned fluctuations in both the yield on the 10-year US Treasury Notes and the yield on the 3-year US Treasury Note during 2014.

- Total net income (net of interest expenses) fell in 2014 by Afl. 556,421 or 2.7 percent to Afl. 20.0 million (December 2013: Afl. 20.6 million). This was associated mainly with a drop in the foreign exchange revenues of Afl. 1.1 million or 25.1 percent, which was almost completely offset by a rise of Afl. 945,455 or 7.7 percent in the net interest revenues, when compared to the previous year. The decline in the foreign exchange revenues stemmed from a lower amount of foreign loans obtained by the government in 2014 compared to 2013, while the aforementioned surge in the net interest revenues was mainly attributed to higher revenues realized by the CBA's investment portfolios in 2014 compared to the previous year. Furthermore, coins revenues and other revenues shrank in 2014 by Afl. 191,805 and Afl. 197,598, respectively. The latter decline in other revenues was largely caused by lower amounts of administrative fines collected by the CBA from the supervised institutions during 2014 compared to 2013.

- Total expenses decreased by Afl. 1.2 million or 6.3 percent to Afl. 17.7 million at end-2014 (December 2013: Afl. 18.9 million), mostly owed to declines of Afl. 783,300 (48.2 percent) and Afl. 494,500 (11.8 percent) in depreciation and operating expenses, respectively. The depreciation expenses were adjusted in 2014 to rectify the use of an incorrect depreciation period in the year 2013, thereby partially causing the aforementioned drop in depreciation expenses. In addition, stringent monitoring during 2014 resulted in lower operating expenses in that year compared to 2013.

- At end-2014, net profit amounted to Afl. 2.3 million, i.e., Afl. 641,800 or 39.1 percent higher than in 2013. This increase in the net profit was caused mainly by a decline in total expenses in 2014, which was partially offset by a drop in total net income.

3 THE BUSINESS OF THE CBA

3.1 Domestic payment system

3.1.1 Currency operations

The CBA has the sole mandate to issue florin bank notes and coins in Aruba. In carrying out this mandate, the CBA determines the quantity, denomination, substrate, and characteristics of these notes and coins. With respect to the issuing of coins, the CBA executes this task on behalf of the Government of Aruba. The CBA provides florin bank notes and coins to the commercial banks, which in turn meet the public's demand for currency. The CBA redeems surplus florin bank notes from commercial banks and withdraws them from circulation. The CBA processes the redeemed notes, destroying the unfit ones via an environmentally friendly bank note destruction machine. The aim of the CBA is to have only high quality florin bank notes and coins 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, the total amount of florin bank notes brought into circulation grew by 9.4 percent in 2014 compared to 2013. Consequently, the total value of bank notes in circulation experienced a growth, i.e., by 10.1 percent compared to a year earlier to Afl. 261.8 million at the end of 2014. Despite the widespread use of payment cards, including debit and credit cards, and electronic payments through online banking, the use of florin bank notes to make payments continued to grow in 2014. The 100 florin denomination still represents the largest share of all bank notes issued, comprising 48.7 percent of the total bank notes in circulation, while the Afl. 500 bank note remained underused.

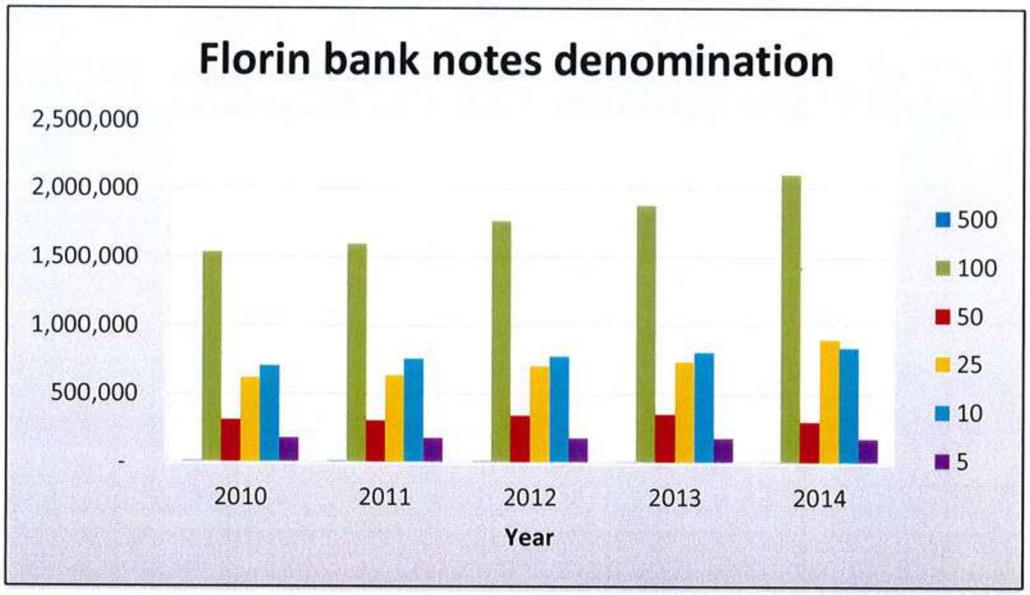
Table 3.1: Florin bank notes in circulation (in numbers)

Denomination	2010	2011	2012	2013	2014
500	10,521	10,130	10,157	9,391	8,989
100	1,536,933	1,595,866	1,766,549	1,881,641	2,107,313
50	309,424	301,808	341,701	350,926	294,633
25	618,046	632,727	701,902	734,241	901,253
10	703,778	754,701	774,928	805,517	840,344
5	176,555	176,424	176,338	176,320	176,271
Total	**3,355,257**	**3,471,656**	**3,771,575**	**3,958,036**	**4,328,803**

Source: CBA.

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

Chart 3.1: Florin bank notes in circulation by denomination



Source: CBA.

Counterfeit florin bank notes

The number of counterfeit florin bank notes has remained exceptionally low over the years. The CBA provides extensive information on its website, and via the commercial banks through brochures, to assist the public in verifying the authenticity of the florin bank notes. Nonetheless, in 2014, a few cases of counterfeit florin bank notes were registered. In response hereto, the CBA immediately initiated a media campaign to remind the public of the security features of the florin bank notes to counteract the circulation of counterfeit bank notes. This campaign seemed to be effective as no counterfeit banknotes were registered afterwards during that year.

Coins in circulation

The CBA is also entrusted with issuing florin coins on behalf of the government. The total value of coins in circulation in 2014, excluding commemorative coins, increased by Afl. 1.3 million (4.3 percent) to Afl. 31.5 million (2013: Afl. 30.2 million). As depicted in Table 3.2, the two smallest coin denominations, the 5 cent and 10 cent coins, are the coins with the largest circulation, followed closely by the 25 cent coin.

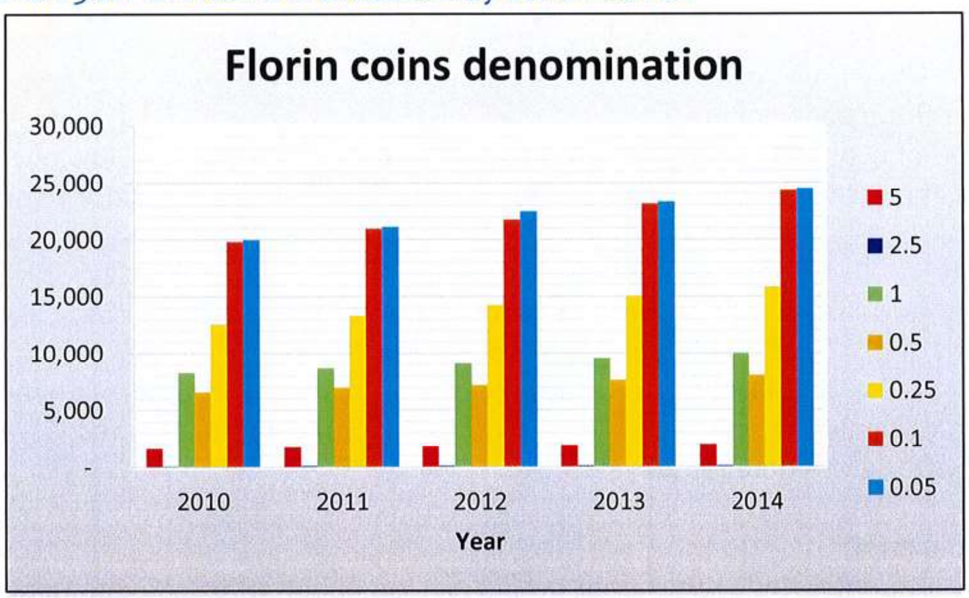
Table 3.2: Florin coins in circulation (in number)
(in thousands)

Denomination	2010	2011	2012	2013	2014
5.00	1,633	1,739	1,787	1,873	1,936
2.50	84	91	92	94	94
1.00	8,269	8,675	9,104	9,586	10,006
0.50	6,559	6,928	7,141	7,605	7,992
0.25	12,576	13,286	14,231	14,979	15,820
0.10	19,822	20,925	21,733	23,138	24,287
0.05	19,957	21,108	22,450	23,313	24,482
Total	**68,900**	**72,752**	**76,538**	**80,588**	**84,617**

Source: CBA

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

Chart 3.2: Florin coins in circulation by denomination



Source: CBA.

Commemorative coins

In 2014, on behalf of the government, the CBA issued one silver commemorative proof quality coin with a nominal face value of Afl. 5, and one special edition Afl. 5 circulation coin (in color). The Afl. 5 special edition circulation coin (in color) was issued to commemorate the first year Kingship of His Majesty King Willem-Alexander, containing a double portrait of King Willem Alexander and Queen Maxima. The silver commemorative coin was issued to commemorate the colorful and sparkling fantasy of Aruba's 60 year anniversary of Carnival.

Coin sets
The 2014 coin set carried the theme 'Insects of Aruba' to illustrate various types of insects that form part of the flora and fauna of Aruba.

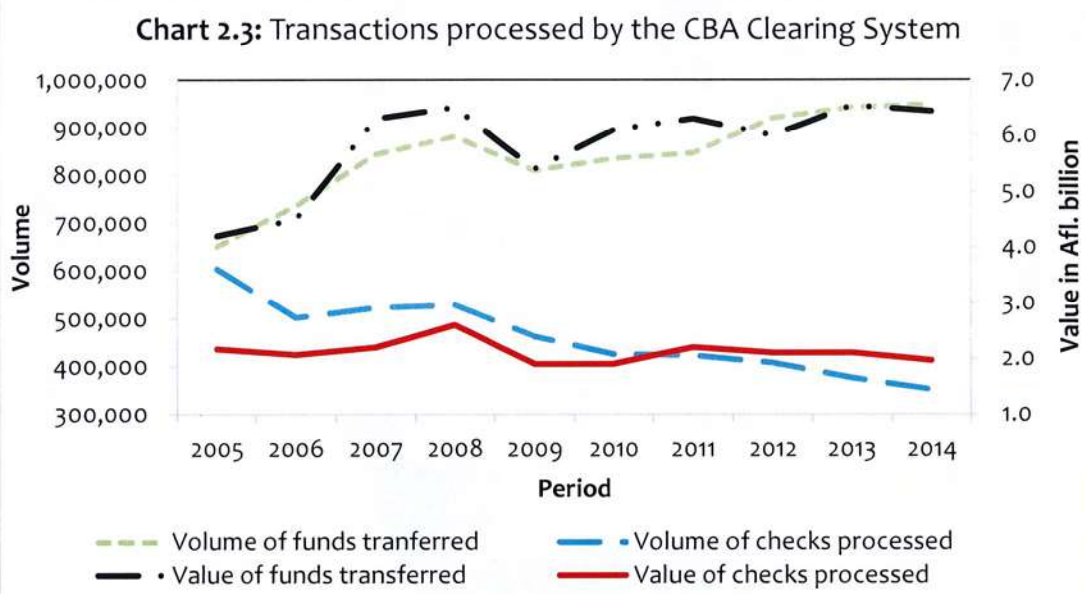
3.1.2 Clearing system

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 N.V. ELMAR (ELMAR), the Servicio di Telecomunicacion di Aruba N.V. (SETAR), the Stichting Algemeen Pensioenfonds 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 2014. The volume of funds transferred through ONCS increased in the year under review by approximately

5,377 transactions (0.6 percent) to 948,191 transactions, while the value of funds transferred fell by approximately Afl. 0.1 billion (1.6 percent) to Afl. 6.4 billion, compared to the previous year. The volume as well as the value of checks processed fell further in 2014 by about 24,895 checks (6.6 percent) to 351,562 checks and by about Afl. 0.1 billion (6.6 percent) to Afl. 2.0 billion, respectively, compared to 2013 (see Chart 3.3).

Chart 3.3: Transactions processed by the CBA Clearing System



Source: CBA.

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 part of its local payments. The CBA additionally provides services regarding the issuance and settlement of local 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 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. 50.8 million at the end of 2014 (December 31, 2013: Afl. 74.7 million). Government deposits held in earmarked accounts fell to Afl. 15.1 million at the end of 2014 (2013: Afl. 22.7 million), mainly to finance its liquidity needs in order to cover its operations expenses. In addition, the development fund account, managed by the Stichting Fondo Desaroyo Aruba (FDA), decreased by Afl. 1.4 million to Afl. 6.3 million at the end of 2014 (December 31, 2013: Afl. 7.7 million), mostly due to payments related to on-going projects of the FDA.

In 2014, the CBA assisted with the renewal of four 3-month treasury bills in tranches of Afl. 45 million and Afl. 20 million at each issuance. Furthermore, the CBA assisted with the renewal of two 6-month cash loan certificates in the amount of Afl. 8 million at each issuance. The yield on the 3-month treasury bills fluctuated between 0.83 percent and 1.70 percent, much lower compared to fluctuations in the yield in 2013, which stood between 1.72 percent and 2.01 percent. The weighted average yield on the 3-month treasury bills was 1.28 percent in 2014, considerably lower than in 2013 (1.98 percent), reflecting temporary excess liquidity in the domestic market and the low interest rates on the international money markets.

The CBA did not intermediate on behalf of the government with respect to the issuance of government bonds on the domestic market in 2014. Instead, the government covered its financing needs via domestic private placements as well as issuance 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 eight 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. During 2014, the buying and selling rate of the euro against the Aruban florin both varied between Afl. 2.17 and Afl. 2.50. At the end of December 2014, the euro depreciated against the florin, pushing the selling rate down by 12.0 percent or Afl. 0.30 to Afl. 2.17 at the end of 2014, when compared to the corresponding period of 2013. In addition, the buying rate at the end of December 2014 also decreased by 12.0 percent or Afl. 0.30 to Afl. 2.17 at the end of 2014, when compared to the corresponding period of 2013.

3.2.2 Foreign exchange transactions

In 2014, foreign exchange transactions settled through the CBA resulted in a net purchase by the CBA of Afl. 1.3 million of foreign exchange reserves, compared to a net sale of Afl. 75.0 million in 2013 (see table 3.3.). This turnaround was attributed mainly to an Afl. 51.4 million decline in the net sale of foreign exchange reserves to the commercial banks and an Afl. 25.1 million increase in the purchase of foreign exchange reserves from the government.

The expansion in the net purchase of foreign exchange reserves from the government, related to the foreign exchange transactions carried out by the CBA in 2014 on the government's behalf, was brought about by decreases in both foreign exchange purchases and foreign exchange sales of, respectively, Afl. 69.2 million and Afl. 94.3 million. The contraction in foreign exchange purchases from the government resulted mostly from lower receipts of funds from the bond issuances on the international capital market during 2014, while no contribution of the Dutch government in the development fund foundation of Aruba (FDA) was received during that year. The final contribution was received in 2013 and amounted to Afl. 18.3 million. The fall in foreign exchange sales to the government was associated with a decrease in its foreign exchange spending.

A more detailed analysis of the transactions shows that the CBA's total gross foreign exchange purchases shrank by Afl. 95.8 million or 9.2 percent to Afl. 942.5 million in 2014, stemming from decreases in foreign exchange purchases of both the commercial banks and the government of respectively, Afl. 28.6 million and the latter mentioned Afl. 69.2 million.

Furthermore, the total gross foreign exchange sales of the CBA contracted by Afl. 172.1 million or 15.5 percent to Afl. 941.2 million in 2014, reflecting declines in the foreign exchange sales to both the commercial banks and the government of, respectively, Afl. 80.0 million or 11.0 percent and Afl. 94.3 million or 25.2 percent. The latter decline was largely related to lower payments for foreign debt servicing and the governments' representative offices abroad in 2014 of, respectively, Afl. 79.2 million and Afl. 9.0 million.

Table 3.3 Foreign exchange transactions
(in Afl. million)

	2012	2013	2014
I.Total purchases of foreign exchange	1,016.2	1,038.3	942.5
Of which from:			
1.Commercial banks	529.4	629.2	600.6
2.Government	456.6	388.9	319.7
3.Other	30.2	20.2	22.2
II.Total sales of foreign exchange	897.8	1,113.3	941.2
Of which to:			
1.Commercial banks	623.6	730.3	650.3
2.Government	265.9	374.0	279.7
3. Other	8.3	9.0	11.2
III.Net purchase/sale (-) of foreign exchange	118.4	-75.0	1.3
IV. Net purchases/sales (-) from/to commercial banks (I.1-II.1)	-94.2	- 101.1	-49.7
V. Net purchases/sales (-) from/to government (I.2-II.2)	190.7	14.9	40.0
VI. Net purchases/sales (-) from/to other (I.3-II.3)	21.9	11.2	11.0
	118.4	75.0	1.3

Source: CBA.

3.2.3 Foreign exchange regulations

During 2014, no changes have been made to the foreign exchange license regulations. Pursuant to the SOFET, no restrictions are imposed on payments related to current account transactions, while capital transactions above a certain threshold require a special foreign exchange license from the CBA. The annual upper limit for executing capital transactions without any administrative restrictions was kept at Afl. 300,000 for resident natural persons and Afl. 750,000 for resident legal entities (excluding commercial banks). Also, dividend distributions to nonresident shareholders require a declaration from the CBA before these dividend transactions can be executed.

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.

The number of special foreign exchange licenses granted by the CBA during 2014 dropped by 61 (15.5 percent) to 333 compared to 2013 (see Table

3.4). This reduction was mainly caused by a decrease in the number of special foreign exchange licenses granted for transfers to and from notified foreign accounts, for the selling and buying of real estate, and for portfolio investment abroad. This decline was partially offset by an increase in the number of licenses granted in the category "lending/borrowing abroad". In 2014, the total value of the transactions for which licenses were granted expanded by Afl. 532.7 million (48.4 percent) to Afl. 1,632.3 million, caused mainly by increases of Afl. 347.5 million (101.0 percent) in the amount of transactions related to lending/borrowing abroad, which includes 3 infrastructural projects, while Afl. 319.6 million (905.4 percent) was related to the participation in local companies by nonresidents and Afl. 148.3 million (158.9 percent) to the selling and buying of real estate. On the other hand, the granting of guarantees to nonresidents dropped by Afl. 355.7 million (97.9 percent) in 2014.

The number of declarations granted for dividend distributions to nonresident shareholders in 2014 decreased by 12 (29.3 percent) to 29 compared to 2013. This is also reflected in the total amount of dividend distributions which also declined by Afl. 88.8 million (63 percent) to Afl. 52.2 million when compared to 2013.

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

Description	2013 Number	2013 Amount in Afl. million	2014 Number	2014 Amount in Afl. million
1. Lending / Borrowing abroad				
a. Refinancing	4	70.6	8	347.0
b. Other	38	273.3	53	344.4
2. Portfolio investment abroad	24	138.4	17	204.7
3. Selling / Buying real estate	98	93.3	86	241.6
4. Transfers to and from notified foreign accounts	195	85.3	127	97.2
5. Other capital transactions				
a. Participation in local companies by nonresidents	13	35.3	12	354.9
b. Participation residents in companies abroad	2	1.2	2	1.2
c. Granting of guarantees to nonresidents	3	363.5	2	7.8
d. Other	17	38.7	26	33.5
Total	**394**	**1,099.6**	**333**	**1,632.3**

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 certain transactions conducted by certain groups of companies (including government-related companies) are exempted from the payment of the foreign exchange commission.

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 2014, the CBA transferred an amount of Afl. 52.3 million to the Treasury (2013: Afl. 48.2 million). The total amount of foreign exchange commission collected grew by Afl. 2.1 million (4.3 percent) in 2014 to Afl. 50.9 million compared to 2013. The amount transferred to the Treasury in 2014 included the amount accrued by the end of 2013.

3.3 Managing the foreign exchange reserves

The CBA manages Aruba's net foreign assets 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 to limit foreign asset holding of these sectors. The B-9 rule allows commercial banks to hold a certain level of foreign exchange reserves as working balances for the settlement of the foreign transactions of their clients. The 40-60 percent investment rule requires institutional investors to invest part of their funds domestically.

The CBA's policy regarding the management of the official foreign exchange reserves remained unchanged in 2014. The CBA continues to pursue a prudent investment policy to minimize potential losses and aiming at preserving its capital (minimum A rates). The official foreign exchange reserves are invested by the CBA predominantly in U.S. dollars and in government and U.S. agency securities (incl. mortgage backed securities), securities issued by qualifying supranational financial institutions, and money-market instruments comprising mostly certificates of deposits, time deposits, treasury bills, and corporate bonds. The last investment option is limited to the financial services industry, specifically banks and financial institutions, as well as industrial companies.

3.4 Monetary policy

In 2014, the reserve requirement remained the CBA's main tool of monetary policy. The Monetary Policy Committee (MPC) of the CBA met seven times during 2014 to review monetary developments and the economic outlook. 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 considered several indicators, including the level of net foreign assets (and official reserves), (core) inflation, and banking sector credit. The reviewed economic indicators remained 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 expanded by 1.1 percent in real terms during 2014, due mainly to the strong performance of the tourism sector. Domestic credit also grew by 5.9 percent, mainly because of higher net claims of the banking sector on the private sector. This increase was driven chiefly by expansions in the housing mortgages component of loans to individuals (4.3 percent) and a rise in business loans (2.7 percent). Based on the results of the business perception survey, businesses were optimistic about short-term future economic conditions. Conversely, the consumer credit component of loans to individuals decreased by 0.9 percent[1]. The latter signaled that consumers were cautious about borrowing as consumer confidence remained negative throughout 2014. Net claims on the public sector rose by Afl. 54.9 million to Afl. 161.7 million in 2014 compared to 2013 largely related to the decreases in government deposits and development funds of, respectively, Afl. 16.6 million and Afl. 42.2 million.

[1] This figure is based on corrected data which accounts for a one-time statistical adjustment in the item credit cards that took place in February 2014.

3.5 Financial sector supervision

The CBA is the sole supervisory authority in Aruba with respect to the financial sector, aiming primarily at safeguarding the confidence in the financial system of Aruba by promoting the (financial) soundness and integrity of the supervised sectors and institutions. Currently, it is entrusted with the regulation and supervision of the credit system, insurance sector, company pension funds, money transfer companies, and trust service providers pursuant to the sectoral supervisory state ordinances. Furthermore, the CBA is tasked with overseeing compliance with the AML/CFT State Ordinance and with the Sanction State Ordinance 2006.

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.

The strengthening of the regulatory framework continued in 2014. The enactment on January 1, 2013 of the Amending State Ordinance revising the sectoral supervisory state ordinances (AB 2012 no.55) resulted in several amendments of the State Ordinance Supervision of the Credit System (SOSCS), State Ordinance Supervision of the Insurance Business (SOSIB), State Ordinance Money Transfer Companies (SOSMTC), and State Ordinance Supervision of Trust Service Providers (SOSTSP), including the revision and harmonization of the provisions regarding integrity and suitability testing and the introduction of a uniform requirement to ensure sound business operations. In connection herewith, the CBA also drafted a Directive on Sound Business Operations and sent it to the supervised institutions in June 2014 for consultation purposes. This directive came into force on March 1, 2015, but contains a six (6) month grace period.

With the enactment of the aforementioned Amending State Ordinance on January 1, 2013, the possibility of placing insurance brokers under the CBA's supervision was introduced in article 27a of the SOSIB. In October 2013, the CBA submitted a proposal on the Supervision of Insurance Brokers to the Minister of Finance. On January 30, 2014, the State Decree regulating insurance brokers (AB 2014 no. 6) went into effect. As of that date, insurance brokers fall under the CBA's supervision. Under this state decree, all insurance brokers, including the already existing insurance brokers, are required to obtain a license from the CBA. Insurance companies and credit institutions licensed by the CBA are exempted from this provision. Travel agencies are also exempted from this provision insofar as it concerns intermediation for travel insurance. Insurance brokers already active in Aruba on January 30, 2014, were granted a transition period of six (6) months (ending on July 30, 2014) to amend their processes and systems to meet the licensing requirements and to submit a license request. The CBA has designed an application form and organized a well-attended information session for insurance brokers in March 2014. Up to now, eighteen (18) license applications have been filed by the already existing insurance brokers, of which seven (7) brokers already received a license, while two (2) license applications have been revoked. A decision on the remaining insurance applications is expected to be taken before year-end 2015.

In June 2013, the CBA submitted a draft State Ordinance on the Supervision of the Securities Business to the Minister of Finance and Government Organization. This draft state ordinance introduces a licensing obligation for securities brokers, portfolio managers, investment schemes, and operators of a stock exchange and ongoing supervision on the same. Furthermore, provisions are included in aforementioned draft state ordinance that impose a prospectus obligation for the issuance of securities and prohibit and punish market abuse (insider trading and market manipulation). It is expected that this state ordinance will be discussed in Parliament before year-end 2015.

On January 16, 2014, the Parliament of Aruba passed a motion in which the Minister of Finance and Government Organization was instructed to present swiftly a legislative proposal for the introduction of a deposit insurance scheme to the Parliament of Aruba. The CBA is in the process of drafting a legislative proposal to this end.

For further details on the supervision of the financial sector, please refer to the "Financial Sector Supervision Report 2014".

3.6 Organizational affairs

At the end of December 2014, the CBA employed 83 persons full-time, which is the same number of employees as at the end of 2013. During 2014, six new employees were hired, three employees' labour contracts were terminated, the expatriate contract of one employee ended and two employees retired from the CBA. The management of the CBA would like to thank its staff members for their loyalty and ongoing commitment and dedication to the CBA during 2014.

For the fourth consecutive year, the CBA's external auditor completed an audited review of the institution's mid-year financial figures. The CBA also achieved its goal of having the external auditor complete the year-end audit by early 2015. On February 27, 2015, the Auditors of the CBA issued an unqualified opinion with respect to the 2014 financial statements of the CBA, which subsequently was adopted by the BoSD.

3.6.1 Training, courses, and seminars

During 2014, as part of upgrading skills and knowledge sharing, the CBA staff participated in a number of courses, seminars, and conferences held locally and abroad.

3.6.2 Internal organization

In 2014, the Internal Audit Department (IAD) enhanced its tasks, procedures, and activities. In addition, the processes and procedures of a number of departments, including the Integrity Supervision Department and the Prudential Supervision Department, were reviewed and updated.

During 2014, the Information Systems and Facilities Department (ISFD) and the Accounting Department (AD) successfully executed a large scale project to upgrade the IBS core banking application to the newest version, which also included the required hardware and network upgrades to support the system.

In the final quarter of the year 2014, the ISFD performed an in-depth assessment on IT back-up solutions, which resulted in the selection of a new back-up suite. The purpose of the new back-up software and hardware is to provide a robust platform to execute and manage the daily on-site and off-site data back-ups.

With regards to business continuity, the CBA decided to change the location of its off-site datacenter from Sterling Forest, New York (U.S.A.) to Markham, Ontario (Canada) in 2014. Furthermore, the CBA in collaboration with a renowned service provider proceeded to successfully execute the IT disaster recovery exercise in Canada in which the critical IT infrastructure was restored and tested.

In the field of information security, the Information & Physical Security Department (IPSD) was primarily responsible to produce and maintain the required audit documentation for the IBS upgrading project. The IPSD continues to be engaged in designing, implementing, and evaluating IT processes and procedures for the CBA. Additionally, the IPSD performed audits and reviews on selected software applications within the CBA's IT environment and assisted the external accountants during the yearly IT review.

In its continuous effort to execute the recommendations in the report "Structuring the information management at the CBA", the Secretariat & Archives Department (S&AD) selected two work processes in 2013, namely the recruitment process and the process of weekly statements, to be pilot tested in the workflow module. During 2014, the S&AD approached various external consultants to obtain a proposal for the implementation of the workflow for the above-mentioned work processes. In 2015, the S&AD will start-up this project.

Furthermore, in 2014 the S&AD in close cooperation with the Personnel & Organisation Department (P&OD) continued with the restructuring of the HR archive. The S&AD will support the P&OD in the areas of recordkeeping, policies, procedures, systems, and processes as well as the retention management in the area of HR.

In 2015, various changes took place in the organizational structure of the CBA. These changes were as follows:

- As of June 1, 2015, the IPSD was split into two separate departments, namely the Information Security Department (InfSecD) and the Physical Security Department (PhSD).
- As of September 1, 2015, the ISFD was split into two separate departments, namely the Information Systems Department (InfSysD) and the Facilities Department (FD).
- As of September 1, 2015, a new department was created, namely the Strategy and Planning Department (SPD).

4 GOVERNANCE AND ACCOUNTABILITY

The financial year 2014 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.

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 the CBA's budget to the BoSD for approval, a Foreign Exchange Committee that coordinates all works of the departments of the CBA that 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 appointed for a term of five years. At the end of 2014, the BoSD consisted of four appointed 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 the Chairman of the Aruban Parliament, while the financial statements are submitted to the Minister of Finance. The adoption of the financial statements by the BoSD also serves to discharge the President and the Executive Directors from liability. The BoSD is also responsible for appointing the CBA's external auditor.

In 2014, the BoSD and the Executive Committee held 6 scheduled meetings to discuss several ongoing issues, including the annual report 2013, the mid-year review 2014, and the budget 2015. 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 with the Minister of Finance. The remuneration of the BoSD is determined by the Minister of Finance, after consulting with the members of said Board and the President. Also, additions to the general reserve and the forming of earmarked reserves are determined by the 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 2014, the CBA started with the review of these risks and conducted a new risk assessment to identify the 10 most significant risks per department. In 2015, the CBA will update the risk matrix based on its analysis of the identified risks.

The most important risks for the CBA are financial, legal and reputational risks. The financial risks stem mostly from the CBA's investment activities and are monitored strictly by the Investment Committee, in which also one member of the Executive Committee participates. The financial risks relate more specifically to market, credit and counterparty risks associated with the holding of foreign currency assets for investment purposes. The steps taken to mitigate these risks are further elaborated on in paragraph 4.3. 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. The reputational risks entail, among others, the risk associated with the dissemination of confidential information and the risk of publishing inaccurate data. The legal risks relate mostly to noncompliance with the prevailing laws and regulations (compliance risk).

Other risks include, but are not limited to, the following:

- 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.

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.

To guarantee the continuity and safeguarding of its IT systems and processes, the IPSD was responsible for protecting business information and information systems of the CBA until June 30, 2015. In addition, it was in charge of the physical security of CBA property. As mentioned before, this department was split into 2 separate departments, namely the InfSecD and the PhSD as of June 1, 2015. Both these departments, in close cooperation with the InfSysD and the IAD, advise on policy, rules, and procedures concerning both the information and physical security of the CBA.

4.3 Investment and financial risks

Management of the official reserve has a direct effect on 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 official reserve 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.

The Investment Committee revised CBA's investment guidelines in 2014 and 2015 to adjust the existing price constraints and asset allocation (*inter alia* corporates). The CBA also reviewed its investment policy and strategy in light of the changing international investment environment.